EXECUTIVE SUMMARY

POLICY HARMONIZATION AND ADJUSTMENT IN THE NORTH AMERICAN AGRICULTURAL AND FOOD INDUSTRY

This is the fifth publication emanating from a series of annual workshops designed to enhance communication among the three partners in the NAFTA Agreement. The workshops bring together business and interest group representatives, government officials and academics from Mexico, the United States and Canada to develop economic information related to agricultural and food markets. The primary purpose of the workshops and the publication is to contribute to lessening of trade tensions among the three countries, and thereby head off wasteful trade disputes.

Previous workshops have focused on grain and dairy disputes, and analyzed the meaning and conditions for “policy harmonization”. Each of these workshops was characterized by a macro and public policy focus because the public domain is the obvious arena in which trade tensions are played out. But the individual components of the private sector and, therefore, private sector adjustment are very much affected by trade agreements and policy change. In many respects, the private sector is the vehicle of change. This perspective of the agricultural/food industry and trade policy was the primary focus of the fifth workshop. Since Mexico was the site for this workshop, the program emphasized adjustment within the agricultural and food industry in Mexico.

The book contains nine original papers by selected academic and government economists working in Mexico, the United States and Canada, written specifically for the workshop. Discussant comments from private sector, interest group representatives, and senior government officials are included. There are six thematic sections to the book:

- Exchange Rates and Trade
- Foreign Investment Arrangements
Exchange Rates and Trade. Macroeconomic policies are recognized as forces of private sector adjustment, but exchange rate effects are often ignored. This section provides two papers by David Orden and Richard Barichello that trace empirically exchange rate effects in different situations, and follows with comments by Daniel Garcés of the Bank of Mexico. Orden, based on historical analysis from the United States, finds that exchange rate movements “drive a wedge” between domestic and foreign prices, and influence price relatives between traded and non-traded goods. He also concludes that macroeconomic conditions are often decisive in determination of agricultural policies, competitiveness, and tension in trade relations. Barichello investigated internal and trade flow effects of the sudden and large devaluation of Indonesian currency in 1998. This paper, while not directly part of NAFTA considerations, provides an example and empirical measures of adjustments under rapidly devalued currency conditions.

Foreign Investment Arrangements. Handy and Bamford provide a detailed descriptive analysis of the nature and growth of foreign direct investment in the last decade, and cross reference trade flows in processed foods to affiliated businesses in NAFTA countries. They also review literature on why FDI is selected as a marketing strategy, then discuss the relationships among FDI, competitiveness and trade. Sparling and Cook extend this analysis from the starting point that “trade and investment figures tell only part of the story...[they] overlook the flow of knowledge and profits between firms and nations. These flows...are facilitated by close corporate interaction, through mergers and acquisitions but also through cooperative relationships, strategic alliances, and joint ventures”. Their paper provides detail on these relationships, and provides several case study examples. This section, supported by discussion from Ken Shwedel (Rabobank International), David Heilig (a business development consultant) and Sergio Cházaro (a business school Dean), provides theoretical treatment of alliances, descriptive analysis of their significance, and practical considerations in their implementation.

Small Farm Adjustment. The Mexican ejido sector is a large and important component of natural resource control and social welfare. It has been subjected to significant policy reform since 1990. Davis, de Janvry, Sadoulet, and Diehl analyze the impact of reforms on incomes, poverty levels, and income inequality among ejidatario households and examine whether reforms have stimulated entrepreneurship. Their analysis show mixed results. Mendoza Zazueta, a senior official in SAGAR, provides useful insights to extend the results beyond the ejido sector, and reinforces the need for agricultural and rural development policy to go beyond “crops and livestock”.

- Economic Adjustment in Small Farms
- Harmonizing Transportation Systems
- Transnational Interest Group Coordination and Dialogue
- A Western Hemisphere Free Trade Agreement
**Rail and Truck Transportation.** Rail and truck are the heartbeat of trade among the NAFTA partners, trade that has been growing rapidly. Considerable rationalization of railway linkages has occurred within Canada and the United States, and privatization has improved service quality and availability on Mexican rails. Prentice, Derkson and Maltz discuss these developments and indicate where rail transportation faces challenges and potential in further trade growth. Harrison points out that around 70 percent of trade within NAFTA moves by truck but there is little harmonization in standards. Progress towards harmonization of trucking standards creates trade tension among the partners. Harrison traces developments throughout the 1990s in trucking and identifies key issues yet to be resolved.

**Transnational Cooperation.** This session was designed to explore the potential of dialogue, information dissemination, and transnational interest group organization as a means to diffusing trade tension and creating more harmonious trading conditions. Senior government officials, and industry and interest group representatives from each country relate experiences with these approaches. Results vary widely, from reasonable progress on a payments assure program in fruits and vegetables to a complete failure in the case of the R-CALF claims on Canadian cattle exports. Dolynchuk (Cargill Canada) provides a favourable report on a world wide information program used within that company. Harris points out in his overview comments that, despite enormous strides made in promoting freer trade, there is a long way to go in achieving reasonable, broadly based trade harmony among the NAFTA partners. An agreement is only the first step in improved trading relations. Our workshops, and indeed the market, confirm this reality.

**A Western Hemisphere Free Trade Agreement.** Does considerable success in a trilateral agreement translate into a wider agreement within the Americas? If so, what might be the form, and who would gain; who might lose? These are considerations made by Mary Burfisher and Hartley Furtan in the final section of the book. Discussion comments are provided by business and government analysts from Canada, Mexico and Chile. Both Burfisher and Furtan build their analysis around institutional economics and considerations of transaction costs theory. Alternatives for agreements are considered and the papers contain discussion of existing agreements within the Americas. The section provides a useful review of the status of trade conditions within the Americas and implications for extending NAFTA to other nations.

The book also contains a statement of purpose for the workshops, a list of participants and their coordinates, and a short biographic description of authors and discussants.
More information:

**Farm Foundation** website ([www.farmfoundation.org](http://www.farmfoundation.org))

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**ORDERING THE PUBLICATION**

This publication is available at the nominal cost of $15.00 per copy (including shipping and handling). Multiple copy prices are negotiable; first copy for educational institutions and libraries is available without charge. Please contact the following to order.

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