Achieving Market Integration

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NAFTA (the North American Free Trade Agreement) has done much to expand agricultural trade among the United States, Canada and Mexico. While trade has the effect of integrating our markets, much remains to be accomplished. Taking additional decisive steps to integrate markets could be the next phase for progress under NAFTA.

Market integration exists when product flows between countries are on the same terms and conditions as within countries. It implies that products can be traded between distinct markets or countries just as they are within a country. Price differences are no more than the cost of transportation plus related transaction costs. As a result, changes in supply or demand in one country affect the price and/or volume of transactions in the other.

Market integration is accomplished by private sector business activity, primarily through trade and foreign direct investment. The government's role is to remove obstacles to trade and foreign direct investment among countries.

Consequences of Market Integration

Market integration gives countries the advantages of competition and trade. U.S. consumers have enjoyed the benefits of lower cost blue jeans, fruits and vegetables as a result of integration between Mexican and U.S. markets. Market integration also means that common food production and marketing systems that ensure food safety and improve food security can be developed across countries.

However, market integration does not come without costs. Farmers in states such as California, Florida, Oregon, Michigan, Texas and Washington have had to adjust to supplies of Mexican fruits and vegetables entering the U.S. market. Likewise, U.S. farmers have been able to export more feed grains and livestock products to Mexico. At the same time, Mexican hog and poultry producers have had to adjust to increased supplies of meat imported from the United States. U.S. wheat and beef producers had have to adjust to integration of Canadian products. Yet time and again it has been demonstrated that the benefits of market integration weigh heavily on the plus side.

Under NAFTA, total U.S. trade with Mexico and Canada increased by 37 percent from 1993 to 2002, compared with 31.5 percent with the rest of the world. U.S. foreign direct investment in Canada more than doubled, while in Mexico it tripled. U.S. agricultural trade with Canada and Mexico almost doubled over the same period, while trade between Canada and Mexico grew more than 150 percent. Across the NAFTA countries, the mean annual growth rate for agricultural trade has exceeded 8 percent since 1990, the year after the U.S.-Canada Free Trade Agreement began to go into effect.

Facilitating Market Integration

Market integration should not be confused with a common market or an economic union, which both imply a significantly higher level of economic integration, such as a common currency under an economic union, and political integration, such as common farm programs. Market integration can be achieved without sacrificing national sovereignty to anywhere near the degree of economic integration characteristic of common markets and economic unions.

Facilitating market integration requires a commitment of governments and industry to define the required program adjustments and the strategies and timeline to achieve them.

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Developing Compatible Country Policies and Programs

Compatibility in areas such as product definitions, product quality, safety, security, inspection and traceability standards, labeling requirements and border measures and procedures contribute to market integration. Financial instruments such as payment procedures and requirements must also be compatible.

Achieving market integration requires administration, compliance and enforcement of programs in a manner that allows markets to be integrated. It is not unusual for the laws of other countries to be patterned after those of the United States. However, market integration is often deterred by the lack of consistent administration and enforcement of those laws.

Although NAFTA has demonstrated that much can be accomplished without compatible farm policies, ultimately the complex issue of compatible farm policies must be addressed. This requires sensitivity on the part of interest groups and policy makers to the realities that each country has relative advantages and disadvantages in production, processing and marketing. Domestic farm programs should not distort those relative advantages and disadvantages.

In other words, there must be a willingness to admit that one country can produce, process and market certain products more efficiently than another. The goal must be one of maximizing the advantages across countries through production, trade and foreign direct investment.

Vision and Resolve To Move Forward

The establishment of NAFTA was a first step in North American market integration, but several additional steps are needed to achieve full integration. Many of these steps involve individual country actions.

Likewise, the many rounds of multilateral trade negotiations, such as the current Doha Round of the World Trade Organization, have been designed to foster a higher level of market integration. Ultimately, the degree of integration achieved depends on individual countries pursuing and administering policies and programs consistent with this goal.

Globalization, one of the major forces affecting agriculture, implies that U.S. markets will continue to integrate with those of other countries. Like trade, market integration is a two-way street. The strength of U.S. agriculture, and that of other countries, lies in the application of technology to the commodities that it produces most efficiently and in trade and investment with countries throughout the world.

While once dependent on the sale of bulk commodities, in the era of market integration, U.S. farmers and agribusiness firms will be required make differentiated, value-added products available that are consistent with the desires of foreign consumers. ■

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