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OPENING U.S. MARKETS TO MEXICAN GOODS TO ALLEVIATE MEXICO'S DEBT CRISIS

(Updating *Backgrounder* No. 694, "U.S.-Mexican Economic Ties," March 6, 1989.)

At his October 3 meeting in Washington with George Bush, Mexican President Carlos Salinas de Gortari signed an accord calling for expanded trade and investment between Mexico and the United States. This agreement reflects the growing perception, on both sides of the Rio Grande, that Mexico's economic and political health depends critically on open trade and more extensive U.S.-Mexico economic ties. While the new trade agreement is to be welcomed, it is only an embarrassingly modest step toward reducing the longstanding and very strict American restrictions on steel, textile, and other imports from Mexico.

Despite all the Bush Administration's talk of wanting more free trade with Mexico, the U.S. market will still be closed to many Mexican goods. This creates what should be an embarrassing contradiction in U.S. policy making. While the U.S. Treasury seeks debt relief and a new economic assistance package for Mexico, U.S. trade policies undermine Mexico's economic growth. Mexico must increase export earnings to finance its $108 billion debt to foreign creditors and to lure back the more than $80 billion sent abroad by Mexican investors. The U.S. can help Mexico do this only by allowing American businesses and consumers to buy Mexican goods.

Eliminating Barriers. Under the terms of the October 3 U.S.-Mexico trade accords, the Bush Administration agrees to begin negotiating such issues as tariffs, nontariff trade barriers, investment, marketing restraints, and intellectual property rights. The center of U.S. opposition to more open trade with Mexico is the Office of the U.S. Trade Representative (USTR), headed by Carla A. Hills. USTR officials assert that any special U.S.-Mexico trade arrangement, particularly a U.S.-Mexico free trade area, would undercut U.S. negotiations with the more than 90 member nations of the General Agreement on Tariffs and Trade, known as GATT. By contrast, U.S. Commerce Secretary Robert Mosbacher has become a booster of a U.S.-Mexico free trade agreement, saying that he expects an accord eliminating all tariff and many nontariff barriers affecting each other's goods within a few decades. USTR curiously ignores the fact that, if the recent U.S.-Canada free trade agreement has not "undercut" GATT, then an accord with Mexico will not.

U.S. import restrictions, particularly nontariff barriers on steel and textile products, block progress toward a more open market between the U.S. and Mexico. U.S. negotiators offered only a vague promise to "review and improve" the current agreement limiting Mexico's share of the U.S. textile market. Mexico is currently the sixth largest exporter of textiles to the U.S., mainland China being the largest. American consumers pay higher prices for all textile products because of the arbitrary quotas on inexpensive Mexican textiles.

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Artificial Quotas. It is the same story with steel. Under the five-year U.S. steel import quotas that expired this September 30, Mexico was allotted 0.48 percent of the entire U.S. steel market. Even with the new expanded quotas, Mexican officials expect to be allowed a mere 0.95 percent of the U.S. steel market. Overall, imports are allowed to provide only 20 percent of the steel consumed by the U.S. The American economy would benefit enormously if all artificial barriers to steel imports were lifted. But even with the limits, the Bush Administration could demonstrate its strong commitment to expanded U.S.-Mexico economic ties by increasing substantially Mexico's share of the U.S. steel market while reducing quotas for other exporting nations. Japan, for example, has a 5.5 percent share of the U.S. steel market. Surely the Mexican economy needs and deserves more access to the U.S. market than do the ultra-rich Japanese.

The neglect of Mexico in setting U.S. steel quotas points to a larger pattern of anti-Mexican neglect or even discrimination in U.S. international economic policy. Example: Mexico must provide creditors with accurate data on the Mexican economy and rigorously account for how it uses new borrowing; Soviet bloc borrowers, by contrast, typically receive untied, general purpose loans and government-guaranteed credit lines without providing such financial data.

Important free market reforms are already underway in Mexico. In most cases, foreign investment in Mexico no longer requires government approval. Several government-run industries have been sold to the private sector, import licensing has been streamlined, and extensive reductions in corporate and personal tax rates are scheduled. Jose Manuel Suarez-Mier, Minister for Economic Affairs at Mexico's Embassy in Washington, notes that the average import tariff imposed by Mexico has been lowered from nearly 100 percent to about 12 percent, with a maximum tariff of 20 percent. The initial results of the Salinas reforms are encouraging. In the first half of this year, Mexico's economy grew at an annual rate of 2.4 percent, more than twice last year's pace. The Salinas government reports that the net return of capital to Mexico so far this year exceeds $2 billion.

Giving Mexico Breathing Space. The U.S. can do much more to encourage greater openness in U.S.-Mexico trade relations. If the Bush Administration is truly committed to expanding U.S.-Mexico economic ties, it must lay the groundwork for a U.S.-Mexico free trade area. The October 3 U.S.-Mexico trade accord allows for regular working group meetings dealing with specific trade problems in such key sectors as textiles, steel, electronics, automobiles, and agriculture. Bush can initiate negotiations on a broad U.S.-Mexico open market without prior approval from Congress. The current accords provide a framework for negotiators to bring U.S. import restrictions in line with Mexico's liberalized tariff and nontariff treatment of American goods in these key sectors. At the same time, Mexico's share of the U.S. steel and textile markets should be increased at the expense of East Germany, Romania, mainland China, and certainly Japan.

The U.S. stake in Mexico's economic fortunes has never been greater. Mexico is America's third largest trading partner as well as the central figure in the international debt crisis. Mexico's economic collapse would undermine North and Central American security and surely trigger a flood of northbound refugees. Yet at a time when Mexico's Salinas seeks breathing space for his sweeping and painful economic reforms, including deficit reduction and the elimination of many government subsidies, the U.S. is discriminating against the Mexican economy.

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