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## Commercial Horticulture: What is Free Trade About and How Does It Affect Me?

In the past, we have heard the term “Free Trade” and “Free Trade Agreements” mentioned, but do we know what these terms mean and how it relates to us? In short, the term “Free Trade Agreement” simply means when two or more countries establish a mutual agreement on trading of goods across country borders.<sup>1</sup>

So, why is free trading between countries so important? One reason is that participating countries benefit from each other’s trade relationships in economical wealth as a result of stimulated trade activities of importing and exporting of goods. Trading with other countries expand the market base for consumers and generates numerous value-added business activities in the process. You may say, now what is “value-added business” about. The answer is, in the process of international trading, new industries are created, as a result of trading for each participating trading country. Some examples of these agri-industries are industries that supply equipment to prepare the land, irrigation, fertilizer, other processing machinery and equipment, packing, packaging, cooling equipment, cold storage facilities, transportation and marketing industries. Each one of these agri-industries not only supplies products and services, but creates hundreds or even thousands of jobs. The end result related to a stronger economical base for each participating country. These are examples of a few agri-industries

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<sup>1</sup> BusinessDictionary. Free Trade Agreement. <http://www.businessdictionary.com/definition/free-trade-agreement.html>

created as a result of international trading and there are many, many more that will develop with time.

An example of a very successful trade agreement is one that is very close to us. This agreement is a historically successful and interesting trade agreement that includes the participating countries of the United States, Mexico and Canada called NAFTA, which I will define later. Let's now focus towards the trading between the United States and Mexico. This is a very interesting and beneficial trade agreement where both participating countries benefit from this agreement. Initially, the chief issues of Mexico prior to the agreement were initially economic reform and the relief or elimination of poverty. From the Mexican government point of view, close trade and investment ties with the United States would be an important and necessary element to the country's financial stability.

With foreign trade in mind with Mexico, the initial trading concept of free trade came from the Mexico's government in 1990. Through years of economically difficult times in the 1980s, Mexico was forced to seek solutions to relieve the existing poverty level. At that time, Mexico's inflation rate was soaring out of sight and the standard of living was declining fast. Mexico was falling deeper and deeper in debt and was unable to meet its foreign debt obligations. One idea of the Mexican government officials was to seek supporters, from other countries, who are willing to trade in goods and services. This concept was intended to stimulate the economy through increasing exports, creating high skilled jobs and increasing wages.

The Mexican government, therefore, first approached the United States with an idea of establishing a free trade agreement. In November of 1987, the Mexican government looked to the neighboring country of the United States for assistance. Through a framework of legal structure between the Mexican government and the United States, a trade agreement took form. Through a series of group meetings, the two countries were able to discuss and agree on issues pertaining to how to address general trade issues and how to establish

future agendas for removing or reducing trade barriers. The outcome was a positive trade relationship.<sup>2</sup>

On January 1, 1994, under the administration of President Bill Clinton, the North American Free Trade Agreement (NAFTA) was launched. The agreement was including not only the United States and Mexico, but expanded to Canada as well. The objective of this agreement was to establish a schedule for the phasing out tariffs and eliminating fees. NAFTA was to encourage free trade between the three North American countries.<sup>3</sup> Four years later, on January 1, 2008, the program was now fully implemented. From the United States viewpoint, the intent of this program was focused to not only stimulate the economy of the United States, but to build strong economic and political ties with the neighboring countries Mexico and Canada. Farmers, ranchers and consumers throughout North America, including the United States, Canada and Mexico all benefited in the increase of export and import agricultural trading.

Contrary to Mexico's past, as a result of the NAFTA program, Mexico has now become the largest trading partner with the United States. The ongoing commitment of the United States to Mexico still continues. The United States invested nearly 20 million dollars to assist Mexico in educational programs and technical exchanges recently. To further develop Mexico's trade relationship with NAFTA, the Mexican government has to agree to invest in not only education, but a more advanced infrastructure.

This investment is intended to benefit both the United States and Mexico. Due to the close proximity of the countries, transportation is simple and more affordable than with European countries. The agreement would enable the country to be more efficient by addressing items ranging from production, distribution and marketing. The initiative is projected to relieved obstacles,

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<sup>2</sup> Villarreal, A. M. (June 3, 2010) Congressional Research Service. NAFTA and the Mexican Economy <http://www.fas.org/sgp/crs/row/RL34733.pdf>

<sup>3</sup> InvestorWords. NAFTA. Definition. <http://www.investorwords.com/5670/NAFTA.html>

such as a few remaining restrictions in the trading of commodities such as corn, dry edible beans, nonfat dry milk and high fructose corn syrup.<sup>4</sup> Currently, the economic ties with Mexico remain very strong. On January 26, 2011, the Corn Products International, Inc. announced that they have received \$58.4 million dollars from the Government of the Mexican States.<sup>5</sup>

The NAFTA program efforts have proven to be effective and accepted as a profitable venture for Mexico. This was concluded from a survey in 2006 where the Mexican population showed favor in the trade liberalization with not only the United States, but Canada as well.

Farmers, ranchers and consumers of the United States, Mexico and Canada benefit from the NAFTA program, as illustrated from the proven track record of successful programs whereas seen through the years of 1992-2007. Here, the value of United States agricultural exports increased to 65 percent on a worldwide market. The two largest export markets for the United States established and maintained are Canada and Mexico, in that order. In addition, the number of farm and food exports to our two NAFTA Canada and Mexico grew by 156 percent as well and the combined markets of Canada and Mexico are greater than the next six largest markets combined. In 2007, the United States export trade to Mexico had a record breaking amount that exceeded \$11.5 billion dollars and in 2006 the exports climbed from \$3.6 billion to \$10.8 billion.<sup>6</sup>

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<sup>4</sup> United States Department of Agriculture, Foreign Agriculture Service. (January 2008). <http://www.fas.usda.gov/info/factsheets/NAFTA1.14.2008.pdf>

<sup>5</sup> StreetInsider. (1/26/2011). Corn Products (CPO) Receives \$58.4M from NAFTA Ruling. <http://www.streetinsider.com/Corporate+News/Corn+Products+%28CPO%29+Receives+%2458.4M+from+NAFTA+Ruling/6236468.html>

<sup>6</sup> United States Department of Agriculture. Foreign Agricultural Service. (January 2008). FACT SHEET North American Free Trade Agreement (NAFTA) <http://www.fas.usda.gov/info/factsheets/NAFTA.asp>

In conclusion, the United States relation with our southern neighbor Mexico is the largest and vital link to our horticulture industry. It stimulates many value-added agri-businesses that contribute to the country's economy creating jobs thereof. Most importantly, the trading results in broadening the supply of quality produce for consumer use on a year round basis.

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