

For our feature series on the proposed US-Mexico Free Trade Agreement, we're pleased to present the views of Sidney Weintraub, Dean Rusk Professor at the Lyndon B. Johnson School of Public Affairs, The University of Texas at Austin. While Dr. Weintraub favors some such agreement, he fairly points out some of the difficulties and possible entanglements, especially as they relate to immigration, language and culture. His essay is reprinted with permission from The Responsive Community, Vol. 1, No. 3, Summer 1991.

THE RISE OF NORTH AMERICANS: A US-MEXICO UNION

By Sidney Weintraub

While the founders of the European Community used trade integration as a way to achieve political harmony, the Canada-US free trade agreement seeks trade integration but eschews any significant political content; it even expressly excludes certain cultural industries. The proposed US-Mexico free trade agreement will almost certainly stick to economic matters, with perhaps a nod to environmental issues, but without reference to political or cultural ones. Nevertheless, the US-Mexico trade agreement will have profound political, social and cultural implications for the future of North America.

Free-trade arrangements are often chosen precisely because they have less political content than does a customs union, because there is no obligation to establish a single external tariff or to devise a common commercial policy. However, it is worth asking whether this formal distinction will actually make a difference if a US-Mexico free-trade area is created. Just how limited will the derogation of sovereignty be, particularly as habits of free trade and of industrial production-sharing develop over time?

It has now been decided that the free-trade negotiations will be trilateral, to include Canada from the outset. Once the three countries are engaged in free trade (possibly with some differences in the obligations undertaken by each), some sort of secretariat will be needed to interpret provisions of the agreement, to set forth regulations, and to resolve trade conflicts. This is not supranationality, but it does supersede pure sovereignty of the three countries involved. This new arrangement will become a magnet attracting other countries in the Western Hemisphere seeking non-discriminatory access to this large market. Mexico will be preferred to hemispheric countries without such access as location for foreign investment and for the kind of production-sharing that is increasingly becoming the norm among multinational corporations. Such extensive free trade will require an even more elaborate secretariat and begin to push toward supranationality.

Moreover, the US southwest, which includes two of the most populous states in the United States — California and Texas — is already heavily Latin American. This results from a combination of legal and undocumented immigration, amnesty for millions of previously clandestine immigrants, and a natural rate of demographic growth greatly exceeding that of the Anglos. A free-trade agreement with Mexico will not entail completely free movement of labor, but it is likely to permit relatively easy movement of technical and managerial personnel, as in the Canada agreement. Mexican migration to the United States, particularly to the southwest, is unlikely to taper off in the near future. This combination of increasing Mexicanization of the US southwest and freer movement of goods, services and capital across an increasingly irrelevant border will change politics and lifestyles in that populous part of the United States. Indeed, we are likely to have four regions in North America: Canada/Canada; Canada/US; US/Mexico; and Mexico/Mexico — that is, a mixed society rather than three separate societies.

The contemplated free-trade agreement may be intended mainly to alter North American trade and investment patterns. More significantly, the purpose of free trade is to increase income and employment in the two countries — particularly in Mexico, which has much further to come than does the United States. However, these changes will not end there: if free trade accomplishes its economic purpose, it will inevitably alter habits of living, cultural interaction, and political relations within and between the two countries.

FREE TRADE AND SOVEREIGNTY

A country chooses free trade with one or more countries in the belief that this form of economic integration enables it to retain control over those goods crossing its border from all countries other than its free trade partner(s). In reality, however, this control is compromised. A free-trade agreement refers to the elimination of import barriers on almost all goods originating from the partner countries.

Accordingly, this agreement must establish rules of origin to define what actually does come from the partner country, either in terms of a minimum percentage of value added or in terms of effective transformation of the product. If one free-trade country imposes high import barriers on a particular product while its partner keeps this protection low, third countries will have an incentive to ship products which require further processing to the country with low barriers. If the importing country then adds the requisite value, the transformed product can be shipped legally to all its partner countries.

"One reason Mexico is seeking free trade with the United States is to attract foreign investment."

Much of modern trade is between related parties, either affiliates of the same multinational corporation or firms that have special arrangements between them for buying and selling goods and services. A large portion of this trade is in intermediate products: an engine, for example, rather than a finished automobile, an active ingredient rather than a ready-to-take pharmaceutical product. Almost 70 percent of Mexico's imports in 1989 were intermediate products as opposed to capital or consumer goods. More than half of Mexico's manufactured exports that year were to related parties. Mexico could not maintain high import barriers on these products in a free-trade area with the United States without placing its industries at a distinct competitive disadvantage. *Thus, while a free-trade agreement does not legally compel the two countries to have a common external tariff, the workings of the market will force this outcome.* In the European Free Trade Association (EFTA), for example, the six member countries all have low import duties; any country in EFTA that raised its import barriers to a level substantially higher than that of its partners would have suffered as a result. In a free-trade agreement with the United States, Mexico would lose effective control over its border restrictions, a significant cession of sovereignty.

Indeed, the loss of economic sovereignty is likely to go well beyond the issue of one's own import protection. One reason Mexico is seeking free trade with the United States is to attract foreign investment. Mexico hopes to expand the kind of industrial production-sharing (the manufacture of different parts of a final product in the two countries) that is already occurring. In the past, Mexico obtained foreign investment largely by forcing countries to produce in Mexico if they wished to sell there. The automobile companies were forced to export automotive products from Mexico if they wished to sell their products in

Mexico. The *maquiladora* plants, using US inputs for further elaboration in Mexico and subsequent re-export to the United States, were encouraged by special incentives and by the attraction of cheap labor. Under free trade, these inducements — except for cheap labor — are likely to disappear. Corporations will choose investment locations on the basis of their internal strategies. The use of industrial policy — choosing which industries to favor and which not — will be largely foreclosed.

Free trade with the United States will therefore mean that investment choices and industrial locations will be decided on the basis of relative factor endowments of the two countries: where labor is cheaper, where output per worker can be maximized, where research can best be conducted, where skilled workers are most readily available. The salient investment issue under free trade will be the efficiency of a particular location, more so than will the nationality of the investor. This is a big leap beyond the kind of sovereignty we have known in the past, implying that as the two markets become more integrated, any single government will have less control over what is invested and sold. Mexico is prepared to take this leap, convinced that it will receive its share of the new investment; the United States will do the same, but its stakes are much lower because of the initial disparity. Mexico is thus prepared to give up much control over political choices regarding its economy.

It is this sacrifice of independent national choices that concerns many US opponents of US-Mexico free trade. The AFL-CIO fears that investment choices in labor-intensive industries — those in which high productivity cannot outweigh low wages in determining final unit costs — will favor Mexico over the United States. Some of these industries are reasonably self-evident: clothing, shoes, and various agricultural products, including tomatoes and other fresh fruits, vegetables, and citrus products. Some are less obvious, such as the automotive industry, in which the United Automobile Workers Union believes that much new investment will gravitate to Mexico. *These issues are posed in economic terms: What is the best location for specific industries? At their heart, however, these are deeply social and political issues.* The proper questions to ask revolve around the futures of the two countries, around which one obtains which types of industries, employing what kinds of workers, generating what level of value added, and paying what amount of wages.

"The general public in the United States views Mexico as a corrupt society, and having a Third World country for a neighbor has created problems, such as handling undocumented immigrants."

Mexico is currently not competitive in most high-tech industries which require substantial research or demand advanced skills. Free trade will force these kinds of decisions. If the choices are to become effective, they will demand a validating economic, social, and educational structure. Failures to establish these support structures would doom the United States to second-class economic and, hence, political status. Mexico will need its own validating social and educational structures in order to compete in the future on the basis of high productivity rather than low wages. About half of Mexico's population now lives below the poverty line as defined by the World Bank. A successful society cannot afford such waste. This reasoning is driving Mexico's search for efficiency, which free trade is to achieve in part. Mexico hopes that free trade will accelerate its economic/social transformation.

Regional transformations within countries occur with regularity. The textile industry in the United States shifted north to south. The Rust Belt decayed, at least for a time, as high-tech industries flourished in New England, California, and Texas. The center of gravity in the US economy shifted from manufacturing to services, while educational centers spawned research facilities. These transformations led to population shifts, alterations in political power structures, and changing social patterns. *As free trade takes hold, similar transformations will occur in the US/Mexico/Canada economy.* The regions benefiting most will be those which foster rather than prevent these transformations.

US attitudes toward Mexico, both official and among the general public, have largely been condescending. The general public in the United States views Mexico as a corrupt society, and having a Third-World country as a neighbor has created problems, such as handling undocumented immigrants. Until recently, US government attention was devoted more to drug traffic through Mexico than to economic and political relations. US policy reflects these attitudes, as evidenced by massive deportations from the United States of undocumented Mexicans, questions about whether one can certify that Mexico is making an appropriate effort in the fight against narcotic traffic, and so on.

For Mexico's part, past attitudes toward the United States have been hostile, as reflected in the Mexican press, which still has a pervasive anti-US bias, and in domestic political debate which regularly excoriated US behavior. Mexican votes in the United Nations were as consistently contrary to those of the United States as those of any Eastern European communist country or Cuba. In such a climate it took an act of great political courage for the present Mexican administration to propose free trade with the

United States. President Carlos Salinas de Gortari is consorting, often with the imperial political power which seized half of Mexico's territory, with the economic imperialist that dominated everyday life in Mexico. It is more courageous for Salinas to do this than it was for German and French leaders to come together in the 1950s to form the European Community. The French and Germans had partners; Salinas had none. The French and Germans were more or less equal economically; the Mexicans are far from economically equal to the United States.

"A US rejection [of the free-trade agreement], no matter how it is rationalized domestically, would be seen as a reversion to the old habit of condescension."

By accepting Salinas's proposal for free trade, George Bush likewise manifested a willingness to change this political relationship. The two countries will not thereby immediately come to love each other, but their officials will no longer be able to castigate each other in quite the same way as they have in the past. Free trade, if successful, will change the tenor of the internal debate in each country the longer it is in effect, reducing its hostile manifestations and bringing the two countries closer to each other.

A word should be added on what would happen if the US Congress rejects President Bush's request to negotiate a free trade agreement with Mexico. Salinas, by making the gesture he did, staked not only his own political future on achieving free-trade, but also that of his political party and, indeed, the future economic policy of Mexico. A US rejection, no matter how it is rationalized domestically, would be seen as a reversion to the old habit of condescension: free trade with Canada, yes; free trade with Mexico, a subordinate country, no. This would have a profound effect on Mexican politics, probably leading to instability as the political forces regrouped, and it would almost certainly spur Mexican economic policy to look inward once again.

RULEMAKING AND SOVEREIGNTY

The drive toward a single market represented by "Europe 1992" and, indeed, the idea of monetary and economic union among the countries of the European Community gain their stimulus from the EC commission. The governments must approve these policies, but their initiative comes from the EC secretariat. A North American free trade area (NAFTA) secretariat would certainly not have such wide powers at first, but it would not be powerless. It is worth sketching a scenario of how NAFTA might develop and how much power would accrue in the

secretariat. In its initial stage, NAFTA would have provisions regarding, at least, merchandise trade, trade in services, protection of intellectual property, investment, and dispute settlement, as well as particular arrangements in a number of important sectors, such as automobiles, energy, agriculture, and finance. No matter how detailed the agreement is, its articles will have to be interpreted. Proposals for this are likely to come from the secretariat.

Moreover, if free trade takes hold, the agreement itself is likely to deepen. The more countries trade with one another, the more traders and producers will seek stability in exchange-rate relationships. To accomplish this, some convergence on inflation will be needed. This does not necessarily require coordination of fiscal policy, but it does demand deeper consultation than what now exists among the three countries. In addition, the US/Mexico/Canada union would conclude free-trade agreements with other countries, further expanding secretariat powers.

Indeed, any time the United States signs an international agreement or treaty, it sacrifices some of its power of independent national action. Accession to the General Agreement on Tariffs and Trade (GATT) illustrates this, as does membership in the World Bank, where decisions can be made despite the objections of the United States. These sacrifices of authority tend to be relatively limited compared with what would be involved in a NAFTA which strengthened over time. For example, specific import restrictions against free-trade partners would be generally prohibited; when used, such restrictions would have to be limited in severity and time. General restrictions applied against another country normally would not apply against Mexico and Canada. It is precisely this assurance of access to the US market that Canada sought and that Mexico now seeks — a protection contract against US protectionism.

US economic integration with Mexico has highlighted the need to have compatible environmental standards, and for their enforcement, especially at the border. This is comparable to the acid rain understanding reached with Canada in the context of free trade. The two administrations, that of Mexico and the United States, have now accepted the logic of this conclusion. Mexico has given assurance that it will not allow its territory to become a pollution haven for industry. Free trade will thus intensify the thrust for uniform environmental standards in North America.

Union with Mexico would also entail greater economic changes than did the comparable free-trade agreement with Canada. The US and Canadian economies are similar. Their per capita incomes are almost the same, about nine times greater than that of Mexico, and US economic interaction with Canada is substantially greater than that with Mexico. With one-third the population of Mexico (twenty-six as against

some eighty million), Canada imports three times as much from the United States as does Mexico. The free-trade agreement with Canada, despite its controversy, essentially formalized a *de facto* economic integration already largely in place. Mexico-US economic integration is also proceeding, but a free-trade agreement would go well beyond formalizing the existing situation, to create a new economic entity, at least for those aspects included in the agreement. Beyond that, it would set in motion the kinds of social and political changes discussed earlier. Political and social changes may be so gradual that they escape notice even as they occur. But over ten, twenty, or thirty years, their cumulative effect should be profound.

DEMOGRAPHY AND LABOR

A US-Mexico free-trade agreement is expected to encourage industrial shifts favoring Mexico for labor-intensive goods. However, production of goods for which labor costs are a small fraction of total costs would remain in the United States. Since many final goods are produced from inputs made in various locations, multinational corporations are expected to allocate the manufacture of labor-intensive components to Mexico and the skill- or research-intensive parts to the United States. This is essentially the history of the *maquiladora*, or assembly production, that has flourished in Mexico during the last decade, even without free trade. The companies argue that this does not damage domestic labor because it permits partial production in the United States of goods that would otherwise be manufactured elsewhere altogether. In a single market, which is what the ideal free-trade area is intended to create, production decisions would be based largely on these comparative cost considerations.

There is no reason to quarrel with such an anticipated division of production in the early years of the agreement. Mexican wages, including fringe benefits, are roughly 10 percent of those in the United States. It is precisely this wage gap which encourages undocumented immigration into the United States from Mexico; most of these migrants have incomes below the median in Mexico and earn about five times more in the United States than they do at home. However, this scenario is too simple to capture the dynamics of wages and production over time.

***"The United States would lose jobs
in some sectors,
particularly where jobs are retained
because of high protection.
It would gain jobs in
sectors requiring a more
skilled work force.***

Mexican wages are low by US standards because output per worker is lower in Mexico and Mexico contains more job seekers than available jobs. These are precisely the problems that a free-trade area is designed to correct. The productivity of firms operating in Mexico with US capital and management tends to conform to the productivity of these same firms in the United States. One should expect, therefore, that if the agreement does make Mexico an attractive place for foreign investment, wages in Mexico will rise. At a five-percent-per-year growth for twenty or thirty years into the future, the unemployed and underemployment situation would nearly be corrected. One should expect, then, that over this time-frame Mexican wages will increase more than will US wages. This has been the pattern in Europe, where first Italy's and more recently Spain's real wages grew more than did the real wages of the EC's wealthier countries. This has not caused real wages in West Germany, the most prosperous EC country, to decline, but there has been a narrowing of the wage gap. A similar pattern between Mexico and the United States can be expected, assuming both have satisfactory overall economic growth.

The United States would lose jobs in some sectors, particularly where jobs are retained because of high protection. It would gain jobs in sectors requiring a more skilled work force. This will happen only if US policies generally promote investment to raise productivity and improve its educational structure to turn out the necessary skilled workers and technicians. Some people will be hurt in this process even if both nations gain as a whole. Neither country has developed a system to compensate — to train or subsidize — those who are hurt.

***"...the wage gap will remain,
and many [Mexicans] will emigrate
to the United States."***

As this process plays itself out, there will be significant demographic changes in both countries. About one million persons enter the labor force in Mexico each year. With growth of 5 to 6 percent a year, they probably will find jobs there. However, the wage gap will remain, and many will emigrate to the United States. Indeed, all evidence from migration research shows that as incomes increase slightly, emigration also increases. The income gap need not be fully closed in order to persuade Mexicans to stay at home, but the incentive to stay requires both increased income and the expectation of a decent future at home. This may be the most important promise of the free-trade agreement.

As they come to the United States, Mexicans are

apt to gravitate to where other Mexicans live, largely in the southwest. Many big cities in this region, such as Los Angeles and San Antonio, are already largely Mexican. These and other cities will become increasingly so. Mexican immigrants, even when they are legal, have been slow to become nationalized Americans, but their children are born Americans. Many such children will be born in the United States over the next twenty or thirty years, and many other persons will nationalize and register to vote. Accordingly, one should expect Mexican-American political power to grow, presumably favoring even closer US-Mexico ties, as have other immigrant groups for their countries of origin.

Moreover, as economic relations between Mexico and the United States intensify, and as the United States itself becomes more Mexicanized, Mexico will attain a much higher profile in US foreign relations. US policy will become relatively less Europe-oriented and more attuned to Mexico. President Carter, after appointing a special coordinator for Mexican affairs, exhorted the bureaucracy to pay more attention to Mexico, without success. However, as Mexico gains more economic salience and domestic interest groups raise their voices, official attention to Mexico will increase.

Finally, there is a cultural aspect to the growing Mexicanization of the southwest. This is already evident in bilingualism and the struggle against it, in the increasing popularity of Mexican food, Mexican music, and in greater familiarity with Mexican art. Will the southwest become a US Quebec, torn apart by language differences? I doubt it, if only because English is the language of commerce, finance and technology. But who can question the fact that Spanish usage in the United States and English usage in Mexico will grow? It will become even more fashionable to teach our children Spanish, because it will be more useful for most of them than is French or German.

IN CONCLUSION

I assume that a free-trade agreement in North America will be achieved, and that all three countries will benefit, which is necessary for it to endure. Changes arising from the agreement in the near future will be modest, particularly because it will take at least a decade to phase in free trade. Over two or three decades, however, the changes are apt to be profound. The agreement will weaken national decision-making power over trade and related matters. It will, at first, affect primarily economic relations — the location of industry and how production patterns are changed among the countries. Through these measures, there will be changes in incomes and employment, and Mexico has the most to gain in this respect. If Mexico can sustain the rate of growth it enjoyed before 1982, of some 5 to 6 percent per year and some 3 percent per

capita, the driving unemployment and poverty Mexico faces can be reduced and real wages increased. In the long term, this should reduce migration to the United States. Nationals of both countries will come to think of themselves as North Americans rather than simply Mexicans or Americans. Mexicans will have to stop referring to US nationals as 'norteamericanos' and instead apply the term to citizens of both countries.

Politics within each country will change in the sense that excoriation of the neighbor will become less attractive. Local issues will still dominate politics in each country, but even these will take on a Mexican tinge in the United States, especially in the southwest. Spanish will further dominate foreign-language instruction in the United States, and increased interaction between the two countries will also heighten pressure for greater political democracy in Mexico. It is hard to conceive of deepening US integration with an authoritarian regime. Finally, the emphasis in US foreign policy should undergo a decisive shift by elevating the relevant salience of Mexico in the scheme of things. The United States may even become a child of its own hemisphere rather than continue to look forlornly to Europe. ■