
The Free Trade Agreement

Mexican American Perspectives

A Tomás Rivera Center Seminar

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The Center's mission is to help government and corporate decision makers develop and implement policies and programs to improve the socioeconomic and educational status of the Latino Population of the United States. To carry out its mission, the Center promotes discussion, conducts studies, carries out analyses, and compiles information to help private, public and independent sector policy makers address the vital issues and challenges facing the Latino community.

The Center is dedicated to the memory of one of its founders, Tomás Rivera (1935 - 1985), distinguished educator, prizewinning writer, and Chancellor of the University of California, Riverside.

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The Free Trade Agreement: Mexican American Perspectives

THE FREE TRADE AGREEMENT

by Ricardo Romo

*Mexican
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INTRODUCTION

Congress and the Administration prepare to take up the issue of a proposed Free Trade Agreement (FTA) between the U.S., Canada and Mexico in the spring of 1991. Leaders in the U.S. Mexican American community have already begun to express legitimate concerns about the potential effects of new trade relations, especially as related to the U.S.-Mexico border region.

To discuss these issues, The Tomás Rivera Center sponsored a gathering of 31 scholars, researchers, and business and community leaders, all with expertise in trade issues or Latino concern. The seminar was held on March 21, 1991 at Trinity University in San Antonio, Texas. Although participants recognized that the proposed FTA will involve all three nations in North America, the discussion centered on those specific issues related to Mexico and the United States. These are the issues which will likely have a greater impact on the Mexican American community in the Southwest.

Ricardo Romo, Vice President and Director of the Center's Texas office, and Ray Castro, Vice President and Director of Policy Research for the Center, welcomed participants to the seminar. Castro noted that the issue at hand was not so much whether there would be a Free Trade Agreement, but rather what would be the nature of the agreement and of the concerns that shape it. The ensuing discussion was moderated by former San Antonio mayor and Center trustee, Henry . Cisneros.

"It seems to me that what has been lacking in this discussion of the Free Trade Agreement is a good look at what it means for the Latino community, more specifically, the Latino community in the Southwest, and generally that means Mexican Americans," Cisneros said in his opening remarks. He noted that about 25 percent of the Texas and California population, and about 38 percent of the New Mexico population, is Hispanic. Many of these residents live in proximity to the Mexico border and thus stand to be directly affected by the bi-national relationship.

Cisneros commented that free trade is an issue with a lot of "dual dimensions" to it. There is a geopolitical, or "macro" side to it, as the U.S., Mexico and Canada seek to form a trading bloc that can compete with

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the European bloc and the Asian bloc. There is the "micro" side of it, as well, having to do with how a trade agreement might, for example, change life for people in Texas border cities. "There are immediate concerns and long-range concerns," Cisneros said, noting that the most immediate issue is the matter of giving "fast track" authority to the Administration.

Fast track is a process in which Congress does not take a formal role in negotiating the terms of a trade agreement but only in passing or rejecting the complete agreement. The vote on fast-track authority is expected to come before Congress in May.

Early in the discussion, Cisneros stated that, "As the United States, Canada, and Mexico prepare to open negotiations on free trade in coming months, the Hispanic community will be taking a close look at how our interests stand to be affected by these new trade relationships."

"I worry a great deal about what it might mean for poor people and Mexican Americans in the Southwest," he continued. "On the other hand, it's clear to me that in the long run, a hemispheric trade relationship is exactly what we need to be going through. So I end up not for or against but more asking what do we have to do to make this acceptable? What are the things that we would have to ask for if this were on the road to passing? What conditions, if you will, make it more palatable to Mexicanos in the Southwest United States? And if those conditions are absent, then what kind of political muscle will we have to exercise in order to bring them about?"

In an effort to begin responding to these as well as to other questions and concerns, the seminar was organized around three general topics: 1) business and financial implications on the border community; 2) border economic development; and 3) environmental issues. During the course of each discussion, participants raised concerns and suggested specific policy recommendations with the purpose of improving a Free Trade Agreement. Some statements suggested areas in which government should take additional action so as to cope with changes caused by new trade relations.

In this report, we will first emphasize the specific policy recommendations that emerged from each topical discussion and then provide the context.

I. BUSINESS AND FINANCIAL IMPLICATIONS ON THE BORDER COMMUNITY

Leading this discussion was Gilberto Cardenas, an economics professor at the University of Texas-Pan American. He was joined by economist Jorge Gonzalez of Trinity University and Michael Patrick, also an economist, from UT-Pan American. Their policy-related concerns:

- 1) Policy stipulations in the FTA need to recognize the experience Mexican Americans already have in cross-border trade and should be designed to build upon this to aid Mexican American business people.
- 2) Increased trade will mean increased need for capital and financing. FTA terms need to ensure that banks in the border region are in a position to develop their expertise in international lending.

- 3) An increased in economic activity could mean more opportunities in tourism, real estate, and insurance. Policymakers should ensure that FTA conditions allow Mexican American businesses to benefit from these activities.
- 4) Along with positive opportunities, dislocations and capital flight are also expected from an FTA. Thus, it is imperative that public and private policymakers push for retraining programs to meet the needs of U.S. workers who might lose jobs.

THE DISCUSSION

"The nature of the border community in the Southwest will depend on the nature of the agreement," said Cardenas. "Along the U.S.-Mexico border we're hoping it brings new optimism to the border region." Cardenas said he sees the possibility that a Free Trade Agreement could help make the border a "new major international trade center."

"You're going to see much more business activity picking up along the U.S.-Mexico border," he said, adding that the benefits could extend beyond border cities to regional cities such as Los Angeles, San Antonio and Houston. Cardenas also expects to see more manufacturing on the Mexican side. The questions then become: How can we foster more joint efforts between Mexican and Mexican American business? How can we encourage Hispanic maquiladoras? How do we involve Hispanic businesses in supplying the new industrial developments? "The joint ventures we are seeing are between Mexican business people and big U.S. corporations, and that might exclude the Hispanic community," he said.

Cardenas noted that a key element in forming new joint ventures is the availability of capital, a point that was expanded on by Jorge Gonzalez. As trade increases, both American and Mexican companies will need financing. Who will provide this capital to newly expanding Mexican firms? Most likely it will be the banks with experience in international lending. "It is very important for border banks to get in on the deal quickly," Gonzalez said. "They need to be ready to expand their services and take advantage of their knowledge of the border region. They are likely to find new business in selling futures in pesos and dollars, and in financing mergers between small Mexican companies and small U.S. firms," Gonzalez said. "If the border banks get into the act right away, they'll have a good potential to do it, especially since they've been on the border and already have some experience." But if they don't act quickly, said Gonzalez, "I see a lot of problems for the banking industry in South Texas."

Gonzalez also discussed potential problems in the border-based retail industry. "If all of a sudden the same goods can be bought in Monterrey for relatively the same price, it's going to be hard for the Mexican consumer to justify a trip of three hours or more just to get to the United States." Gonzalez said U.S. retailers will have to work harder and try to offer Mexican consumers something more.

The loss in day-to-day trade may be offset eventually by an increase in tourism, Gonzalez said. "Instead of traveling to Laredo to shop, [Mexicans are] going to come to San Antonio and perhaps stay a week," he said. Cardenas also sees increased potential in sectors other than tourism, mentioning new opportunities for U.S. companies to sell insurance to Mexicans and to benefit from a better real estate market in an enlivened

A Free Trade Agreement promises a better coordinated mechanism for the economic integration.

border area.

Patrick addressed some of the potential drawbacks of free trade, concentrating especially on the Lower Rio Grande Valley and South Texas. "The question of a Free Trade Agreement on agriculture is of paramount importance to South Texas, because agriculture has historically been the fundamental economic anchor of the region," Patrick said. But over the last ten years, thousands of jobs have been lost, he said, a trend that can be expected to intensify if a greater supply of produce begins coming into U.S. markets from Mexico. "The concern for me, and for most of us I'm sure, is what to do with the thousands of people who will be disemployed from seasonal farmworker jobs?" Patrick asked. In his opinion, expected structural disemployment raises the obvious need for worker retraining programs.

Patrick and Gonzalez came to similar conclusions about the Free Trade Agreement. Gonzalez summarized his views by stating, "I think the FTA could be fantastic for the border region. It could be the best thing that ever happened. However, we have to work at it; it's not going to be untraumatic." Patrick added, "I would say the FTA offers tremendous opportunity to both sides . . . but we've got some major constraints. We've got the infrastructural weaknesses and, particularly on the U.S. side, we've got job training needs; we also lack adequate capital for small industry and small businesses."

These issues were opened up to general discussion among the other seminar participants.

The matter of Mexican American participation in new business opportunities was on the minds of several participants. Joe Morin, of the Texas Association of Mexican American Chambers of Commerce, expressed concern about small business ventures. Although his association supports the FTA concept as a whole, Morin expressed doubts about the fast-track approach, especially since there is no information as to how smaller businesses will be affected.

He was worried that the fast track will preclude the input of small business concerns. "While it (FTA) might be great for major U.S. corporations in the short run and obviously in the long run, our question is, how is it going to impact our members, our small business community?" Morin asked. "We're talking about 99% small businesses in the Mexican American community," he added. Linda Guerra Matthews of the San Antonio Hispanic Chamber of Commerce said her group is on record as favoring both the FTA and the fast track authority. "When you mention manufacturing jobs leaving... this isn't going to make anybody leave any quicker than what they're already leaving. The Caribbean Basin and the Pacific Rim are taking jobs now. If they're going to leave, it's much better for them to go to Mexico, because for every billion dollars of exports — and exports will increase — 25,000 jobs are created," she stated.

Ernest Chavarria, of the Texas Association of Mexican American Chambers of Commerce, said the questions of ensuring Mexican American business a chance to take advantage of new opportunities comes down to the old Mexican expression "*con dinero baila el chango*" which means, "With money the monkey dances." Without adequate financing in both the public and private sector, the proposals heard today will not be realized, he said. "We are not the only game in town. We want to make it our game so that we can maximize a Latino advantage."

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II. BORDER ECONOMIC DEVELOPMENT

Leading this part of the discussion was economist David Molina of the University of North Texas. He was joined by policy analyst Chandler Stolp of the LBJ School of Public Affairs and economics professor Richard Santos of the University of New Mexico and Scholar of The Tomás Rivera Center. Their policy-related concerns:

- 1) An increase in trade will add to the burdens on an already strained infrastructure in the border region. Funds for roads, bridges, transportation and water needs cannot be expected to be provided by local government alone.
- 2) Among "human capital" concerns that must not be overlooked is the need to ensure better education for the next generation of workers and managers.
- 3) Among "human resources" concerns is that more technical training and retraining programs must go hand in hand with economic development.

Molina began the discussion by pointing out that the costs of adjustment to free trade cannot be ignored. "In economics we use a term called 'externalities,'; those are things which occur that aren't necessarily included in the price of the product. I'm afraid that at least in the short run, there are going to be some negative externalities to the border."

One of the most direct effects of new trade will be the added strain on the border infrastructure. Molina said that without region-wide data and statistics it is difficult to find out just how weak is the existing infrastructure. But it is clear that increased economic activity will require more attention to transportation funding. Roads, bridges and railways will need to be added and upgraded. And new industry will increase water needs along the border.

Molina mentioned, as well, the indirect effects of greater economic activity, such as the need for increased funding to border schools and universities.

This point was amplified by Chandler Stolp, who said, "Education is human capital; it is not a separate issue." Part of economic development is to plan for adequate "human capital," Stolp said. "We can talk about the scarcity of human capital and the structure of that human capital. Some people assume that the gaps in human capital between the United States and Mexico would cause a mass exodus of jobs from the United States to Mexico. I don't believe that. I think the structure of human capital in Mexico and the structure of human capital in the United States are complementary. How that plays out depends on a very micro level — what kind of training and educational programs we have along the border. This, I think, is very relevant to the Latino community in that region."

Richard Santos alluded to Adam Smith's comment in The Wealth of Nations that the greatest wealth of a nation is its human resources. "How can we best develop our human resources to their greatest capacity, especially along the border, with such a high rate of poverty?" Santos asked. "Half of the adult population is without high school diplomas. Are we going to be a nation of low wages, or are we going to be a nation of high skills?"

He also pointed out that in much of the border there exists an important gender issue. "The maquiladora program was originally designed to keep

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Structural problems such as poverty, disparity of wealth and environmental degradation must be dealt with in their own right.

undocumented male workers from coming to the United States, but manufacturing has primarily been women's employment. That's going to have a dramatic impact when we look at the Free Trade Agreement. How can we better prepare for having women, who account for half the Latino community, in the work force?" Part of this issue involves recognition that human resource needs along the border require a discussion of child care and family protection concerns.

Stolp was especially optimistic that a Free Trade Agreement could bring positive effects for Texas and for Latinos. He noted that a great deal of integration is already taking place between Mexico and the United States. "What we're really talking about is managed integration of these economies. What a Free Trade Agreement promises is a better coordinated mechanism for the economic integration that's taking place between the United States and Mexico. The default is the anarchic type of integration we've seen in the last half century."

Santos put the issue in broader geographical perspective. "We cannot be myopic in our view of the Mexican American community in terms of the Southwest; there are now more Mexican Americans in Chicago than in the entire state of New Mexico," he said. "Latinos in the North are likely to be adversely affected by a loss of manufacturing jobs. I think we need to talk about political coalitions," Santos added. "We can't talk about an isolated kind of interest."

In the discussion that followed, Cisneros pursued the questions raised about labor issues, asking demographer Jorge Chapa for his views. Chapa said the FTA could bring new opportunities for well-educated Hispanics, but many Mexican Americans with less than a high school education are likely to be hurt if manufacturing jobs are relocated south of the border. He emphasized that an effective safety net of social support needs to be established and maintained. In California, he noted, 56 percent of U.S.-born Mexican Americans are in blue-collar jobs.

Cisneros then asked, "If 56 percent of our workers are in blue-collar jobs, why has nobody mentioned training, be it technical training, vocational training, or manpower training?" Chapa responded that the U.S. has not yet learned how to develop successful programs for job training. Cisneros noted that Texas Industrial Areas Foundation groups are currently studying West German models of technical training, in preparation for making training programs a major part of their issues agenda.

Sergio Muñoz, Editor of *La Opinion* in Los Angeles, provided information he had gathered on which industrial sectors in the U.S. are most likely to be affected. The fastest growing sectors in Mexico, he said, are: automobiles, chemicals, engines, mining and metallurgy, iron and steel, auto parts, glass, and cement. Many of these sectors have high proportions of Latino workers in the U.S. He added, "There are other sectors... the big one, which I'm afraid is going to be a major problem, is agriculture, which [to me], is a losing proposition no matter which way you take it."

Refugio Rochin, an economics professor at the University of California at Davis and Scholar of The Tomás Rivera Center, asked the group to consider how these industries would fare with or without a Free Trade Agreement. "There will naturally be these adjustments and problems, including these impacts of labor displacement," he said. "But that does not mean that as a policy we shouldn't support an FTA. We've learned from other types of national policies we've engaged in that what you have to start thinking about is: how do you capture net gains?"

Rochin continued, "We see a future pattern of poor education, [and] displacement happening anyway. Can we afford not to support a Free Trade Agreement? If we did not support the FTA, what would happen

in the U.S. and Mexico anyway? That's the comparison that should be made . . . Can we live with the current patterns and trends in the future of no free trade? And I think we have some appalling conditions right now. I think with a Free Trade Agreement we have a chance to capture some of the gains."

III. ENVIRONMENTAL ISSUES

Leading the final discussion was Mary Kelly, Executive Director of the Texas Center for Policy Studies in Austin. She was joined by Jan Rich, a free-lance writer and researcher at the LBJ School of Public Affairs, and by demographer Jorge Chapa, a professor at the LBJ School and Scholar of The Tomás Rivera Center. Their policy-related concerns:

- 1) A Free Trade Agreement should include specific negotiated provisions to improve environmental protection in Mexico.
- 2) There should also be provisions for bi-national cooperation in creating sustainable and less environmentally damaging industrial development.
- 3) Methods for dispute resolution between the countries should be put into place.
- 4) Water supply and water protection should be addressed in the agreement.
- 5) The existing disparity between health and pesticide standards of the U.S. and Mexico should be decreased.
- 6) Increased economic activity along the border region should bring improvements in living conditions, especially with regard to water and sewer services in border *colonias*.

"The Free Trade Agreement could set the future course for the environment not only in the border region but in the interior of Mexico and in Texas, as well," said Kelly, explaining why environmentalists have taken such an active interest in the proposed agreement. She said environmental groups have opposed the "fast-track" process until they are assured environmental concerns will be an important part of the agreement. Kelly said she believes the agreement could set the pattern for development, as well as set the rules for trade.

Kelly recounted the recent environmental history of border development and said it leaves much room for improvement. Many *maquiladoras* have created serious environmental problems, she said, such as toxic waste, groundwater pollution, air pollution, and border crossings that face daily gridlock. She noted that the chemical industry has been the fastest growing industry among *maquiladoras*, and that it has been a pollution-intensive industry.

The great disparity between U.S. and Mexican environmental protection should be addressed in a Free Trade Agreement, Kelly said, noting that in 1990 Mexico spent \$3.1 million for environmental protection, compared with \$50 million spent in the state of Texas alone for water pollution and hazardous waste control. Kelly also said a goal of new trade relations should be to foster development that is sustainable and to find ways to

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protect federal, state and local authority to protect the environment. Part of such an agreement would entail creating better mechanisms to adjudicate disputes over environmental questions.

Rich outlined the importance of water issues in a Free Trade Agreement. Water will be important to new agricultural and industrial development, but there is no existing treaty covering the use of groundwater, and there are some indications that surface water will be in short supply in coming years. Rich also discussed the need to harmonize health and safety standards, especially with regard to the use of pesticides on produce. Some pesticides that are banned in the United States can be made, sold, and used on crops in Mexico, she noted. American consumers have legitimate concerns about produce grown under the more lax standards.

Chapa raised the issue of environmental conditions in the colonias along the border, many of which lack running water and sewage systems. Kelly noted that the Rio Grande is one of the most polluted rivers in the country. "I do want to note that the effect on the Latino community of these environmental problems in the border area is very significant," she said. "Not only because of the Latinos in the border area, but because of the income level of that community. They can't afford to insulate themselves from some of the more severe environmental effects [such as] poor quality drinking water."

CRITICAL REMARKS: ANOTHER PERSPECTIVE

Listening attentively to the discussion on business and financial implications of free trade on border economic development, and on environmental issues, was Jorge Bustamante, President of El Colegio de la Frontera Norte in Tijuana, Mexico. He was invited to offer a "Mexican perspective" on the issues at hand.

Bustamante reminded the participants that there is considerable diversity along the border from San Diego through South Texas. Thus, we cannot assume that what is beneficial or problematic for Californian Latinos will be the same for Latinos in Texas.

Bustamante said the Free Trade Agreement is "by far" more important to the Mexican public than for the U.S. public. "In Mexico it is a question that is debated all over the place, and all institutions are getting involved in [discussing] what is the impact of the Free Trade Agreement on the Church, on the Boy Scouts, I mean on everything!"

He said, however, there is a tendency toward a "chilango bias" in these discussions, that is, an overemphasis on the Mexico City perspective. "You'll hear, for instance, people in Mexico City say 'economic integration of Mexico to the United States is going to lead to a loss of national and cultural identity.' We, at the border think that this reflects an ignorance of our border realities, where we have had a de facto Free Trade Agreement." "The border," Bustamante continued, "is a place where the conditions of a Free Trade Agreement have operated for decades in terms of consumption and production. It is an integrationist measure, but that integrationist measure was expanded drastically by the most nationalist president we ever had, Lázaro Cárdenas."

Bustamante also suggested that both free trade proponents and opponents may be overestimating the effect an agreement will have. Structural problems such as poverty, disparity of wealth and environmental degradation must be dealt with in their own right if serious improvement is to come about, he said. "I don't think the Free Trade Agreement is going to do so many of the things that I have heard here on the positive side

or the negative side," he said.

For example, Bustamante said, a trade agreement will not affect the basic imbalance in the labor supply between the United States and Mexico. The out migration of workers from Mexico is unlikely to change as long as wages are so much higher in the United States, he said. "Unless we are talking realistically about diminishing the wage differential, migration is going to continue," he said.

Bustamante made comments as well about some of the opposition to an FTA here in the United States. "Senator (Jesse) Helms who complains about democracy in Mexico when opposing the FTA, is really just concerned about protecting the tobacco and textile industries in his state. In terms of the labor movement's opposition, it's hard to believe that the AFL-CIO is all of a sudden concerned about the plight of Mexican workers. They have been the worst enemy of Mexican workers for decades."


Bustamante contended it is more realistic to try to take advantage of the positive aspects of new trade relations and meanwhile continue to find other ways to address more far-reaching, structural problems.

SUMMARY

Several speakers through the day had emphasized the "realistic" approach to a Free Trade Agreement. They noted that economic integration is already underway and is, to a certain extent, inevitable. They recommended an attentive approach to see what advantages might be gained as the process accelerates.

Seeking a bottom line consensus among the group, Henry Cisneros offered this summary: "The process of economic integration is probably a positive thing, and is occurring on its own in any event. The task then, is to focus on how to capture the gains for Mexican Americans and minimize the number of people who might lose."

In closing, Cisneros expressed his appreciation to The Tomás Rivera Center and to seminar participants for the day's wide-ranging discussion. "This is the first time that the Hispanic or Mexican American community has brought together a group of scholars and business leaders to discuss the FTA. This seminar represents a first-time look at the implications of an FTA for the Mexican American community" he said.

Cisneros emphasized that the task ahead is to translate as many of our concerns as possible into actual governmental policies. 

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