Toward A Common Market for Mexico and the United States

By Luis Pazos

The economic and political stability of Mexico is extremely important to the United States. A prolonged economic crisis in Mexico would unleash a social upheaval that could result in a flood of some ten million illegal immigrants into the U.S. If the U.S. sought to seal off the 1,993-mile border with Mexico with armed forces in the event of such an upheaval, it would cost the U.S. as much as the more than $120 billion spent on the Vietnam War. Such a cost would be more disruptive economically than if all the countries of Latin America were to default on their debts to U.S. banks.

To prevent such a nightmare, the U.S. should begin thinking about a long-range plan to bring economic and political stability to Mexico. The best way to avoid millions of Mexican refugees coming to the U.S. is to have a stable and prosperous Mexico.

So far, the U.S. has tried to bolster the ailing Mexican economy mainly by encouraging debt renegotiations with U.S. banks, and by helping Mexico to attain more credits from international financial institutions. The Brady Plan, for instance, proposed that U.S. banks lower owed debts and facilitate new investments to encourage economic growth in the debtor country. In exchange, the debtor country's government made a commitment to carry out market-oriented reforms and tight fiscal discipline. According to the Brady Plan, this strategy would enable debtor nations to regain economic growth without the need for additional financial credits.

Attacking Root Causes. Such a strategy may delay social and political upheaval in Mexico, but in the absence of profound political and economic reform by the Mexican government, it will offer only temporary relief. Mexico's foreign debt is not the cause of the nation's economic problems, but a consequence of internal imbalances: high public expenditure, chronic budget deficits, and several state-owned sectors which function at great losses. Thus, if the government fails to implement an extensive program of privatization and balance the budget in a sufficiently fast and profound fashion within the time period required to benefit the country, debt renegotiations will merely postpone the problems which have plagued the Mexican economy for eighteen years. A genuine and lasting solution must attack the root causes of Mexico's economic problems, not merely treat its symptoms.

The administration of President Carlos Salinas de Gortari has already made some changes in the right direction. These include privatization of state monopolies like the telephone company, airlines, banks, and tobacco industry; the deregulation of the coffee and sugar sectors; and allowing private investment in "strategic" areas previously subsidized and managed exclusively by the government, such as portions of the petrochemical industry. Nonetheless, these reforms will not prevent the Mexican economy from relapsing into new cycles of high inflation and devaluation that will further lower Mexico's standard of living. Other changes of a more profound nature are still needed: abolition of agrarian reform, a

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major juridical reform of the current constitution, solid private property guarantees, foreign investment liberalization and massive reduction of bureaucracy.

To help the Mexicans help themselves, and to create new markets for U.S. goods in Mexico, the U.S. should begin talks with the Mexican government to establish a U.S.-Mexican common market. The first step in achieving this goal would be to sign and ratify a treaty with Mexico similar to the January 1989 Free Trade Agreement with Canada. This treaty provided for the creation of a U.S.-Canada free trade zone within ten years. It allows for more commercial activity between the two countries, at lesser costs for both. The agreement will generate more employment opportunities on both sides of the border as well as higher levels of productivity. A similar treaty linking the U.S. and Mexico could bring similar benefits. The U.S. also should:

1) **Revise and reform current regulations which limit the flow of Mexican goods into the U.S.** In some sectors, like the agricultural one, health and other kinds of regulations have become true import barriers. Thus, although the elements required to evaluate this type of "indirect" barrier still do not exist, it could happen that, if trade liberalization continues on the Mexican side and the current conditions remain intact on the U.S. side, it will be easier in the 1990s for U.S. products to come into Mexico than Mexican products into the U.S., contrary to the situation which prevailed in prior decades.

2) **Create an organization composed of authorities of both countries to act as a consulting and arbitrating office to resolve problems generated by commercial activity between the two nations.**

What are Free Trade Agreements?

A free trade agreement involves the gradual reduction of all tariff barriers, until all obstacles impeding free trade are removed. Normally laws restricting goods and services (eg., cheap labor) and foreign investments are gradually liberalized, and tariff barriers are eased. Once all external trade barriers are removed, a customs union is established. All member nations of the customs union would agree to level equal tariffs to outside countries. After the union is in place, the final step towards the creation of a common market would be the gradual liberalization of laws regarding the transit of citizens between countries and the formation of regional agencies to resolve conflicts between the countries involved.

The Lesson of Europe. After two bloody World Wars, Europeans realized that political unity and economic integration were necessary to avoid conflicts and wars in the future. As a first step toward greater unity, the Western Europeans established the European Coal and Steel Community (ECSC) in 1951. This organization abolished customs duties on the movement of coal and steel between the six member countries – Belgium, France, Germany, Italy, Luxembourg, and the Netherlands – and eventually laid the groundwork for the creation of a common market for the two products. The underlying objective of the six participants was expressed clearly in the text of the 1952 Paris treaty which set up the ECSC. The signatories of the treaty:

> Resolved to substitute for historical rivalries a fusion of their essential interests; to establish, by creating an economic community, the foundation of a broad and independent community among peoples long divided by bloody conflicts; and to lay the bases of institutions capable of giving direction to their future common destiny; have decided to create a European coal and steel community.

The European Coal and Steel Community laid the foundation for the 1957 Treaty of Rome, which created the European Economic Community (EC) for the purpose of unifying Europe politically and economically. Its fundamental objective was to establish a common market for all goods between the original six members of the ECSC. Later, England, Greece, Ireland, Portugal, and Spain would join the EEC.

After more than 30 years, European economic and political unification has been a tremendous success. The European Community is a thriving common market, and Europe is enjoying unprecedented peace and prosperity. The West Europeans are now seeking an even greater integration, aiming for a removal of all trade barriers and the complete economic integration of Western Europe by 1992. These nations have been able to reach free trade and to establish full economic integration, despite great political differences, past belligerent conflicts, and unequal levels of economic development. Why not the same for Mexico, the U.S., and Canada?

The U.S.-Canada Free Trade Agreement. The U.S. and Canada signed a free trade agreement in January of 1989 to gradually eliminate all tariff barriers on the exchange of all products between the two countries within ten years. It has been estimated that opening up free trade would increase Canada's Gross Domestic Product by 8.9 percent.[1] The signing of the U.S.-Canada Free Trade Area Agreement was not subject to much national debate in the U.S. Despite the protectionist sentiments of unions and Congressmen, the majority of Americans supported the agreement. In Canada, however, there was a spirited national debate over its merits and faults. Some Canadians were concerned that Canada's independence and sovereignty would be compromised. But in the end the doubters lost. The Canadian House of Commons ratified the U.S.-Canada Free Trade Area Agreement by a margin of 141 to 111 in November of 1988.

The Case of Mexico-United States

A free trade agreement cannot be achieved overnight – let alone a common market. In Europe it took several decades, and the U.S. and Canada have yet to wait ten full years before free trade between the two reaches fruition. Nonetheless, while hundreds of obstacles must be overcome, the decisive factor in making free trade a social reality lies in the policy makers' conviction that the long-term benefits to the majority afforded by free trade heavily outweigh the short-term costs of a minority. In Mexico, some public monopolies, such as petroleum and electricity, would be forced to modify the costs of production and administrative efficiency. Similarly, free trade would hurt businesses which enjoy

1 See D. Cox and R. Harris, "Trade Liberalization and Industrial Organization," *Journal of Political Economy*, 1984.

protectionist privileges, and whose earnings derive from their monopolistic status rather than the quality of the products they manufacture. These companies would be forced to lower prices and become more competitive. However, increased economic activity implied by free trade would eventually generate employment, more efficient goods and services, and a higher standard living for all. In general, a trade agreement between Mexico and the U.S. is the best way for the two neighbors to assure a fruitful and harmonious relationship well into the next century.

Myths and Dogmas in Mexico

There are a series of myths and dogmas which must be overcome in Mexico before a free-trade agreement can become a real possibility. Although the Salinas administration has become a supporter of free trade with the U.S., these myths still pose an obstacle to a U.S.-Mexico free trade area agreement. These myths are the result of various historical, economic, political, and ideological factors.

Political Opposition. Some members of the Mexican political elite fear that the process of economic liberalization will damage their status and political power. To date, massive economic regulation enables then to broker substantial power through the use of permits, inspections, and the like. They frequently mask the protection of their spheres of influence by widespread use of nationalist rhetoric and the populist claim that Mexico's national sovereignty would be undermined.

Economic Opposition. Similarly, many Mexican businessmen and economic interest-groups contend that commercial liberalization would occasion mass bankruptcies in national industries and thus a sharp rise in unemployment. However, these arguments are a mere front for their true fear: competition. For competition necessarily demands greater quality and increased levels of productivity.

Ideological Opposition. A number of scholars and intellectuals heavily influenced by Marxist doctrines of capitalist exploitation and class struggle believe that economic relations with wealthy nations like the U.S. will inevitably impoverish the poorer country and increase its dependence on the richer one.

Two obsolete theories of international economic relations have been used by government officials to justify and dictate protectionist policies: the theory of "deterioration-producing trade" concerning free trade between industrialized and underdeveloped countries, and the theory of "decapitalization" concerning the social effects of foreign investment.

The first theory asserts that in a system of free trade, underdeveloped nations perpetually would be doomed to export their raw materials and import all manufactured products. Therefore, governments of underdeveloped countries should assist state-owned industries through protectionism to create a national industrial base. Only thus can both the alleged dependency of the underdeveloped country on advanced nations and the impoverishment caused by unequal trade under the free market be broken. Or so its proponents maintain.

This theory has been used to justify the creation of state-owned industries and subsidizing public enterprises. Most of these so-called "national" companies, however, obtained the bulk of their capital in the form of foreign credit. The great majority of them operate at huge losses and were never able to generate the financial resources required to even pay interest on credit. Thus, as a result of the massive debts incurred by state industries, this theory ironically has been responsible for far more foreign dependence and greater deterioration in trade balances than the levels it predicted under a system of free trade.

The second theory, the theory of "decapitalization," claims that foreign investors impoverish host countries by extracting more resources from them than those channeled through their investments. These two influential theories and related Marxist theses were popularized in Mexico and Latin America during the 1970s by the U.N.-sponsored Economic Commission for Latin America (CEPAL) and by the Argentinean economist Raul Prebish, and a left-wing school of economic thought known as "structuralism." Together with Marxist doctrines, these theories constitute the main academic forces in Mexico opposed to a U.S.-Mexico free trade agreement.

Historical Opposition. The history of U.S.-Mexico relations is scarred by several wars and interventions. Mexicans therefore are particularly sensitive to charges of American interference in Mexico's internal affairs. This sensitivity unfortunately has been exploited by Mexicans opposed to free trade with the largest market in the world.

Myths and Dogmas in the U.S.

U.S. public opinion is more favorable toward free trade than Mexican public opinion, although the positive attitude of the Salinas government may change this. It is ironic, however, that several arguments for protectionism which are barely being overcome in Mexico are surfacing in the U.S. Many Mexican industrialists claim that it would be difficult, if not impossible, to compete in a free market environment with the technologically superior U.S. companies. Yet many American industrialists make a similar assertion about competing with Mexican companies: it is difficult, if not impossible, to compete with them in view of their extensive supply of cheap labor.

In fact, the high degree of technological sophistication in American industry represents an ideal complement to Mexico's pool of inexpensive labor. Unhampered U.S. access to Mexican labor, together with a policy of competitive wages, would be a crucial element that would enable the U.S. to remain competitive with European and Asian firms in the world market. Similarly, a fusion of this kind would enable Mexicans to gain access to the sorely needed superior technological "know-how" of U.S. firms, which would both increase labor productivity and enhance technical proficiency.

A deep concern in certain sectors of the American economic and political community is that jobs "lost" to Mexico would generate a disturbing rise in unemployment rates. This concern is ill-based, for it overlooks that trade liberalization is a source of greater economic activity and consequently of greater employment opportunity. It is crucial to focus on potential future economic activity and avoid being blinded by inevitable short-term adjustments in the industrial base in order to appreciate the enormous long-term economic benefits afforded by free trade.

Another widespread American concern is that an open commercial relationship with Mexico would bring with it a sharp increase in the number of undocumented workers in the U.S. The early stages of a free trade agreement would not necessarily require the liberalization in the transfer of labor. But ultimately, such an agreement would help ease the economic pressures in Mexico, which would imply a substantial reduction in the flow of illegal immigrants into the U.S.

The *Maquiladoras*

Maquiladoras are production and/or assembly plants located in Mexico whose capital base is generally 100 percent foreign, and almost 60 percent American. These plants, which are estimated to number about 1,350, operate under a totally open system of free trade. They are free from tariffs on raw materials and other basic products traded with the U.S. In essence, they are concrete examples of genuine free trade between Mexico and the U.S.

According to Edward L. Hudgins, Director of The Center for International Economic Growth at The Heritage Foundation, the *maquiladoras* have had unquestionably positive economic results.[2] These include:

1) The acceleration of trade between the two countries.

2) The creation of new jobs in each nation; *maquiladoras* are responsible for 250,000 jobs in Mexico and close to 76,000 in the U.S., according to the U.S. Department of Labor.

3) Higher productivity and more competitive proficiency in U.S. firms involved in the *maquiladora* industry.

The number of new jobs which could be generated in both nations if the *maquiladora* system of free trade became the rule rather than the exception is virtually unimaginable. In contrast, if the *maquiladora* industry suddenly disappeared, more than 75,000 Americans and close to 300,000 Mexicans would lose their jobs. Most of the newly unemployed Mexican aliens would surely cross the border in search of another job.

The most reliable way to curtail the inflow of illegal Mexicans into the U.S. is to encourage American investment in *maquiladoras*, as well as any other licensed forms of economic activity in Mexico, especially tourism. In the absence of a marked increase in the exchange of goods, services, and investments between Mexico and the U.S., there is nothing to prevent a sharp and sustained rise of illegal alien inflow from the former to the latter country.

2 See Edward L. Hudgins, "U.S.-Mexican Economic Ties," Heritage Foundation *Backgrounder* No. 694, March 6, 1989.

The Fear of Dependence

Mexican critics continue to insist that greater economic relations with the U.S. would cause greater Mexican dependency on the U.S. This is inconsistent with certain basic facts:

1) More than 70 percent of Mexican exports are destined to the U.S.

2) 85 percent of foreign tourism comes from the U.S.

3) 65 percent of foreign investments originate from the U.S.

These statistics are not the outcome of free trade, nor do they suffice to show excessive dependency. They merely reflect geographic proximity, and the mutual need of trade between the two nations. As Sidney Weintraub says:

> Mexico's fear is the political analogue of economic polarization: that formal trade integration with the United States would lead to political dependence. This is an emotional and not an intellectual concern since dependence does not require a formal trade agreement. Indeed, a case can be made that the surest way to avoid dependence is to strengthen the Mexican economy, and that bilateral free-trade would be a political equalizer if it contributed to this result. The political fear in the United States is just emotional – that it will lead to unlimited migration of Mexican labor and that the United States would then be swamped by cheap, alien labor.[3]

Despite the fact that protectionism continues to prevail in many Mexican economic sectors, the principal obstacles to economic liberalization in Mexico have a political and ideological source, not an economic one. Several Mexican politicians still consider it unpopular to propose and defend a policy encouraging closer ties with the U.S.

The timeworn "anti-imperialist" stance in Mexico is nothing but unfounded rhetoric. The Mexican population has begun to realize that past governments which warned of U.S. imperialism have been responsible for runaway inflation, for monetary devaluations, for high rates of unemployment, and consequently for much greater dependency brought about by the massive debt owed to the very country from which they sought to be "liberated." This newly-formed public recognition was first seen when trade liberalization began in 1985: the government then met with far less public opposition than some had expected.

In essence, the argument for maintaining a "protected" economy has been amply disproved by the counterproductive effects of decades of sustained protectionism. Similarly, the case for "protecting" so-called "infant" industries has demonstrated that such industries will remain stunted and infantile as long as they are protected, with no chance to mature and compete in the international market place. Far from generating new employment, protectionist policies have succeeded in doing the opposite: they are the main culprits for

3 Sidney Weintraub, *Free Trade Between Mexico and United States?* (Washington D.C.: The Brookings Institution, 1984), p. 186.

creating an uncompetitive industrial base, which has produced massive unemployment and underemployment in Mexico.

The fear of a disproportionate invasion of American products under free trade is justified only if there is a trade deficit that can be ameliorated only by devaluating one's currency. The important point is that import requirements depend on the potential of a nation to export goods and services.

Similarly, the fear of "dumping" practices no longer poses a legitimate obstacle to a free trade agreement. The term "dumping" means the sale of goods below national market prices, not below the cost of production. This would not be a problem because a free trade agreement would provide for regulations to avoid dumping.

In sum, the protectionist model which has prevailed in Mexico for more than four decades has hindered economic growth. Yet it is very difficult to maintain political stability in the absence of economic growth. A majority of officials in the present administration understand this well and appear to be willing to embark on free trade policies. The irony is that there is an increasing prospect that Mexico will begin dealing with the U.S. at a time when protectionist dogmas start to reappear in the North American community.[4]

The Process of Economic Liberalization in Mexico

Mexico began to open its economy in 1985. The process has been spurred in part by the chronic American trade deficit which forced the U.S. to pressure its neighbors and other countries to open their doors to trade. The U.S. conducted a review of its economic ties with Mexico based on the principle of reciprocity, which resulted in a threat to close its borders to Mexican products unless Mexico consented to enter bilateral negotiations or become a member of the General Agreement on Tariffs and Trade (GATT). Despite strong leftist opposition, Mexico became a member of GATT in 1986.

The Mexican government began to accelerate the process of commercial liberalization in 1987-88 to combat the rising tide of inflation. In December of 1987 it implemented across-the-board price controls, advertised as a social "solidarity" pact, which it has been able to sustain to date only by allowing more imported goods to enter the country. Regardless of the true motives behind the Mexican government's decision to sanction this partial opening, the fact is that it has dismantled a substantial portion of the prior protectionist apparatus in Mexico in a short span of time. As recently as 1985, virtually all imports into Mexico were subject to special import regulations and quotas. Tariffs were as high as 100 percent. Today, however, more than 80 percent of imported goods and services no longer require special import regulations and quotas. Tariffs have been cut from 100 percent to a maximum of 20 percent. These numbers are expected to fall even lower.

Indeed, widespread protectionism seems to have been left behind in Mexico. The Salinas government has expressed its eagerness to begin free trade area negotiations with the U.S. much sooner than anyone expected only a few months ago. Notable achievements have

4 Sidney Weintraub, *Mexican Trade Policy and the North American Community* (Washington D.C.: Center for Strategic and International Studies, 1988), p. 29.

been made in the previously protected automobile industry. A government decree of December 1989 foresees the gradual liberalization of automobile imports. Thus, despite important shortcomings, the Mexico has become ready to enter a free trade scheme with the U.S., with qualifying provisos yet to be determined by both sides, with the eventual aim of securing unencumbered trade within a specified period of time.

Strategic Considerations for the U.S.

Most Americans recognize that current events in Europe and Southeast Asia are strategically crucial to the security of the United States. The U.S. continues to station armed forces overseas and maintains an active diplomacy to shape the course of events throughout the globe. Yet many U.S. strategists appear to have overlooked the fact that a nation's most basic security interests lie at its borders. The Soviets understand this well. The bulk of Soviet activity in Central America is aimed at achieving greater influence in Mexico; for if the Soviet Union had succeeded in sparking deep social unrest in Mexico and brought it closer to its political orbit, this would have posed a dire threat to U.S. national security.

Oil is another important strategic factor. Mexico's proven oil reserves are the eighth largest in the world. Mexico produces 2.4 million barrels of oil per day, of which an average 763,000 barrels per day goes to the U.S. Along with Saudi Arabia, Canada, and Venezuela, Mexico is a major supplier of oil to the U.S. Mexico is, in fact, America's fifth largest source of oil imports.

The most effective way for the U.S. to avert political and economic hostility from Mexico and to prevent it from slipping into the Soviet orbit is to foster a systematic process of mutual cooperation. A free trade agreement constitutes an ideal step in that direction because treaties creating free trade zones and common markets represent the best way to ensure lasting peace between countries. Thus, establishing closer economic relations with Mexico is not merely a matter of economics. It is of great strategic significance for the U.S.

The Underground Common Market

The hypothesis that a common market between the U.S. and Mexico would be highly beneficial for both sides is not mere speculation. It is grounded in current social realities. *Maquiladoras* and the free trade zones in certain border communities are empirical cases of the benefits of free trade, and a precedent to be followed. But perhaps the most convincing precedent demonstrating the enormous merits of free trade between Mexico and the U.S. is the ever-increasing number of illegal and quasi-legal transactions between the two nations.

The contraband trade of American products constitutes one of the most important underground economic activities in Mexico. The great majority of American border cities generate a substantial portion of their revenue from the sale of goods and services to Mexicans. Similarly, in the financial sector, millions of Mexicans have checking and savings accounts in American financial institutions. The bulk of deposits in several border banks are owned by Mexican nationals. They represent a portion of the massive flight of capital which occurred in Mexico in the 1980s owing to widespread monetary instability.

Mexican illegal aliens represent a crucial item for any future treaty regarding foreign workers. It is estimated that more than 60 percent of the illegal alien population in the U.S.

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is of Mexican origin. In 1988, the U.S. Immigration and Naturalization Service apprehended more than 1,000,000 foreigners trying to enter the U.S. through the southern border. Of these, 95 percent were Mexicans. Although there are no precise data available on the number of Mexican illegal aliens in the U.S., estimates range upward from 3,000,000.

The illegal alien work force helps a vast number of industries in California, Texas, and other states to remain competitive. If this undocumented work force did not exist, American enterprises such as restaurants, hotels, the textile industry and many agricultural businesses would suffer labor shortages and a rise in labor costs. In 1989, shortages in the supply of labor in several sectors of the American economy was a principal cause of inflation. In addition, illegal laborers do not draw on social services such as unemployment insurance, Medicaid, and Medicare.

Mexican illegal aliens have been a great economic boost both to the American and Mexican economies. Mexican workers in America channel billions of dollars back to their native land. This is the third largest source of hard currency in Mexico. Only oil and tourism generate more dollars than the undocumented work force.

What Does Mexico Represent to the American Economy?

Mexico is the third largest market for the U.S., surpassed only by Canada and Japan. Six percent of current American exports are destined for Mexico. In the long-run, Mexico potentially could eclipse Canada as a market for American goods. Although the U.S. currently exports between three and four times more to the 25 million Canadians on its northern border than to the 80 million Mexicans to the south, this may change over time. A free trade zone may raise the standard of living in Mexico to the point that by the year 2000 the projected Mexican population of more than 110,000,000 would become a more important market for the U.S. than the 30,000,000 persons projected to live in Canada.

Mexico enjoys comparatively small levels of American investment as a consequence of highly restrictive laws regulating foreign capital. Less than two percent of total American foreign investment is invested in Mexico. The U.S. invests four times more dollars in the very distant region of Southeast Asia than in its southern neighbor. To make a free-trade system between the U.S. and Mexico work, it is necessary to tear down the barriers to foreign investment and allow more American capital to flow into Mexico.

Mexico is currently unable to generate the internal savings required to create the new jobs needed to alleviate the present level of unemployment, estimated to be 6 percent. The number of working-age people entering the labor force increases every year. The situation is exacerbated by the large portion of new savings which continue to leave the country because of lack of confidence in the Mexican economy. A constitutional change is required in the current system of laws to permit greater freedom and foreign investment and ensure the type of stable political and economic climate needed to attract capital that has fled the country. Otherwise, it will prove very difficult to stimulate the Mexican economy without inflation and more massive debt.

The present Mexican government seems prepared and willing to enact the required changes. To date, however, it has introduced only one regulation to facilitate more foreign investment in areas where it already was legally permissible to invest. No new areas of investment have been opened. To ensure the success of a U.S.-Mexico free trade agreement, it is necessary to close the gap between the standards of living of each side. An essential step toward that goal lies in the liberalization of investment between both countries.

From Free Trade to a Common Market

In a common market the member countries, in addition to embracing free trade, are required to maintain identical tariff restrictions for outside nations. Agreements to liberalize investment and to permit the transit of citizens to and from member countries also may be included. In essence, a common market implies the free transit of all factors of production: raw materials, merchandise, services, capital, and labor.

Five years ago, talk of equality among external tariffs between Mexico and the U.S. seemed utopian. The differences were vast. Countless restrictions and regulations hindered bilateral trade. However, the average tariff barrier on foreign goods today is 5.3 percent in the U.S., and approximately 13.5 percent in Mexico.[5]

To attain free trade by the beginning of the next century, it is crucial to start now and plan ahead. If the process is successful, it should evolve gradually toward a customs union and thereafter to a full-fledged common market. The establishment of a common market seems utopian now, just as equalizing external tariffs seemed so five years ago. Yet, the idea seemed even more utopian in Europe in 1950. The continent had just endured a devastating war and economic recovery was a mammoth undertaking. So seen, Mexico and the U.S. are already several steps ahead of the European countries.

Recommendations

To create a free trade area agreement between the U.S. and Mexico, and to lay the groundwork for a U.S. Mexican common market, the U.S. and Mexico should:

♦ ♦ Begin talks between the Mexican and U.S. governments on the sectors which represent the most problematical areas to reach a free trade treaty. These include infrastructure, agriculture, and labor flows. In late March of 1990, the White House and Mexican government announced that both had begun preliminary talks toward the formation of a free trade agreement between both nations. Full-fledged negotiations should begin as soon as possible.

♦ ♦ Work toward a treaty that is similar to the U.S.-Canada agreement in setting a ten-year period to reach full free trade.

♦ ♦ Undertake parallel negotiations to establish a Mexico-Canada free trade agreement so that the U.S.-Mexico-Canada free trade zone can be formed as quickly as possible.

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5 This is according to the U.S. Department of Commerce, the Mexican institute Centro de Estudios Economicos del Sector Privado, and the Mexican Ministry of Commerce and Industrial Development.

♦ ♦ Avoid letting such problems as narcotics, illegal immigrants, and the capture of ships in a nation's territorial waters defer forming a free trade agreement.

♦ ♦ Create a trilateral organization between Mexico, Canada, and the U.S. to resolve any controversies arising from commercial interaction between the three countries and to avoid potential conflicts which could endanger the process of a free trade agreement.

Conclusions

A deterioration of Mexico's political and social situation would produce significant destabilizing effects in the American economy and would, as a consequence, imperil U.S. national security. A massive immigration of aliens to U.S. territories and the possibility of Mexico becoming a source of political and economic instability for the U.S. could ensue. The U.S. government cannot prevent this from happening by merely offering help to renegotiate the Mexican debt or to channel further financial credits through the International Monetary Fund or the World Bank. One cannot cure cancer with aspirin.

The solution to Mexico's economic problems are internal. Many reforms are required: reduction of the budget deficit; a firm halt on monetary expansionism; privatization of important public monopolies; solid constitutional guarantees of private property rights. The use of public expenditures and foreign loans to stimulate economic growth and generate new employment must come to an end. It offers only short-term and temporary relief. Moreover, the long-term effects are disastrous, as the past eighteen years in Mexico amply confirm: inflation, currency devaluation, economic stagnation, greater unemployment, and a fall in real wages.

Effective and Permanent. The U.S. government can help Mexico make these changes, but only indirectly. It could help Mexican economic reform by welcoming negotiations on a free trade area with Mexico. This would help Mexico's economy in a far more effective and permanent fashion than renegotiating Mexico's foreign debt.

Spurring economic growth in Mexico is of vital strategic and economic interest to the U.S. Economic growth requires greater internal private investments, more incentives to regain Mexican capital deposited in the U.S., and greater openness on foreign investment.

Mexico's entry into GATT in 1986 put into motion a fairly rapid process of trade liberalization. The necessary conditions now exist to negotiate a formal free trade accord. Such a free trade agreement represents the only viable option to give substance to the rhetoric of good will and mutual cooperation which was stressed by Mexican President Salinas de Gortari in his visit to Washington D.C. in October of 1989. The quest for a free trade agreement between Mexico and the U.S. and the subsequent achievement of a common market, constitute the most reliable vehicles to attain and ensure mutually beneficial political and economic relations between the two countries well into the 21st century.

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