BUSH AND SALINAS SHOULD LAUNCH FREE TRADE TALKS BETWEEN THE U.S. AND MEXICO

The Washington meeting on June 10-12 between George Bush and Mexican President Carlos Salinas de Gortari occurs at a time of unprecedented and bold change within Mexico. Salinas is championing free trade, privatizing banks and other state-owned enterprises, encouraging foreign investment, cracking down on corruption, and moving against drug traffickers. But more important, this meeting is taking place at a time when United States-Mexican relations are better than ever before. What were once "distant neighbors" now appear to be developing into economic and geopolitical partners. George Bush should strengthen this cooperative relationship not only by supporting Salinas's economic reforms, but by moving quickly to negotiate a free trade agreement with Mexico.

As the world rapidly changes and the Soviet bloc threat across the globe wanes, the U.S. will need to shift its attention toward its own hemisphere. As this happens, Mexico will loom ever larger as a foreign policy and economic challenge for Washington. Not only will trade and investment in Mexico be more important to the U.S., but the probable withdrawal of Soviet influence from the Western Hemisphere at some future point will remove a source of irritation in U.S.-Mexican relations. Largely overlooked by Washington until the mid-1980s, Mexico more than any other country except the Soviet Union will directly affect the future of U.S. political and economic security.

Since their first meeting in Houston on November 22, 1988, Bush and Salinas have tried to find common ground and have fostered a good working relationship. Salinas has moved to neutralize much of the anti-U.S. rhetoric and actions traditionally associated with Mexican politics, while Bush has sought to elevate Mexico to a higher priority in U.S. foreign policy making. The Bush White House understands, better than its predecessors, the importance of Mexico to the U.S.

Unprecedented Reforms. Salinas is digging Mexico out of a very deep hole. The Mexican President has arrested such top narcotics bosses as Miguel Angel Felix Gallardo, once Mexico's most powerful drug trafficker. The government also has seized more drugs and arrested more traffickers in 1989 than in the previous ten years combined. Nevertheless, tensions between the U.S. and Mexico persist over the investigation into the 1985 torture-murder of Drug Enforcement Administration special agent Enrique Camarena Salazar.

Salinas also has pursued the elimination of what he labels "state gigantism," or the heavy hand of state intervention in the Mexican economy. Since launching his privatization program in 1988, at least 700 state companies have been put up for sale, sold, or closed, including Mexicana Airlines and the notoriously inefficient telephone monopoly TELMEX. The most recent and important privatization initiative, announced on May 2, calls for the reprivatization of Mexico's banks, which were nationalized in 1982 by then-President Lopez Portillo. This proposal was approved by the Mexican Chamber of Deputies on May 14 and by the Mexican Senate the following week. It authorizes the government to sell its 66 percent share in the nations's eighteen largest commercial banks, and if the Mexican Congress approves, could allow foreign investors to own shares in existing or new banks. Rules governing investment were liberalized on May 16, 1989, and as a result, $2.5 billion in investments flowed into Mexico between May and December of last year, making 1989 the biggest year in Mexico's foreign investment history.

Putting Free Trade on a Fast Track. Salinas's most important move yet, however, is his support for creating a Free Trade Area (FTA) with the U.S. and Canada. Salinas endorsed a recommendation from the Mexican Senate on May 22 calling for the creation of an FTA of some 335 million people stretching from northern Canada to the northern tip of Central America. Washington already has an FTA agreement with Canada, which was signed in 1988. An FTA would require signatory countries to drop all tariffs and many non-tariff barriers to trade. Such an arrangement with Mexico would build on Salinas's recent significant progress toward trade liberalization and would offer the best hope for Mexico to join the ranks of the world's prosperous countries.

Free trade negotiations between the U.S. and Mexico make sense. The U.S. is Mexico's principal trading partner, absorbing $25 billion, or around 60 percent of Mexico's exports last year. Mexico, in return, imported $27.2 billion worth of U.S. products, amounting to 65 percent of Mexico's total imports. America's third largest trading partner, behind Canada and Japan, Mexico receives approximately 6 percent of U.S. exports and sells the U.S. roughly 6 percent of America's imports. If a free trade area agreement were reached, trade between the two countries would increase enormously.

The U.S. market still is closed to many of Mexico's most important goods, including steel, textiles, and agriculture products. Hoping to eliminate these trade barriers, Mexico's Minister of Commerce Jaime Serra Puche and Salinas' chief economic advisor Jose Cordoba have been promoting free trade talks between Washington and Mexico City since February. Surprisingly, however, opposition to a speedy FTA agreement between the U.S. and Mexico apparently has emerged from the Office of the U.S. Trade Representative (USTR) Carla A. Hills and elsewhere in the Bush Administration. Secretary of State James Baker and Commerce Secretary Robert Mosbacher, nevertheless, appear to be strong proponents of rapid free trade negotiations.

Encouraging Investment. Salinas clearly is hoping to use his visit to promote an FTA with the U.S. While in Washington, he will meet with the Business Roundtable, a group of top U.S. business executives, to elicit their views on free trade with Mexico. He also will be encouraging greater U.S. private investment in Mexico. Before his return to Mexico City, Salinas likely will seek an agreement with Bush to formalize free trade talks and to put them on a much faster track. Bush should take him up on it. He and Salinas should sign a new trade accord when they meet on June 11, officially setting the groundwork for free trade negotiations between Washington and Mexico City.

The U.S. stake in Mexico's economic, political, and social fortunes have never been greater. Salinas's unprecedented reforms clearly deserve strong U.S. support during his visit to Washington. His efforts to privatize the Mexican economy, liberalize trade with the U.S., and defeat drug trafficking are in the interests of both countries, making both of them more secure, more competitive, and more prosperous. Salinas has a very limited "window of opportunity." Through the promotion of such policies as an FTA the Bush Administration can give Salinas much-needed breathing space. Otherwise, Salinas's reform program could fail and Washington could find itself with an unstable Mexico on its southern border threatening its economic security.

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