

TAMU Extension Symposium

Effects of NAFTA

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I. Texas Agriculture in a Globalized Economy

In 1993 the debate -- or should I call it the "battle" over the North American Free Trade Agreement polarized Americans into one of two camps. You were either for or against it -- I recall knowing very few people who sat on the fence, or should we say border.

For the most part both sides made very bold forecasts regarding the effects on workers and companies in all three countries involved predicting either economic chaos or immediate prosperity.

No one could accurately predict what would transpire in the two years following the ratification of NAFTA. All three economies are at the mercy of many other factors besides just trade agreements that were just beginning to be implemented.

One reality we did, continue to and will always know for certain -- the world is changing at an ever rapid pace. Change that cannot be slowed much less stopped.

I like to identify one of the most important changes as the "Globalization of the World's Economy." Two major contributors to this change I speak of is the collapse of the controlled economies and technological advances in global telecommunications.

Today, more than ever, people all over the world are awakening to the fact that capitalism, propelled by immense telecommunications technologies, offers the very best opportunities for any society to pull itself out of economic morass. The world's economy is becoming globalized.

Put simply, people in most any part of the world can pick up a cellular phone or dial onto the Internet and exchange goods, services and probably most importantly, knowledge. It's the "knowledge" that makes citizens worldwide thirst for free markets and opportunities to buy the products they need and want and sell the products they have a comparative advantage with.

Ladies and gentlemen, there is no going back. And regardless of how you feel about NAFTA, GATT or any other trade agreement, none of us can simply ignore the above mentioned facts.

II. Rhetoric vs. Reality -- What "they" said and what really happened.

There were many exaggerations used to promote or defame NAFTA. Allow me to address just three.

Exaggeration number one: Texan Ross Perot and his current vice presidential running mate Pat Choate predicted devastation to the U.S. economy with the United States losing jobs faster than the giant sucking sound could flush them down the toilet. Perot and Choate claimed that 5.9 million U.S. jobs would be at risk under NAFTA. Clearly distortion was the name of the game here. Are not all of our jobs "at risk" in some form or fashion. The only job I can think of that is not at risk is the guy that works at the funeral home.

On the other hand pro-NAFTA politicians and economist claimed that NAFTA would add 200,000 jobs in the first two years preceding ratification of NAFTA. It's clear that has not happened either.

The truth is NAFTA's precise impact on jobs is impossible to determine.

Today even anti NAFTA economist agree that any loss is much lower than what Perot and Choate claimed, while the pro NAFTA camp is having a hard time proving 200,000 jobs have been added.

Exaggeration number two: Perot and Choate also stated that a "massive shift in the U.S. beef industry from the United States to Mexico" would occur resulting from lax standards in Mexico. Well it turned out that Perot and Choate were all hat and no cattle. Not only did they not understand the true economics surrounding the beef industry, they chose not to read parts of the agreement that called for harmonizing sanitary and phytosanitary standards in all three countries.

Unfortunately, no economist -- and probably weather forecaster -- could have predicted a very devastating drought that hit Texas and to a greater degree Mexico and the adverse effects it will have on the beef industry for years to come. There's not a cattleman in Texas who does not sympathize with ranchers confronting the drought our neighbors have endured for the last three years.

We Texas ranchers do not relish Mexico's misfortune -- we've been there too many times ourselves seeing our neighbors and families taken out of ranching by such devastating droughts. But, ultimately, Texas ranchers may benefit as our Mexican counterparts restock herds reduced by as much as 70 percent. When the Mexican economy begins to expand, beef exports to Mexico should also increase.

Exaggeration number three: Mexico is such a lucrative market that obtaining greater access for U.S. products will trigger an instant export boom. Vice President Gore predicted that the then trend in the U.S. trade surplus with Mexico would greatly accelerate providing a larger trade surplus with Mexico than with any other country in the entire world. Many others also, both Democrat and Republican, predicted big surpluses with Mexico once NAFTA was ratified. None of us saw a 50 percent collapse in the value of the peso and a large sell off in the Mexican stock market. Everyone was a bull -- no one was shorting the peso and the Bolsa.

The fact of the matter is the United States now has a trade deficit with Mexico of around \$600 million. Do I think the deficit is permanent ? Of course not.

III. Realities of Today's Environment

Mexico's Recovery

As I suggested earlier, our neighbors to the north and south -- who happen to be Texas largest trading partners -- are too important to Texas to ignore. When the economy of one of our partners gets the flu Texas' economy can catch a cold. What do I mean by that: our economies are too closely linked to not have an impact on each other.

So when Mexico's economy got pneumonia folks in Texas got real concerned real fast. Governor Bush was one of the first to voice his concern about the economic well-being of our neighbors to the south.

While certainly not where it should be Mexico's economy is showing dramatic improvement over where it was in January 1995.

- After plummeting in 1995, Mexico's GDP is almost as high as it was in 1994.
- There has been dramatic growth in Mexican manufacturing. Excluding maquiladoras, manufacturing rose 27 percent in July.
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Mexico had a trade surplus of \$601 million in September when exports were 21 percent higher than a year ago.

Although most of Mexico's 94 million citizens have experienced severe hardship, the average Mexican is expected to feel an improvement within a year.

I argue the most important factor in this turnaround is NAFTA and Mexico's ability to export goods to the United States and elsewhere under very favorable conditions. Clearly, the peso made Mexican products cheaper, but a catalyst to the equation was and continues to be a more favorable trading environment with the United States and Canada.

Credit must also be given to Mexican President Ernesto Zedillo who faces tremendous pressure to turn Mexico's economy around as soon as possible. Many remember the peso crash in the early 1980's. The approach then was to do just the opposite of what NAFTA prescribes -- restrict the flow of capital, goods and services which clearly set its recovery back years and cost Mexican citizens lost opportunities to find better jobs.

Economic stability and accelerated political reform made possible by NAFTA created confidence in Mexico within the international business community as well.

Such confidence will create a great environment for sustained growth in Mexico. Foreign capital stayed in Mexico after the devaluation. Moreover, new capital is flowing into the country as evidenced by recently announced joint ventures such as Archer Daniels Midland and Gruma. WalMart and H.E.B -- based right here in San Antonio -- have both announced plans to expand in Mexico.

The recovery still has far to go, but many people found good jobs this time around because President Zedillo held firm and remained committed to NAFTA's implementation.

Texas resilience

Normally one would think the Texas economy would take a hit when all those goods and services began flooding across the border as Mexico's exports shot up. But guess what: The cliché that "rising tides lift all boats" proved true for both vessels in this equation.

We all know imports from Mexico to the United States experienced healthy increases in that last two years. But at the same time the United States' exports to Mexico did the same. Why? Mexican factories need U.S. parts to produce products they're exporting all over the world.

The data from Texas and the United States also looks good due, in part, to trade with Mexico:

- Texas unemployment recently fell from 5.8 percent to 5.6 percent, partly because of improved trade with Mexico.
- Border cities improved dramatically. The jobless rate in Laredo fell nearly 4 percent to reach the lowest level since devaluation.
A 7.2 percent rise from April to June in Mexico's GDP suggested more Mexicans could afford to buy Texas goods –often by crossing the border to purchase them directly.
- Texas exports to Mexico grew 21.5 percent during the first six months of '96, driven largely by Mexico's own manufacturing and export boom.
- U.S. ag exports to Mexico hit \$3.8 billion during the nine-month period ending in June, up 37 percent from the year before.
- Mexican imports of U.S. tallow and grease rose 12 percent in 1995, despite the peso devaluation.
- U.S. dairy exports showed strong recovery during the first quarter of 1996.
- Some economists expect U.S. agricultural exports to Mexico to approach a record \$5 billion in the fiscal year that ended Sept. 30

There have been, and will continue to be, bumps in the road to full implementation of NAFTA. However, the facts I have shared about Texas and her two most important trading partners illustrate that globalization of the world's economy can benefit all trading partners provided the proper rules are established. That's exactly what happened with the negotiation and ratification of NAFTA.

You see that's the beauty of free trade agreements and something their detractors never appreciate. Exports and imports can both appreciate and if this "globalized economy" grows like we know it can the NAFTA members will all come out big winners.

Detractors of NAFTA don't want to recognize that this agreement can put more dollars in the pockets of workers in all three countries. It's going to take time and imbalances will occur from time to time -- another reality that can't be avoided. But, still, we all come out winners in the long run.

IV. NAFTA's Impact on the Future of Texas Agriculture

As the economy stabilizes, demographics indicate that Texas agriculture could enjoy a long-term positive trade relationship with our southern neighbors.

Mexico is growing fast. Sixty-eight percent of the population is under 30. Eating habits are changing in all countries. As a whole, Mexico is moving from a diet based mainly on plant protein to that of meat protein. Yet Mexico does not have the beef production to sustain growing demand. And the countries best positioned to supply the difference are the United States and Canada, especially now that NAFTA has removed the 20 percent duty Mexico used to impose on chilled beef.

Perhaps one of the most intriguing markets with the biggest potential for profit is for value added-products. Since 1990, U.S. exports of snacks, breakfast foods, processed fruits, vegetables and nuts have more than doubled.

In Mexico more women are beginning to work outside the home, creating a demand for convenient, nutritious products that can be prepared quickly after a day at work.

No doubt when an emerging economy begins to experience true sustained economic growth, disposable income is used first to improve the peoples diet. History has proved this true time and time again.

When Mexico experiences sustained economic growth, U.S. agriculture must be ready to help satisfy strong demand for the products we have a comparative advantage with.

Of course, NAFTA is still relatively new and marketplace changes will be ongoing. NAFTA was designed so that each of the trading partners receives significant preferential trade status in the market of the other NAFTA partners. For instance, trade barriers and tariffs are eliminated over time. As that artificial protection disappears, production will shift to areas that have that comparative advantage. In other words, goods will be grown or produced where it makes sense to grow them. A free trade agreement by its very nature, spurs competition and the efficiency brought on by competition.

That's what we're seeing happen right now in Florida with the tomato growers. Earlier this year, they challenged NAFTA alleging that the Mexicans were flooding the U.S. market with lower priced tomatoes, although the Mexicans were staying within their quotas. The Floridians asked that the Mexican quotas be changed from yearly quotas to weekly quotas.

It has become obvious that the Mexicans have a competitive advantage for tomato production. In all probability, the peso devaluation magnified the advantage this year because it reduced the Mexicans' shipping costs and made up for what might be a less efficient infrastructure. With the peso devaluation some economists question whether Mexico would have been able to enter the market so strongly.

Regardless of speculation of what might have been, many Florida growers are asking themselves some tough questions. Can they cut their costs enough to compete in the future? What can they do to get more for their products? Or should they get out of the tomato business?

This situation is a harsh reality of the marketplace and not only the global marketplace. South Texas tomato growers asked themselves these same questions 30 years ago, when they ceded the tomato market to Florida. Unfortunately, free trade does not guarantee everybody wins every time. It just allows the players to compete. And, a lot of the time, consumers are the biggest winners, which is something not many people talk about.

But, I go back to the point I just made which excites me the most about free trade agreements. They spur competition and provide environments where we will truly discover where our strengths lie. Not until free trade agreements evolved and subsidies began to fade have NAFTA's farmers and ranchers began to discover where their competitive advantages truly lie. As a rancher myself I know what these men and women are made of and it is the same ingredients I know that comprise farmers and ranchers in Mexico and Canada, too.

The ingredients I referring to are resolve and determination. Couple those with a love of the land, lifestyle and culture and those provide the makeup for a group that will find ways to become better farmers and ranchers. It makes me proud to know they will sustain a way of life that those in cities can only stare from their office towers and dream of.

Thank you very much.