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THE NORTH AMERICAN FREE TRADE AGREEMENT

NAFTA

AFTER EIGHT YEARS

AND THE NEOLIBERAL POLITICAL ECONOMY

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ABSTRACT

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This thesis mainly presents in a "broad sense", the impact of the North American Free Trade Agreement in each of the member states. As I recapitulated the stages of the Free Trade Agreement in 1988, between the United States and Canada and later on, the inclusion of Mexico in 1994. Apart of the consequences of the NAFTA. I will also emphasize some of the results of the neoliberal political economy and the structural adjustment that has taken place since the late 1980's in each member state.

It is also important to observe the phenomenon of NAFTA as a consequence of the end of the cold war era, as I will discuss in the first chapter. NAFTA seems to be a reaction of the new regional blocs in order to compete in the international market, and at the same time to count with its "own protection path" against this international

competition, in which the biggest and strongest market economies are the winners. As I will mentioned in chapter 3.

It is time to rethink the Free trade, where is it leading? who are the real winners? what can we do to have a fair trade? what is the mechanism to protect our own markets? and what happens to the welfare states?

The analysis in this paper will be based on the specific data from different studies groups of each member state. The impact of NAFTA in labor, agriculture, and the development of the trade since it started until now.

One of the most important aspects of this thesis is to called attention to the international community as observers and why not, as an activist, and to present the outcome of this neoliberal economy, and the unfair Free trade.

As a political scientist, I have the responsibility to warn those countries that “think” that the key to their development is a Free trade and a neoliberal economy. In this case, is not so, we have to be careful and react against to some of the accords of the treaty, if we want to have a fairly trade.

LIST OF ACRONYMS

CCL	Contingent Credit Line
CMCG	Capital Market Consultative Group
CT	Labor Congress (Congreso de los Trabajadores)
ECSC	European Coal and Steel Community
EU	European Union
FDI	Foreign Direct Investment
FTA	Free Trade Agreement
FTAA	Free Trade Agreement of the Americas
GATT	General Agreement in Trade and Tariff
GDP	Gross Domestic Product
GNP	Gross National Product
GM co.	General Motors Corporation
IMF	International Monetary Fund
INEGI	Institute of Statistics Research Center in Mexico
ISI	Industrialization by Substitution of Imports
ISO	International Standards Organization
LAC	Latin America Countries
MERCOSUR	Common Market of South America

MNCs Multinational Corporations
 NAALC North America Agreement on Labor and Cooperation
 NAC North America Community
 NAFTA North America Free Trade Agreement
 NAFTA-TAA Transitional Adjustment Assistance
 NATO North American Transatlantic Organization
 NGO Non-Governmental Organizations
 NWO New World Order
 PEMEX Petroleos Mexicanos
 UNECLAC United Nations Economic Commission for Latin America and the Caribbean
 USA United States of America
 WB World Bank
 WC Washington Consensus
 WTO World Trade Organization

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CHAPTER 1

INTRODUCTION

1.1. Theories and Concepts:

The post cold war period has been filled with new theories. One of these theories is the regionalism. However the concept is not new in international relations. Throughout the 20th century an academic interest in regionalism has grown especially after the World War II, which was full of theories of regionalism and integration¹. At the beginning of this period, the concept of regionalism was reserved primarily for the State-Centric integration that sought to increase the economy as European Coal and Steel Community (ECSC). This process is usually called *regionalization*, or top-down regionalism. Later on, in the 1960s and 1970s the concept of regionalism became wider; the period of theorizing about regions and *regionalism*, took in consideration other than state level actors, also so-called bottom-up regionalism. (One of the analyses in international relations to explain regionalism is the pluralistic approach). The state cannot be viewed as the only actor, because to do so misses the multiplicity of actors comprising the entity of the state. The interactions occurring among these actors, and the role of influences emanating from beyond the territorial boundaries of the state, as well as, from domestic actors, ideas, and values, international and transnational organizations, interest groups, and public opinion.

Richard Stubbs and Geoffrey Underhill have identified three central elements of regionalism: i) a common historical experience and a sense of shared problems among a geographically distinct group of countries or societies; ii) close linkages between those countries; iii) the emergence of an organization that provides the interaction with some “rule of the game,” therefore the region and countries in question must have geographical and cultural proximity with at least some willingness to apply the common norms that control the interaction, in to a process of integration.²

Another author, Michael Smith has distinguished three different kinds of regional interaction that are regional integration, regional transnationalism, and regional security complexes. Whereas the regional integration deals with economic interdependence, transnationalism includes more the interaction of transcorporations and open market between member states, and security refers to the national and international security as North American Transatlantic Organization (NATO).

¹ Haukkala, Hiski, 1999, pp. 25-29.

² Ibid.

According to these distinct forms of integration we can consider the difference between the European Union (EU) as a process of integration and the North American Free Trade Agreement (NAFTA). The former has different policies dealing with inequality as wealth distribution, and development. The aim is to increase solidarity between the different member states and different regions through a mechanism in which the most prosperous regions give assistance to the not so well off regions in the EU. In the case of NAFTA the concept of regional transnationalism is more suitable because of the growing awareness that many regional interests are inherently transnational in nature. They tend to spill over borders and create contacts between different social and economic groups despite of the difference on national societies within the region.

Michael Smith argued that regionalism serves also other functions in world politics, for example as a mechanism through which states and other groupings attempt to manage their involvement in the international arena. While Regional cooperation and integration is institutionalized in such a way that it enables the nation states to exercise control over the process of regionalization. This process does apply to both the EU and the NAFTA, since the authority is transferred away from states and other groups to regional bodies. (Although in the case of NAFTA sometimes this assumption is inconsistent). In the EU the transfer of authority to regional bodies has been given the label of subsidiarity and in the NAFTA to the interests groups and elite.

Nevertheless this concept leads us to the “new regionalism” described by Björn Hettne³. Hettne propose that the actors are also in the sub-state level, local authorities; they interact either informal or formal. This new form of regionalism comes from bottom-up relations. This concept describes very well the relationship between the border of the United States and Mexico, while the old type of regionalism its more relate to the EU because it is more center on promoting economic and political integration. Another difference among these concepts is that, the new regionalism does promote integration between the regions but also leads to fragmentation inside the nation states. As is in the case of Mexico, where the north is more economically active than the south due to the economic interaction with the United States.

According to the last statement we can also describe the process of international interdependence and integration by Robert O. Keohane and Joseph S., Nye Jr. These two concepts are also part of the description of regionalism as it is define by the authors:

³ Ibid.

“Interdependence, most simply defined, means in world politics refers to situations characterized by reciprocal effects among countries or among actors in different countries. These effects often result from international transactions.”⁴

As for transnationalism as it was define by James Rosenau:

“The processes whereby international relations conducted by governments have been supplemented by relations among private individuals, groups, and societies that can do and do have important consequences for the course of events.”⁵

Both statements refer to the international interactions in the world economy, including as well people’s movement, however the types of integration that the state members wish to follow varies from economic bloc. The EU is seeking a European Union, while the NAFTA only pursues economic trade.

“A regional free-trade area in an underdeveloped area might increase inequality inside the region; it should not, however, be assumed that an increase of inequality is necessarily bad, provide that the least favored become just a little better off, an increase of inequality may be justified if it is the best way of getting quick progress in the region as a whole.”⁶ This definition of regionalism thus ”justify” the inequality among member states in the process of integration as it is in the regional bloc of NAFTA. However this assumption will be severely criticize in the last part of this research, in analyzing the results of NAFTA as a consequences of the neoliberal economic model.

There is another process that we have to consider in the explanation of the international interdependence and integrative process and that is modernization, which explains the changes in the international relations arena. The concept can be defined as, social, political, and economic prerequisites for and consequences of, industrialization and technological development.⁷ The dramatic improvements in transportation and communication, changes in production, the growth of global ties, as the distinction between domestic and foreign policy becomes blurred and domestic, and foreign policies become politicized. For example, borders become porous as ideas, capital, people, technology, goods, and services move from one geographic point to another. According to David Mitran, this part of modernization belongs to

⁴ Paul, R. Viotti, & Mark, V., Kauppi, “International Relations Theory: Realism, Pluralism, Globalism”, (second, ed.) McMillan, Canada, 1993, ch. 3.

⁵ James, Rosenau, “The Study of Global Interdependence”, *Essays on the Transnationalisation of World Affairs*, New York, 1980, p. 1.

⁶ Sydney, Dell, “Trade Bloc and Common Market”, *The Economic Journal*, num. LXXIII, #292, Dec. 1963, p. 708.

⁷ John, K., Kaustsky, “The Political Concepts of Modernization”, New York, 1990.

the concept of the process of integration. Mitrany⁸ is interested in investigating the possibility of how transnational ties might lead to international integration and the reduction of extreme nationalism. He believed that the proliferation of common problems logically requires collaborative responses from states. Instead of the concept of zero sum game (what one side wins the other loses) Mitrany instead argued that, international interaction could be turned into positive sum game in which all players could benefit from theory to practice, this could be apply to the international cooperation to deal with common problems deriving from the modern world.

However as Mitrany defined integration in the international arena Ernst Haas, defines integration as a process:

“Whereby political actors in several distinct national settings are persuaded to shift their loyalties, expectation and political activities toward a new center, whose institutions process or demand jurisdiction over the preexisting national states.”⁹

Haas foresaw the new cooperation as a way of working together in order to pursue same interest whether these topics were related on security, or international issues that will bring close relation in this new complex web of cooperation among nations, individuals, and non-government organizations. The actors form a close relationship that will bring or give more interdependence among them. This last concept of integration does apply more to regional blocs.

In brief, the regional integration downplays the States as the unit of analysis. Transactions, economics, social and technology have also been the focus of attention, as have interest groups, transnational non-states actors, and public opinion. However if we want to take into consideration the different theories in international relations to explain these concepts described above, the best theories are pluralism and realism where the former is apply to the concept of co-operation and international web, to the description of bottom-up regionalism, while the latter is more understanding to the old regionalism state centric approach, both are very useful to understand the interaction inside the regional blocs.

According to the realism approach forms of interdependence among states, is that interdependence has vulnerability of one state to another a view that suggests that interdependence is to be avoided or at least minimize, however for pluralist this view involves reciprocal effects among countries or actors in different countries there is a desire absence of hierarchy among issues. For pluralist the agenda of international politics is extensive. The pluralist is also concerned with a number of economic, social, and ecological issues arising from

⁸ David, Mitrany, “A Working Peace System”, Quadrangle Books, Chicago, 1996 .

⁹ Ernst, Hass, “The Uniting of Europe”, Stanford Univ. Press, California, 1958, p. 16.

the growth of interdependence among states and societies, and also national security concerns are important. The foreign affairs agendas of the states are not exclusively preoccupied with national security issues, narrowly defined in terms of military matters. Economic and social issues can often have a direct bearing on the security and welfare of a particular regime or country. This perceptions does not apply to the existence interdependence between Mexico and the United States their relation is more similar to the expose by the realistic approach while for the EU the pluralist is more convince. Complex interdependence exists, military forces tend to have less utility in the resolution of conflicts as is seen in the notion of the Northern Dimension presented by the President of Finland in 1999 in the Conference of the EU.

To understand better the process of integration and the regional blocs let's outline the most important events in 1989. First of all; the collapse of the soviet bloc as a result the end of the cold-war; this event gave the chance to other countries to be more active in the international arena, besides this changed the new geostrategic and geoeconomics zone were re-born as the Central and East Europe recovered their freedom from the soviet regime, this event brought more attention to the EU in order to fix their geostrategic zone, and more important and advanced steps in the evolution of their integrative process by deeper and more demanding issues this gave to the Union new perspectives and challenges.

On the other hand, the formation of other regional blocs as the Asian and Pacific rim as part of the New World Order (NWO), the revival of China as a strategic country, and the Japanese reaffirmation as the regional head. This zone has been identified as a dynamic economic zone of the new international trade but has also affected it, thus creating the need of new international regulations.

For the Latin America Countries (LAC) the end of the authoritarian regimes brought up the transition to democracy but at the same time faces the competition for the investments flows to the Eastern Europe, therefore, the need of economic regionalization was also reinforced and new talks for the improvement of their common economic market of the south, MERCOSUR (as in Spanish) where refine.

Now that I have explained the definitions of concepts and theories that expresses the most important changes to understand our contemporary world. The next segment will be focus in the New World Order (NWO) after the end of the cold war.

Not only, modernization¹⁰ is the solely explanation as part of the changes in our contemporary world but also, the NWO¹¹. The cold war is identified today as a historic transition, which implies changes in the structure of the international system. Part of these new changes derives the technological advance that has transformed the communication and the international economy and as a result, an increasing of the interdependence¹² among nations. Due to the growing interdependence as an immediate solution to the new international economy, the nations have been obliged to consolidate geoeconomic spaces through regionalism¹³, where the geoeconomy¹⁴ and geopolitics¹⁵ make up the processes of integration¹⁶.

Without specifying the regional bloc of study most commonly in the international arena these economic blocs¹⁷ have had also their impact not only, onto other economic blocs but also, to the entire economic trade in the world, as for example: the new competition in the economic field has changed from vise-a vise countries to economic region, no longer a single country, compete with one another, but rather as a bloc. The effects of having or forming part of an economic bloc have also brought up changes and transformations within the countries. These changes are easily seen in the new economic and foreign policies, that now are strongly connected and affected by the policies and decision - making inside the bloc; obviously these effects have influenced in many ways the national interest.

The new economic order has brought up a new competition in the economic area, and an increase in the international trade. In order to sustain and to co-ordinate the economic competition the nations had gather in different international forums to discuss development, security, and control of the international trade.

Even though all these international organizations had been established to co-ordinate the international competition, most of the time is the national interests that preserves and

¹⁰ The term modernization has considerable interpretations in this specific case, I refer to the international and technological changes as were mentioned above. For more information on modernization please consult, Lechner, Norbert, "Debates sobre modernidad y postmodernidad", Quito, 1981, p.187.

¹¹ New World Order, is a term used after the WWII, as an understanding of the new composition of the world after the war, any radical changes occurred in our system is seen as a new world order, just as it was seen at the end of the bipolar world, or the cold war.

¹² Butler, Fiona, "Regionalism and Integration" ch.21, pp. 410-412, cited by Bagles, John, and Smith, Steve in *The Globalization of World Politics*, Oxford Univ. Press., Oxford, 1997.

¹³ For a better understanding of this concept please read pages 2-6 on Stubb, Richard, as well as Matriany.

¹⁴ See Wallerstein, Immanuel, "Geopolitics and Geoculture, Cambridge Univ. Press., Cambridge, 1992, ch 3-9.

¹⁵ Ibid

¹⁶ For more understanding of the concept of integration consult: Balassa, Bela, "Theory Economy and Integration of the European West", FCE, Mexico, 1964, pp. 10,11.

¹⁷ Garza, Curiel, Adrian, "Un Ensayo de Teoría Economica Internacional: La Integración", ITAM, México City, 1966, p. 61.

obscures the negotiations; as a result the governments have been more willingly to follow the patron “regional-economic blocs”. This new approach has brought up more benefits to the wealthier nations within the blocs and only in the long -term the benefits of it have expand to the less rich countries. From the international competition this patron of regional blocs is the answer to the competition and financial crisis in the international arena, even though this form of regionalism as it was expose above could bring differences and problems inside the bloc.

The economic blocs are more linked to the dynamics of the different international economic actors; regionalism in this perspective is the only alternative, in part due to the empty space in the concept of a hegemonic nation powerful enough to satisfy the complex international net. In this manner regionalism is intended to fulfill two objectives: the first is the countries' security as a bloc, and the second, as the effective regulation of international trade between members. Precisely, and as a condition for the regional bloc and support of its functions the “regional heads or brains” have to exist and preserve. As part of this complex system a new international competence is being formed, which will create greater interdependence between blocs. It is an interdependence relation for the fact that they cannot survive without the participation of one another.

Regionalization is the form assumed by capitalist competence but not a process that will suffer isolation. The internal economic variable of the states are being permeated and influenced more each time by international events, and regionalism is becoming the intermediate step between market extension, this process of interdependence among regional blocs will bring the globalizing market. Therefore, cannot be a process of isolation (although this idea can be discuss).

Besides these regional blocs, different integration processes have spread up some with only economic purposes (i.e. ASEAN), and others more complex (EU).

Nowadays, the economic regional blocs are quiet different in terms of objectives, the EU's aim is the construction of a complete integration while in the NAFTA the significance of its creation is mostly regional trade as well as the ASEAN although these two differ in the way they do work, but the main target of all three is to compete within the international trade as a regional blocs.

In short, the international relations are in a way define or conducted by the policy making inside each regional bloc, and how regional blocs interact with one another in the international field. The first assumption stands more to the realistic approach because as it was

explained above the “regional head” of each bloc, are the ones who “control” most of the decision making inside the bloc. However in terms of interaction between regional blocs, the pluralistic approach is more convince to analyze this relationships. The growing of interdependence among regional blocs varies according to which bloc is competing with the other. One example is the NAFTA competing with the EU in terms of trade. Although in the case of this specific relation there is no free trade between them, but there is in the global market. (Especially in third party members). Despite the fact that “regional heads” conduct the decision making inside the bloc, I have also to consider the interaction in all levels inside de blocs, as it was mentioned above there are different actors who also promote the interdependence inside the bloc. Each member is more tie up to the decision - making inside the bloc and less strict to specific national actors (that is political parties, pressure groups and elite). So that, the interaction inside and outside the regional blocs thus can be analyze by the pluralistic approach and the interdependence theory. Notwithstanding, regional blocs are at the same time manipulated by multinational corporations. These MNC do affect the economy of each member state. And here is where the realistic approach preserves in certain conditions depending on the actors or nations that are trading with the MNC. One example of this assumption is the influence of Multinational corporations in small countries, Central America or some African countries negotiating with Pepsi co. or General Motors, in Mexico, Nike in south China (and many others). But the action taken by the MNC’s relied on the neoliberal economic model, sponsor by the international financial organisms, strong economic nations (i.e. the Group of 7), interest groups, elite, and right wing political parties. In fact, the processes of integration, and globalization, are also influences by the neoliberal model. I shall return to this idea later in this paper.

In the following chapter, I will discuss the bases of the NAFTA treaty, to have a better understanding of its function and aims as a regional bloc. But before describing such functions I shall introduce the antecedent of NAFTA, in order to comprehend how it was developed.

1. 2. Antecedent: The case of NAFTA:

First of all the NAFTA has had its influence from the earlier Free Trade Agreement (FTA), between the USA, and Canada signed in 1988, under Reagan Administration and the Minister of Canada Brian Mulroney. The specific purpose of the FTA was to create a liberalized market among the two countries, a free area of imports and exports, and other issues as; energy supply especially interested for the United States, that foresaw Canada as a supplier of energy in certain raw materials, coal, petroleum, gas and wood.

For Canada this free trade represented the chance to “increase” its commerce with the United States, especially in the Border States that had already some trade and dynamic commerce going on for some years.

Definitely, the FTA, was one of the experiments made by the United States, in order to expand its commerce around its economic geostrategic zone, the FTA was put at worked with the clearly objective of the future entrance of the southern neighbor, Mexico. Although the perspective of expanding the free trade zone towards the south the Canadian objection was at present, they foresaw the Mexican emergence market not as a partner of the established trade zone but rather as a competitor specially in the field of the auto-parts, that are assembled in Mexican border with the United States that it is more attractive to the foreign investment and international corporations, because of the low-wages and less protected labor law in Mexico.

At the end the Canadian government accepted the expansion of the FTA, as a way to re-negotiate some important sectors of the Canadian economy that were left out during the talks of the FTA, another pro-argument was the opportunity to Canada to strengthen or at least to re-think their attitude towards the south of the continent by been more involved in the diplomatic and co-operative issues, this was seen as a key factor for the Canadian external relations and to counterbalance the United States hegemony in the area.

Meanwhile, for the United States the fact to secure its vital geostrategic zone, was seen as part of its national security, as well as the idea of developing an economic regional bloc, it goes around the fact that for the United States these economic zone represented a privileged market for capturing its surplus exports outside of any international organization (as the World Trade Organization WTO, and the General Agreement in Trade and Tariff, GATT) and counting on a guaranteed political space for “territorial enlargement”, of international schemes in job division. All form part of its economic growth and security of a regional market where the regulations are most of the time unilateral because of the difference in the GDP and political power negotiation of the Canadian and the Mexican governments. The United States government worked more to use its influence to create “tie-bonds” to secure the best benefits of such trade for its own economy, rather than the spill over benefits for its partners.

Briefly, for the Mexican government the arguments to sign in the NAFTA can be seen in two different views but with close connection. The first argument was the domestic policy. The ex-President Carlos Salinas who was a truly liberal drove the country into the most deep reforms in the fiscal, finance and political aspects, the reformations made in this period affected the whole population; the liberal economic plan, gave entrance to Mexico to the NAFTA, which

was basically negotiated by the Mexican most stronger companies, and the elite of the Salinas' group, but never by the society.

For Salinas the main objective was the security of financial flows into the country. The foreign investment was a key factor for the develop of the new economic policy, this kind of tactic was link to the international arena; the collapse of the soviet bloc in 1989, brought higher demand for foreign investment towards the Eastern Europe, as part of this context the Mexican government had to secure some how the inflows of investment without taken into consideration the structural problems from the collapse of the old economic model of Industrialization by Substitution of Imports (ISI).

The neoliberal model was seen as a “remedy” for the economic situation while the key was to maintain a “sense” of security, and stability in the country for foreign investment. The needs for specific reforms were done to satisfy the multinational corporations as well as the elite of Mexican businessmen, and political groups. However the national interest was not a priority. As a respond to this political policy the Chiapas revolution started in December 1994, as a direct consequence that put at stake the new economic policy launched by Salinas.

The main difference with the neoliberal economic policy among the three countries is that in the case of Mexico this political policy was institutionalize, and as a result the Welfare State (in the Latin America conception), vanished. As for the U.S. as it was explained above, to secure its geoeconomic zone outside the international trade organizations, and promote their interest through the region with the neoliberal system, and for Canada the idea of being part of a regional bloc and to adopt the neoliberal system despite the negative effect that this economic policy has brought.

1. 3. Research Method:

Based on different data this research is basically based on what in political science is call “empirical import”¹⁸. This concept is use in order to explain the world of observations through scientific knowledge build in this specific case on political conceptions, as I have already explained at the beginning of this chapter, where theories can be apply to explain the relationship in the international arena and from there taken to a specific theme as the NAFTA. This empirical import help us to understand the conceptualization in political science since we started formulating and collecting data for our own further analysis. Another important aspect of

¹⁸ For more information check the bibliography of Alan, C., Isaak.

this criterion is the use of comparative data. In other words, the use of useful data that will help the analysis to be simpler with the help of comparing data. This is the case of this thesis, in which, the comparison between the three member states through the analysis of the results of the free trade has impact each economy in each country. So that, if we are to compare and to relate the results of NAFTA the best way to manage is exactly by comparing the three countries in specific sectors; as in the agriculture sector, and the labor sector, which are the most relevant part of this research.

The problem with this type of method of research is basically when I have to compare the data of each country, since each of the member states uses its own measures of, and statistics sometimes they are not comparable at all, or they use different conceptualizations. One of these hazards was when I was comparing the GDP in Mexico with that of the United States. To begin with, the United States does not use its GDP to base their economic growth but rather the GNP, which includes the balance of payment abroad of North American companies, while in the case of Mexico, this is almost non-important for the lack of import investment from Mexican companies abroad.

Such differences, makes a complicated study of analysis between the three member states of NAFTA, however, the inclusion of comparative and valid data may be useful to have certain idea of how different the impact of the free trade have affected each economy. This is why I chose to illustrate in this manner the labor market and the agriculture sector, not only, because they have been the most harm areas of the economy and socially speaking but also, because is the easiest and most comparable data that I could used.

1.4. Research Analysis:

This thesis is designed to address a wide range of the issues concerning the NAFTA, as well to provide for the readers with more information on which they will be able to form their understanding about what is actually involved within the international and regional contexts of NAFTA and the trilateral trade debate. They have been selected both for their obvious quality and for their relevance to the current and historical issues. The objective has been to be as comprehensive in coverage as possible, to attempt to understand the full spectrum of economic, political, and cultural implications of the North American developments.

I have been especially concern with the aftermath of the events and before the signing of the Agreement and how has been developed so far, concentrating in target issues in each member. One example, is the relevance of the speech towards NAFTA in Canada as a result of the dismantling of the welfare state, while in Mexico the speech was concentrated on employment,

and in the U.S. was more on their national interest on the geoeconomic area, and their hegemony on it.

Despite the fact that such an Agreement is meant to be understood more on economic terms, I believe it is impossible to adjust the analysis only on this matter. One must be concerned with environmental impact, the implications for organized and unorganized labor, for native people and other minorities, for women, and with questions of popular and high culture.

The research analysis consists mostly in the cost-benefit analysis used in political economy. Many economists have established this method in order to analyze the economic growth in different countries, this specific method is well known in integrative process, where the costs tend to reduce and the benefits to expand. That is the ideal stage of an integrative process. Unfortunately and as I exposed in the theoretical part of this chapter the benefits not always expand to those less well off regions, unless there are certain mechanisms in which the benefits are to be expanded as the income distributions throughout the income taxes of those who earn more than those who gain less. The same can be applied to an integrative or even free trade area as Bela Balassa explained in his book¹⁹, the cost and benefits of integration processes. There he explained the concept and the method of cost-benefit but in terms of economy.

In this case, the method of cost and benefit should not strictly be taken as Balassa explained, but rather as part of the method of research of this thesis. I think the best way to match somehow the comparative data is by observing and analyzing the cost of this free trade and the outcome of, as well, as to have the balance of what benefits have brought to the regional bloc²⁰.

One of the outcomes I found in this method was the problematic of almost not finding any benefit to the less "powerful" member states of NAFTA, in this case, Mexico. While the benefits or at least great deal of them tend to be on the side of the bigger economy market, that is the United States and to a certain extent to Canada, but not all the benefits spill over the Canadian side, they also have their cost as the Mexican side does.

In the method of research and in the research analysis, I have found many hazards to compare the data that I am using in this paper. As I mentioned before basically because the data

¹⁹ Balassa, Bela, "Teoría Económica e Integración de la Europa Occidental," FCE, México, 1964, pp.10-11.

²⁰ Timberg, Jean, "Teoría de la Integración Económica," in Balassa, Bela, *Teoría Económica e Integración de la Europa Occidental*, FCE, México, 1964, pp. 23-34.

are different from each country and because the method of analysis that each member uses in order to come up with their analysis is also different.

Nevertheless, in order to concentrate on the analysis of the data in this paper, I used empirical analysis, and the cost and benefit method. The way I relied on the data is proved in the last chapter of this paper. The last chapter is mostly dedicated to those groups and analysts who devoted their life and time to analyze case by case the outcome and the most visible impacts of the NAFTA. For example in the case of the neoliberal economic policy, there is the analysis of Noam Chomsky, in which he explains the new waves of this political economy and presents who are the “real winners” of this neoliberal policy.

Another important analysis is made by the Canadian government by presenting the impact of NAFTA in its labor market and how has affected the free trade in a global perspective and how the “benefits” have really damage their economy. In this study case, is important to compare the data presented by the Mexican government in the same sector. The labor market has also been affected. I think is very useful and interesting to identify the similar problems that these two countries are facing, although the variety in population and GDP are also different is important to outline that the labor market has been one of the most affected areas since the beginning of the Treaty.

And last, the geopolitical economy of the United States and how it's facing the globalization markets. Here it is important to point out how the United States has always pursue the liberal economy, and how has it manage to influence those international organizations in order to promote their own economic model, as in the case of the IMF and the World Bank, which I would also illustrate in chapter 4.

I think, it is also important to compare the speech given by those International Governmental Organizations (IGO) and how they impose and support the neoliberal model, despite the negative effects that have occurred not only in Mexico (which is a weak economy) but also, to that in Canada. The analysis presented by Grupo Pueblo, in Mexico is very interesting since they present the struggle of the neoliberal model and the impact of NAFTA in Mexico. In the same chapter, I present the speech given by the IMF and the Washington Consensus in order to keep the neoliberal politic, and what is worse the enlargement of the NAFTA to the Americas.

Definitely, chapter 4 is devoted to those who tried to construct a different perspective and analysis of the neoliberal model and the results of NAFTA without any influence from any

international or governmental institutions, but rather, to propose and to present a critical analysis based on data, on how much benefit and how much has cost this economic model, and who are the winners of this new economic policy.

So, basically the hypothesis of this thesis is the analysis of the NAFTA after nine years of being in practice and the outcome of the neoliberal model, in this case both have really damage in one way or another the economy, the social and the political aspect of the three member states, in what extend? That is where they differ but at the end I think the benefits are less if we compare them to the cost of this economic policies.

In the following chapter, I will explain the bases of NAFTA as a regional trade zone, and the idea of an open market. I shall only concentrate on the issues of agriculture and labor rights for been one of the most important and affected areas of the treaty. Also I will include what the “ideal” of an international trade shall bring to the international trade liberalization as part of the speech of these new regional trends.

CHAPTER 2
THE NORTH AMERICAN FREE TRADE AGREEMENT
NAFTA

In the following section I start by presenting the outcomes or possible results of a liberal international trade. And an outline of NAFTA on specific issues as; agriculture and labor rights.

2. 1. General Issues in International Trade:

1. - There has been a remarkable expansion in international trade in the period since the end of World War II. This growth in trade is rooted in significant technological breakthroughs in the transportation, communication, and computer sectors, which have enormously expanded the scope for trade.
2. - Increased international trade can be a powerful source of economic growth. It creates a more efficient use of resources, the realization of external economics that significantly lower costs, and promotes increased competition that also lowers costs for both producers and consumers. These dynamic effects literally swamp the static effects usually accounted for in assessing the benefits and costs of trade liberalization.
3. - U.S. labor groups tend to be concerned by the low wages in Mexico, which they believe will result in the loss of jobs to that country. That concern is, for the most part, misguided. The real issue is the cost of labor services, not the wage rate. High levels of productivity in the United

States tend to give U.S. workers an advantage even though their wages are much higher than in Mexico. The efficient marketing system and physical infrastructure in the United States reinforce this advantage. The rise in the real value of the peso as capital flows into Mexico in response to recent economic reforms will also cause Mexican producers to become less competitive relative to U.S. producers.

4. - The increases in per capita income associated with trade-induced economic growth can be a powerful source of expanding markets. This will be especially important in the case of Mexico because its per capita income is relatively low, it has come through a decade of economic stagnation, and international trade is relatively important to it. Thus, the prognosis is that the lowering of barriers to trade between Mexico and the NAFTA members will create strong markets for agricultural producers.

5. - Protectionism measures tend to engender additional protection because they cause the domestic economy to lose its competitiveness relative to other countries. Moreover, the benefits of protection usually are short-lived because protection attracts additional resources to the sector, which soon drives the rate of return in the sector down to the level it was prior to the protection. Incomes and employment can only be protected in the long run by investing in the education and training of the labor force and in research and development to sustain the competitive edge of the sector.

6. - The politics of trade liberalization are difficult because the benefits tend to be widely diffused and in favor of consumers, while the costs tend to be more concentrated and experienced by private firms and labor. When benefits are small to the recipient and widely diffused, there is little incentive to organize to bring them about, even though they may be quite large in their total sum. When the costs are larger for the individual and those individuals are concentrated, there are ample incentives to organize to avoid cost.²¹

These assumptions in international trade are generally mistaken, the last statement for example, concludes that the consumers will benefit while the multinational corporations will pay the cost and that labor will be less affected by. When analyzing the outcome of NAFTA, these statements are wrong. I will prove later this facts in the second part of chapter 3.

THE NAFTA AGREEMENT:

*Under the agreement, tariffs and most non-tariff barriers would be phased out within 10 years, although a few import-sensitive products would have a longer transition period. Mexico has agreed to revamp its trade laws to make them more transparent, to accord national treatment to

²¹ Morales, Isidro, "Política Internacional Contemporánea," Trillas, México, 2000, p. 233.

investors, and to open up many previously closed sectors, such as petrochemicals and financial services, to foreign investment.

*Land transportation and telecommunications services would be liberalized, and a transitional commission that would ensure the integrity of each country's existing laws and promote their upward harmonization would tackle cross-border environmental issues.

*Strict rules of origin have been established particularly for the textile and apparel industries and the automobile industry to ensure that Mexico would not be used as an export platform by third countries seeking to gain back-door access to the U.S. market.

*And with side agreement on import surges, which contains strong protections for U.S. industry and agriculture against import, surges from Mexico.

Source: The NAFTA Institute, 1994

The negotiation of NAFTA and the expectations in the economic area for each member, as we have seen the larger benefits correspond more to the United States rather than an equal trade balance for each member as it was exposed above in international trade. According to this, trade equilibrium among members should be strictly the outcome of the free trade. Supposedly the result was to be a full employment in Mexico that will help its economic growth, discourage immigration into the U.S. and also create more wealth for Mexican consumers to buy U.S. and Canadian products. However this does not seem to be the case.

The NAFTA is not intended to be a common market as exists in E.U. However, what the agreement does do is remove barriers to trade and investment in both goods and services between the three markets.

Another aspect included in the Agreement were Amendments, Withdrawal, and Accession.

As for Amendments: Article 2202 where states that:

The NAFTA allows for "modification of/or addition to" the Agreement when it is approved by the "applicable legal procedures" of the member countries. At that point, the amendment would constitute an integral part of the NAFTA.

For Withdrawal: Article 2204 says:

A member may withdraw from the Agreement six months after providing written notice to the other member countries. The agreement will still remain in force for the other parties.

As for Accession: Article 2205 specifies:

A country or group of countries may accede to the NAFTA. However, the countries involved and the Free Trade Commission subject to the “terms and conditions” agree to their joining. In addition each member country must approve the accession²².

2. 2. Economy-Wide Impacts of Trade Liberalization²³:

The dynamic effects of trade liberalization, through their induced effects on investment and the adoption of new production technology, can be expected to swamp the static effects that are usually reported from empirical studies. These dynamic effects arise because Mexico had one of the most closed economies in the world when it started its reform process.

Trade liberalization and the reduction of restrictions in the capital market have resulted in a substantial flow of capital to Mexico, much of it the return of Mexican capital that left the country in the 1960s and 1970s. This inflow of capital has caused the real value of the peso to rise substantially. The rise in the value of the peso could outweigh the effects of the reduction in trade barriers. Since it is a disincentive to Mexican exports and a boost to imports, the effects of trade liberalization may be significantly more favorable to U.S. producers than the static estimates suggest.

Foreign direct investment in Mexico will also help raise wage rates and help close the gap with the United States. It will also help the economy to expand, thus increasing imports from the United States. These dynamic effects of trade liberalization will redound to U.S. producers.

True, the first stages of NAFTA were as noticed above but the aftermath of the events, have worsened the scenario in Mexico especially for the rise in the value of the peso that later eroded into an economic crisis bigger than that in the 1980's. Surprisingly the United States has also been affected especially in its agricultural sector.

The structure of NAFTA has a preamble and 22 chapters. The phasing of tariff reductions is set forth in a separate, lengthy documents. The chapters have their own annexes to deal with particularly contentious themes or where the text needs clarification or elaboration.

Thus, there are detailed annexes on the automotive sector and textiles and apparel in chapter 3 (national treatment and market access). In Chapter 10 detail in government procurement, and in

²² For more details on these specific subject please consult, Glick, Leslie, Alan, “Understanding the NAFTA”, Kluwer Law and Tax Publishers, Boston, 1994, pp. 3-9.

²³ For more details and analysis on the specific chapters of the Agreement see: Weintraub, Sidney, “The North American Free Trade Agreement as Negotiated: A U.S. Perspective, in Globerman, Steve, and Walker, Michael, *Assessing NAFTA: A trilateral Analysis*, Fraser Institute, Vancouver, B.C, Canada, 1993, pp. 1-32.

chapter 12 on cross border trade in services, (annexes set forth the extent to which professionals and providers of land transportation can operate. There are important issues as the agriculture sector that I will explain later on points 2.4 and 2.5. In addition to annexes to the specific chapters, there is an extensive section of reservations by each country to the obligations stated in the text of the agreement for chapters 11 (investment), 12 (cross-border trade in services), and 14 (financial services). For example concerns on gradual opening as chapter 11 states is applicable in the case of Mexico. By contrast, there are certain issues where the agreement has no obligation on the parties as in the opening of natural gas oil, in the case of Mexico, just as is stated in the first sentences of chapter 21 (exceptions) -“The Parties confirm their full respect for their Constitutions”²⁴-. Albeit there are these types of restriction to full liberalization and the phasing for it, in our days especially for Mexico, there are noticeable and radical changes on certain reforms of its Constitution that have clearly anticipated towards an open market. I will come back to this issue on chapter 4.

2. 3. General Trade Provisions:

General provisions of the NAFTA that have implications for agriculture include those that clarify and streamline the customs administrative procedures, those that attempt a clear statement of principles to govern the operation of national standards that affect trade, those that aim to improve the dispute settlement provisions of the Canada-United States FTA, and the addition of a permanent commission and secretariat to offer a degree of institutional support and continuity to the agreement. There are also agricultural implications for the decisions on intellectual property rights and on investment in Mexico.

Two important features of the general provisions of the agreement are the general tendency to replace non-tariff barriers to trade with tariffs and the tendency to phase out current levels of protection over a period of years. Non-tariff barriers are to remain from the date of entry into force of the treaty, except for those specifically allowed by the GATT or by the NAFTA text.

All tariffs on agriculture are, in principle, subject to elimination on the schedules agreed to in Chapter Three of the accord. Although a number of agricultural tariffs are scheduled for immediate reduction, a few that are politically sensitive have relatively slow reduction schedules.

²⁴ As its stated in Article 601 (1) of NAFTA.

The agricultural component of the NAFTA can be viewed as a trilateral agreement that covers a range of agricultural trade issues, together with two new bilateral agreements between Mexico and the United States and between Canada and Mexico. It is the United States-Mexico bilateral that breaks new ground, in that it includes a waiver of the right to impose quantitative restrictions when domestic programs are threatened by imports.

Although this restrictions are usually exploded by the U.S. government for its own national interest and those of the agricultural sector. Most of the time restrictions are impose by them, while Canada and Mexico suffer this consequences against the NAFTA accords in this respect. This bilateral agreements on restricted products inside NAFTA were not the case in the FTA, albeit the results showed that United States protects its market, especially from some agriculture products that could compete within the U.S market. The U.S applies this restrictions quite often²⁵.

2. 4. Agricultural background:

The United States is already the dominant supplier of agricultural imports to Mexico and would tend to strengthen its position under the agreement because of preferential reductions in some barriers to trade. In 1989, Mexico imported approximately \$2.7 billion of U.S. agricultural goods, while, at the same time, exporting nearly \$2.3 billion of agricultural goods to the U.S. The United States accounted for an estimated 90% of Mexican exports and supplied 75% of Mexico's agricultural imports. Mexico, for its part, accounted for less than 7% of U.S. agricultural imports and 11% of U.S. agricultural exports in that same year. Canada is a relatively small trading partner with Mexico.

Mexico is the third largest trading partner of the U.S., after Canada and Japan, with bilateral trade amounting to \$59 billion in 1990. U.S.-Mexican bilateral trade in agricultural products reached a record level of \$5.1 billion in that same year, about \$1 billion higher than in 1988. Mexico was the fourth largest single market for U.S. farm exports, after Japan, Canada, and Korea. U.S. farm exports to Mexico attained a record high of \$2.55 billion in 1990. Mexico was this nation's second largest supplier of agricultural imports, with total Mexican shipments a record \$2.6 billion in 1990.

²⁵ One case is against the Mexican oranges, is known that the southern states of the U.S produce citric fruits that could compete fairly with the Mexican products but the U.S used the restriction policy, arguing that it was suffering dumping.

Agricultural trade relative to agricultural gross domestic product is far more important to Mexico than it is to the United States. In addition, much of the U.S. and Mexican agricultural trade tend to be complementary in the sense that each country exports products that the other country produces in limited quantities²⁶. For example, the major U.S. agricultural imports from Mexico in 1990 were fresh vegetables, live (feeder) cattle, coffee, fresh non-citrus fruits, and fresh melons. The major U.S. agricultural exports to Mexico in 1990 were corn, grain sorghum, soybeans and soybean products, sugar, dried beans, seeds, beef and veal, animal fats and oils, cattle hides, dairy products, poultry meat, live cattle, and wheat. Horticultural products now make up a major part of U.S. agricultural imports from Mexico and have grown more rapidly than other imports from that country. In recent years, Mexico also has become an important U.S. supplier of processed foods, including tomato paste and beverages, such as fruit juices and beer. From the U.S. side, grains have typically been the largest export item. Exports of dairy, livestock, and poultry products have grown the most rapidly in recent years.

The significant process of policy reform Mexico has been undertaking complicates assessing the expected effects of the NAFTA. It has shifted the domestic terms of trade in favor of agriculture by substantially devaluing its currency in real terms and unilaterally reducing the protection of its manufacturing sector. The communal system of owning land (the ejido system) is being phased out and the land transferred to private ownership. The large parastatal, CONASUPO, which spans a large part of the food distribution system, is being phased out and the food distribution sector privatized. Finally, Mexico's banking and financial system is being privatized. All of these reforms should make agriculture a more vital and productive sector.

Again this last statement only appears in paper as I will later refer to this assumption in the next chapter we will see that NAFTA and the structural adjustment in Mexico have really damage the agriculture sector, especially with the privatization policies with the “ejidos” (considerably affecting the indigenous people) and the cut expenditure of some diet daily diet products known as the “canasta basica” (or the basket of basic goods). In Canada the impact has been also negative but not as much as it is in the case of Mexico²⁷.

2. 5. Agricultural Sector Impacts:

²⁶ This argument refers only in theory of free market and specialization; but when there are disparities between members, the results are very different and negative.

²⁷ Ojeda-Hinojosa, Raul, and Robinson, Sherman, “Alternative Scenarios of U.S.-Mexican Integration: A Computable General Equilibrium Approach,” working papers 609, Department of Agricultural and Resource Economics, University Press of California, 1991. pp.11

Three conceptually different approaches have been taken to estimating the effects of the NAFTA on agriculture. These include the use of computable general equilibrium (CGE) models that encompass entire national economies, partial (sectoral) models that nonetheless treat a broad range of products, and specific commodity studies. The CGE approach is most satisfactory on conceptual grounds, although existing models almost necessarily simplify what are complex relationships.

The short period of time since the negotiations were concluded has precluded the development and testing of comprehensive models. However, the U.S. Department of Agriculture's Economic Research Service has developed estimates of the sectoral effects of trade liberalization for both the United States and Mexico.

U.S. exports of agricultural products to Mexico are expected to increase by \$480 million, while Mexican exports to the United States are expected to increase by \$170 million. U.S. farm income is expected to increase by up to \$200 million. U.S. consumers are expected to pay somewhat higher prices due to firmer markets, and the government will save some on program costs. On balance, the U.S. economy gains about \$300 million from the agreement, ignoring dynamic effects.

Prospects for Mexican farmers are less positive. Farm income in that country may experience a decline of \$440 million. Because of significant gains to consumers from declines in prices, net benefits to Mexico are positive, at about \$100 million, somewhat less than to the United States. U.S. grain and oilseed exports are estimated to rise by \$370 million, and Mexican horticultural exports to expand by \$100 million. This model also predicts a gain in Mexican exports of livestock, largely from increased sales of feeder cattle to the United States.

In summary, both the United States and Mexico gain from the mutual reduction in trade barriers, but so long as only static effects are taken into account, Mexican farmers would be adversely affected while U.S. farmers would stand to benefit. This was expected to happen when signing the agreement on agriculture issues, but as I will show in the next chapter most of the expectations was wrong, even the method of analysis used in this paper was proved to be wrong²⁸.

2. 6. NAFTA and Labor Rights:

²⁸ Weintraub, op. cit., p. 13.

During his first election campaign for president, candidate Bill Clinton expressed alarm that workers in North America faced a serious threat to their income and job security NAFTA that failed to include enforceable labor standards. Clinton observed that multinational corporations (MNCs) could take advantage of “their ability to move money, management, and production away from a high-wage country” to a low-wage country. “We can also lose incomes,” Clinton said, “because the Companies who stay at home can use the threat of moving to depress wages, as many do today.”²⁹

MNCs operating in Mexico, according to the President Clinton, presented special concerns: “[I]f you look at the experience of the maquiladora plants, those who moved to Mexico right across the border, there is certainly cause for alarm. We can see clearly there that labor standards have been regularly violated.”³⁰

But the actual NAFTA ignores this concern and simply preserves the status quo by relying upon each NAFTA country to enforce its own existing labor laws. This labor “side agreement,” the North American Agreement on Labor Cooperation (NAALC), provided no effective means to alter the verified Mexican record of not enforcing its labor laws and was wholly inadequate to deal with the complex issues of cross-border labor regulation. Likewise, it failed to address the significant shortcomings of U.S. and Canadian labor laws and the trend toward labor deregulation as a strategy for retaining and attracting capital investment. Subsequent experience under NAFTA demonstrates that, without serious enforcement mechanisms to improve domestic enforcement of labor laws and some process for maintaining reasonable minimum standards to resist deregulation, worker rights will remain abandoned by NAFTA.

Briefly, NAFTA provide in theory the trade regulations in order to prevent sever damages into the economies of each member state, however due to the extreme differences between the NAFTA’s members the larger benefits tend to be on the side of the bigger economies and less spill over benefits to “small market economies.” Another aspect that should be considered when assessing the benefits is the relationship among state members. The interdependence between Canada and the U.S. is relatively more balance, while in Mexico and the U.S. the benefits are usually to the latter. One example of this could be the restriction policy inside NAFTA which has been overused by the United States in order to obtain more benefits from the free trade despite the already advantages the United States has over Mexico.

²⁹Along with the President of the U.S. Bill Clinton, The International Labor Rights Fund compiled this theme 1992.

³⁰Weintraub, op. cit., p. 15

Also, as I have explained in this chapter, in theory NAFTA was planned to brought up; economic growth, better and more competitive North American market, and overall to obtain more benefits than costs. Unfortunately this has not been the case for neither member state. On the contrary the costs of having a free trade market has had affected each economy with devastating consequences for the citizens of each country³¹.

Besides NAFTA, the structural adjustment policy which conducts the political economy of each member has also harm the living standard in Canada, and worsen the situation in Mexico, while in the United States the public begins to protest against the enlargement of NAFTA into the Free Trade Area of the Americas, FTAA.

In order to sustain my thesis with vast examples, in the next chapter I will illustrate the outcome and the consequences of NAFTA in each member state, and what the results are of the economic model.

The next chapter will be divided into two parts. First I will present the debate over NAFTA in the three member states in order to understand the dynamic that took place during this phase and the only actors that were involved in the discussion. In the second part, I will illustrate the outcome of NAFTA that has caused to each member state, and the consequences that have provoke especially in the social aspect.

CHAPTER 3

THE DEBATE OVER NAFTA

The main objective of this chapter is to compare the first phase of NAFTA, the rhetoric that each government used in order to convince the national public. And the results based on the shocking consequences on the economy and its negative effects in the population.

3. 1. a. The USA pro NAFTA Speech:

The NAFTA cannot reverse this disturbing trend. But trade expansion, as President Clinton has noted is an integral part of a comprehensive economic strategy for restoring United States growth and competitiveness in global markets.

³¹ Ojeda-Hinojosa, op. cit., p. 28.

Notwithstanding the fear-mongering rhetoric of the NAFTA's opponents, there are at least four compelling reasons for United States to rally behind the President's far-sighted policy of trade expansion:

First, the United States already has gained jobs through expanded trade with Mexico. The NAFTA will further that trend. Since 1987, when Mexico began to open its economy to foreign trade and investment, U.S. exports to Mexico have tripled, creating 400,000 new U.S. jobs.³² More fundamentally, trade is not a zero sum game³³. When practiced under fair and reciprocal rules, it increases economic efficiency and lifts income in both countries. Europe, for instance, has prospered within the context of an expanding common market that has steadily eliminated barriers to trade spill over effects between Mexico and the United States, the richer Mexicans will become, the more they will buy from the United States market.

The NAFTA is integrated to US's larger strategy of trade expansion and liberalization. Indeed, U.S. rejection of the NAFTA could set back the efforts to break the impasse on the GATT and to press Japan and the European trading partners to lift restrictions on U.S. trade and investment. It would call into questions the credibility of U.S. economic leadership and its tradition of championing open markets and unrestricted commerce since World War II. If the United States. For all its problems, still the world's leading economic power pursues a narrow, protectionism path, others are sure to follow. If the global trading system comes crashing down, job losses in the United States will dwarf the worst scenarios cast by the NAFTA's critics.

US's domestic economic renewal is inextricably linked to export expansion. Exports accounted for about 44% of economic growth from 1987 to 1992, significantly softening the impact of their own recession³⁴. Today, although exports to developed country markets are suffering, developing country markets are booming. In particular, sales to Latin America bulk of which are to Mexico are expanding almost three times as fast as U.S. exports to the rest of the world. Continued export growth is critical for growing jobs. Exports generated nearly all of US's new manufacturing jobs from 1987 to 1992, and in 1990 these exports provided a record 7.2 millions jobs for US's workers or an estimated 7.4% of total U.S. civilian jobs and 17.4% of total jobs in the U.S. manufacturing sector³⁵. In other words, an export supports more than one

³² The office of the US Trade Representative, "*NAFTA creates jobs and improves our competitiveness*", June 23, 1993, p. 2.

³³ But as I have explained through this thesis the results are different. See chapter 3-b.

³⁴ Gary, Teske, "USA Trade on the Rebound." *Contributing to US growth and employment*, US Dept. of Commerce, International Trade Administration Staff paper #91-4 Washington DC, US Government Printing Office, June 1991, p. 1.

³⁵ Lester, A., Davis, "*US jobs supported by Merchandise Exports*," US Dept. of Commerce Economic and Statistics Adm. Research Series OMA 1-92, April, 1992, p. iii.

six manufacturing jobs. The deflationary exercise of reducing the U.S. budget deficit makes it all the more important that they look to markets abroad to gain growth and jobs.

The most outstanding true why United States should vote for NAFTA is crucial to better hemispheric relations. A vote for NAFTA is a vote of confidence in Mexico's future. Passing the NAFTA will help Mexico consolidate its historic progress toward economic and political reforms; rejecting it will signal a United States shift toward a “beggar-thy-neighbor” attitude toward Mexico and, by extension, the rest of Latin America. Surely, most USA’s citizens would prefer to live beside a more prosperous, stable, and friendly Mexico rather than an impoverished, volatile, and resentful Mexico whose citizens flee north for opportunities they cannot find at home. At the very least, we must repudiate the ugly undercurrent of natives and prejudice that has accompanied the assault on the agreement.

The battle over the NAFTA thus presents a key political test for the Democratic Party. Support for free trade constitutes one of the party's most venerable and progressive principles. Democrats have long maintained that open trading favors the interests of average working families, while tariffs and trade protection favors narrow business and financial interests.

The NAFTA, therefore, is a crucial test of United States resolve to face the future and of the Clinton Administration's ability to lead America beyond its fears to a new era of growth and economic leadership. Fears about the NAFTA center on the investment question are based on a fundamental misunderstanding of what the current situation is and what the agreement will change.

Thus, the strongest argument under Clinton’s administration was basically a change of attitude toward the LAC, and the expansion of its commerce, together with the enforcement of its leadership, in the zone³⁶.

Opponents of the NAFTA assert that the NAFTA will lead to a massive flow of investment to Mexico as U.S. firms take advantage of lower costs in Mexico. AFL-CIO president Lane Kirkland, who recently wrote that, put this argument succinctly:

“the financial elite pushing the current NAFTA aren't really interested in uplifting living standards in either Mexico or in the United States but in making a quick profit by exploiting Mexico's low wages and poor enforcement of environmental and labor laws.”³⁷

³⁶ I agree with this analysis, here we can recall the realistic approach in I.R. For more information consult chapter 1.

³⁷ Lane Kirkland, “A trade Marriage Made in Heaven,” The Washington Post, May 19, 1993, p. A19.

(True, I will retake this argument, in further analysis in the case of Mexico and the outcome of the NAFTA).

3. 1. b. The U.S.A and its Economic Future:

Two competing views of United States economic future frame the heated debate over the NAFTA. One is optimistic and open. The other is fearful, xenophobic, and closed³⁸.

The fears of many sincere people regarding the NAFTA reflect an underlying insecurity about the United States economic future about the capacity of U.S. workers to compete in a rapidly changing world economy at a time when the USA's security depends as much on its economic strength as military might. USA's being forced to confront this change at a bewildering pace and on the heels of a prolonged period of economic stagnation. This has exacerbated a general sense of insecurity and revived a protectionism sentiment that has recurred periodically throughout USA's history. In the face of change, many USA's citizens would like to believe that they could throw up economic fences and ignore the world beyond their border.

These circumstances pose a direct challenge to the Clinton Administration as the issue rises by the NAFTA reach well beyond the actual terms or potential consequences of the agreement. The NAFTA itself will not be a panacea for USA's economic problems; neither will it be a millstone that drags the economy down. Rather, the real debate is about USA's attitude toward the rules of economic engagement in the New World Order NWO.

The challenge for the Clinton Administration is to restore USA's confidence in it and in their ability to prosper in a profoundly competitive world. The NAFTA is a test case for how United States faces its economic future. The fears of many citizens center on the potential flows of United States jobs to developing countries and their own perceived competitive disadvantages relative to the economic powerhouses of Europe and Japan. Although USA continues to lead in productivity, in per capita consumption, and in overall wealth. Moreover, for a generation USA net investment, productivity, and overall growth have increased at rates that lag behind those of the prior generation and, in many instances, those of the foreign competitors. While opportunities for highly skilled and educated USA's citizens have expanded, the prospects for those with fewer skills or less education have become bleak. The transformation of the world economy has hit the needs sectors of the USA hardest, and little effort has been made to ameliorate that situation.

³⁸ Stern Group, Inc., Paul, A., "*Investment Trade, and USA gains in the NAFTA: The economic impact of the NAFTA on the USA: A Review of the Debate*," London and Jonathan Whittle, 1992.

Indeed, from 1977 to 1989 the bottom 20% of the population saw their real incomes decline, while only the top 20% saw a significant increase³⁹.

3. 1. c. The U.S.A and Regional Bloc:

International trade is crucial for the future of the USA economy. Jobs in the USA. Increasingly depend on access to markets abroad. Rejecting the NAFTA reduces the opportunities to trade in that market, one of America's most important and fastest growing market that are already providing important employment benefits. The new jobs generated through exports to Mexico will advance the skills and wages of U.S. workers, thereby raising living standards. In addition, the NAFTA will allow the United States, along with Mexico and Canada, to reap the benefits of comparative advantage and thus make the North American economy more efficient and competitive worldwide. Without a forward-looking, export-active, dynamic trade policy, which includes the NAFTA, many workers will be condemned to low-wage jobs in industries addicted to protectionism in a static economy. The United States now has a historic opportunity to decide whether it will pursue a path that will make USA's firms more competitive and raise living standards by boldly engaging the world economy, with all its changes and uncertainties⁴⁰.

The debate over the NAFTA is indeed a debate over the direction of the U.S. economy. Much is at stake, not the least of which are the opportunities to forge lasting and beneficial ties to its southern neighbor. Fears fueled by recession and inflated by political rhetoric must not prevent the United States from seizing this opportunity with Mexico. At stake are the favored relationship that the NAFTA will ensure for the United States in one of the largest markets for U.S. exports, and the far-reaching reforms that have brought profound change to Mexico's economic and political landscape. A rejection of the NAFTA could also precipitate the unwinding of the gains from liberalization that have occurred in other Latin American nations striving to emulate Mexico's reforms. The United States cannot afford the political and economic risks that a rejection of the NAFTA would entail. Neither can it afford to throw away the economic opportunity that the agreement affords U.S Companies and workers⁴¹.

³⁹ Frederick, W., Gluck, "Recreating the American Dream," Mckinsey and Co. The Manhattan College, John, J., Horan Endowed Lectures Series, The Princeton Club, New York, Oct. 21., 1992, p. 17.

⁴⁰ Cox, Robert, "Global Restructuring: Making sense of the Changing International Political Economy," in Stubb, Richard, & Geoffrey, R.,D., *Political Economy and the Changing Global Order*, Underhill, eds, St. Martin Press, New York, 1994, pp. 45-49.

⁴¹ Ibid.

3. 2. The Canadian Case: A North American Community?

Like Europe, trade and competition drive the integration of nations sharing the same geographical space, but without the geopolitical imperatives that brought the European nations together. There, the process has resulted in an institutional Union, Brussels-driven from the top down (although Great Britain and others oppose it)⁴². Here, the process is much less formal and bureaucratized. Fundamentally, the North American process is incremental, occurring in the context of three large federal states with convergent interests and an accelerating density of transferred flows at the most basic societal level. However, the idea of a North American community is still very new and not well understood.

Realists will scoff. The very idea of community among partners of such unequal wealth, power, and demographic weight is so wildly improbable as to foreclose debate. Or so it was argued before the Canada-U.S. Free Trade Agreement was signed in 1988, and before Mexico requested a similar arrangement with the United States, which soon became the North American Free Trade Agreement of 1994. Canada, one-tenth the economic size of its ever-present referent to the south, and Mexico, one twenty-fifth of the economic weight of the inescapable giant to its north, would not enter into binational partnership, let alone a three-way deal. In the event they did, a true partnership could not prosper, or so the argument now goes. Canada and Mexico may seek partners; the United States seeks only customers. By definition, the United States and its neighbors will have difficulty moving beyond the finely ground, short-term convergence of national interests that produced NAFTA.

Partnership has survived its first true test with the Mexican financial Peso- Crisis of January 1994, and the measures taken by the United States and Canada to bolster their partner's economy are working. Meanwhile, NAFTA-mandated institutions have been set in place, providing new forums: the trade dispute panels and, eventually, a trade secretariat in Mexico City, the labor secretariat in Dallas, and the Commission for Environmental Cooperation in Montreal. Interministerial relations are close: despite a host of nettlesome bilateral issues, (between Mexican and U.S. officials in May 1996) a way of operating which in the last few years has come to resemble Canada-U.S. relations. Social and cultural convergences are underway and cannot be ignored. This points to the working of deeper-running trends⁴³.

⁴² Gildred, D., John, , *The American Review of Canadian Studies*, Summer 1996, p. 261-273.

⁴³ Randall, J. Stephen, & Konrad, W. Heman, "NAFTA in Transition," University of Calgary Press, Canada, 1995, pp. 1-11.

Nationalists regard with distaste the very idea of North America. The yoking of self-interest with partnership and cooperation is intensely irritating, perhaps a trap. Fearful of convergence, they worry about maintaining the integrity of national borders and decry strains on the national concept of self. Derailing the North American juggernaut had best start now, the argument goes. True enough, the old ways of doing things are fundamentally at risk, but this is because old ways are obsolete. As the Canadian perspective indicates: “like it or not, convergence is upon us in multiple dimensions and the task ahead is to make it work and to reap the benefits from something that is really new: the North American community”⁴⁴.

The most difficult problem is that these regionalizing trends are not yet reflected in public opinion. Worried by global changes such as economic restructuring, job loss, and widening class divisions exacerbated by the new knowledge-based society, the public is not yet comfortable with regionalism. In their actions, the peoples of Canada, the United States, and Mexico are creating the social and cultural underpinnings for a North American community, but they do not yet identify themselves with it.

This leaves the door open for demagogues and political opportunists. In the current climate of uncertainty and transition, leaders of this stripe reap short-term benefits from pressing hot-button issues. The times are ripe for campaigns to “keep the foreigners out” and the like. The obverse of this temptation is good leadership, on doing the right thing, on doing what the times require. How can leaders be expected to do this, when the public is so unsure where it wants to go? Truly, we are living through what historians call a “hinge moment” in human affairs, when the shift into a new era is palpable but only dimly perceived. The role of ideas and concepts is therefore critical at this time of rapid change and transition⁴⁵.

North Americans need to know each other a good deal better and the concept of shared differences is a good starting point. We are different, yet we share the reality of an integrated business culture and contacts at all levels of government and civil society, while also sharing the effects of migrations, convergent labor markets, private voluntary organizations, and the information age. The cumulative result is to promote awareness of living in the same geographic space, while creating the socioeconomic underpinnings of community.

⁴⁴ Ibid.

⁴⁵ Waverman, Leonard, “The NAFTA Agreement: A Canadian Perspective,” pp. 33-57, in Globerman Steven & Walker Michael, *Assessing NAFTA: A Trinational Analysis*, Fraser Institute, Vancouver, B. C., Canada, 1993.

These convergence are particularly evident in border regions, the frontiers, as it were, of the North American community. Yet certain issues are clearly continental: the linkage of trade and the environment, for example, promotes awareness of a trinational space. Integration is also producing winner and loser regions within, as well as among, nations. In all these arenas, changing perspectives are inevitable⁴⁶.

These regionalizing forces are a challenge to the three federal governments, which have less ability to channel or control them even as their interests converge. For one thing, all three states are downsizing. In Mexico, where the political system is opening, more functions are being devolved upon the once-powerless state governments. In Canada and the United States, high levels of federal debt are no longer sustainable; of necessity more scope is being given to provincial and state governments. In addition, the practical need to manage inter-dependence is leading to new, cooperative institutions. While the NAFTA institutions report to the national governments and are therefore not freestanding, they may be harbingers of true trinational bodies and authorities at the continental level. The devolving of responsibilities down to the provincial/state and local level, as well as up to the trinational region, is new.

Business has already cast its vote for the regional market; North American production and marketing decisions were being made on a continental basis well before the passage of NAFTA. After more than a century of transportation policies designed to promote national integration, Canadian railroads are joining their U.S. counterparts in leasing Mexican track. North-South highway corridors are emerging, with Nuevo Leon, Texas, and Ontario the big winners. To cite another example, three business groups from NAFTA member countries recently held seminars in Mexico on implementing the ISO (International Standards Organization) 14000 standards on environmental management.

Politically, however, the international border will continue to matter: integration is occurring among three large federal states that cooperate, but retain considerable powers and authority. Finding new ways to deal with sovereignty issues is especially important in the area of natural resources and environmental management. On the Mexico-U.S. border, for example, water to supply the burgeoning cities of Ciudad Juárez and El Paso is running out, but there is as yet no binational entity for allocating ground water to this metropolitan area. Likewise, the common airshed in the area is highly polluted, needing concerted attention. However, since 1992, a public-private task force from the two cities has been recommending solutions. Once the sovereignty issues were resolved, the two foreign ministers approved the Paso del Norte Air

⁴⁶ Ibid.

Quality Management Basin in May 1996. In a striking departure from past practice, local citizens from private organizations will serve on the joint authority. On the northern border, British Columbia and the State of Washington have established Environmental Cooperation Council, which reports to the premier and the governor, with federal representation.

During the last fifteen years, non-governmental organizations (NGOs) have found common ground across national borders and their networks are a new constituency to which governments must respond. NGOs in Canada and the United States joined forces to oppose the Central American Contra wars in the early 1980s. Later, some of these same groups developed environmental concerns and linked with newly established Mexican groups to discuss the environmental implications of free trade. A coalition of anti-NAFTA groups almost defeated the agreement in the U.S. Congress during the 1993 debates. But were countered by another coalition that advocated what became the environmental side agreement. In this way, the trade-environment linkage became part of NAFTA⁴⁷.

In early 1995, the U.S. Congress dithered when faced with the challenge of responding to Mexico's financial crisis, leaving the President to act alone; he did, with the \$20-billion loan package with IMF support. The language is interesting: those in favor of bolstering the Mexican economy called it a "loan guarantee," while those opposed called it a "bail-out". Eighty percent of the American public, according to the polls, was against the Mexican loan. Yet the top political leadership, from Speaker Gingrich to President Clinton, saw this for what it was, an inescapable choice. The President passed the test of partnership, but the old foes of NAFTA in the House did not. Members such as David Bonior (D-Michigan) and populists like Senator Alfonse D'Amato (R-New York), along with the legislative body as a whole, responded to the public's strong objection. In fact, the Mexican loan guarantee/bailout is an excellent example of leadership doing the right thing, but at the risk of getting out well ahead of public opinion.

Although we live in a world of convergence and increased interaction, the President did not, And could not (yet) appeal for public support on the grounds of our partnership, still less of our North American community. The loan conditions were harsh, perhaps necessarily so from the standpoint of good financial management, but they were also invasive of Mexican sovereignty, especially in the attachment of oil revenues. That Americans do not yet share a common vocabulary with which to discuss this sort of issue increases the risks and uncertainties of acting trinationally on common problems. This is a serious problem. Those who wish to

⁴⁷ This argument is strongly connected with the pluralistic approach as it was explained in chapter 1; how other actors rather than State-Centric approach build up bottom up relationship.

exploit such issues can do much mischief; in effect, such efforts could set the relationship back, or simply confuse trinational issues so that the promise of a regional community gets lost.

In response, Mexico hopes to create an influential lobby by allowing Mexicans living in the United States to adopt American citizenship without losing their rights as Mexicans. Nationals living in the United States will also be permitted to vote in Mexican elections without returning to their hometowns. Recently enshrined into law as constitutional amendments, these measures will help individuals defend their interests, both as citizens with dual nationality and as voters, while fostering a new constituency to participate in what has become a rather harsh and one-sided debate. Along the same lines, the European Union for many years has fostered student exchanges to develop to European identity in addition to national and local loyalties. Also, the Erasmus Program coordinates research among universities. By design, but also by desire, the so-called "Eurokids" have a wider range of experiences than their parents. Loyalties to Europe, to nation, and to one's city-region are being sorted out and commingled in many other countries. A parallel phenomenon is ripe to happen North America, and the governments of Canada, Mexico, and the United States are committed to cooperative programs to promote foreign study opportunities for their students and collaboration among higher education institutions.

Nor are these North American exchanges happening only at the elite level. School districts in the less-populated regions of the Canada-U.S. border have shared resources and facilities for many years. The New Mexican border town of Columbus offered to create a new bi-national school district with Palomas, its twin city in Chihuahua. How to pay for Mexican students bussed to local American schools is a contentious issue. But the bilingual students educated here and elsewhere on the border will be tomorrow's contributors and consumers in the upwardly mobile society of Northern Mexico and adjacent U.S. communities⁴⁸.

In conclusion, it is no longer possible to think only in terms of national experiences, or in isolation. Regional issues do not easily lend themselves to foreign policy approaches in North America, where national and continental issues are now inextricably entwined. A North American community is emerging, but it is premature to say that a perceptual shift on the heart has occurred. National and local identities remain, as well they should. But the markers of a concurrent North American identity are there, however incipient and uncertain. Therefore, one must think of something larger than national experiences without down playing their effects and importance, or one's own patriotism, values and identity.

⁴⁸ Waverman, *op. cit.*, p. 35.

In addition to trade flows and the play of interests, Canadians suggest that they should identify the more subtle forms of interaction, starting with sports and popular culture, the play of ideas, and the wellsprings of local community action. An important area for future research is the “affective” regard we all hold for North America. Somehow we need to explore and document feelings to a greater extent. Capturing the multiple dynamics of this “hinge moment” will require an inventory of interactions, from hard to soft. Analysis of those indicators should then reveal the true mix of factors that produces this ongoing, incremental process of community building⁴⁹.

The times are tricky and uncertain, nonetheless. The media, with its natural tendency to highlight controversy and conflict, is not capturing much of the process of community building that I have described. NAFTA issues are poorly covered, if at all. Identity politics based on particularisms grab headlines, so that other voices are not heard. Much could be lost through heedless actions, bad leadership, and even inadvertence—this last a particular problem for the United States, which remains “preoccupied by the working out of its own democratic logic at home.” With the dawn of awareness, “it will find, in the end, that being North American is not the same as being American.” The emerging trinational space has its own demands; will they be recognized, and accepted?

3. 3. a. The Mexican case and NAFTA:

The ex-President Carlos Salinas de Gortari had accelerated a reform process begun under his predecessor, Miguel de la Madrid. This process amounts to a repudiation of past states economic policies and a remarkable thaw in U.S.-Mexican relations. Until the mid-1980s, successive Mexican administrations pursued nationalist import substitution policies that sharply limited foreign investment and effectively shut out many U.S. exports with prohibitively high tariffs.

With the onset of the debt crisis in 1982, Mexico was forced to recognize that its economic policies needed to be revamped. Subsidies and spending have since been slashed, restrictions on foreign investment lifted, and tariffs drastically reduced from an average of 29% to 10%. About four fifths of Mexico state-owned 1,155 enterprises have been sold, merged, or closed⁵⁰. U.S. businesses are satisfying the lion's share of Mexico's burgeoning demand for

⁴⁹ Gildred, op. cit., p. 262.

⁵⁰ Lawrence, Hecht, & Peter, Morici, “Managing Risk in Mexico,” Harvard Business Review, Summer 1993, p. 38.

imports because of their strong comparative advantage in capital good such as earth moving equipment, computer hardware, and other industrial equipment. Higher living standards in Mexico translate into greater demand for U.S. consumer goods as well. In fact, United States enjoys a more favored trade status with Mexico, which purchases 70% of its imports from the United States, than any other country in the world. This figure has remained constant for the last few decades. As a result, every additional dollar spent by Mexican consumers on foreign products and services directly benefits the U.S. economy.

Passage of the NAFTA in effect guarantees the continuation and expansion of this strong U.S. position in the Mexican market. Its defeat, on the other hand, could mean that the favored place of the United States would be forfeited. The reforms instituted by Mexico over the past decade are likely to continue, albeit at a slower pace, even if Congress rejects the NAFTA. The danger is not that Mexico will return to the ways of its economically interventionist past, but rather the disadvantages for USA will be the competition inside of Mexican market with other trading blocs as the EU or Asia.

As a result of the treaty the Mexico's foreign policy is centered upon greater relationship with the United States, unfortunately, Mexico lost sight of its own geostrategy. On one hand, not assuring the expected benefits. And on the other hand, by not reaffirming its geoeconomic position with Latin America, by keeping its relation with the United States, instead of creating a counterbalance in the zone, and creating a more interdependence relationship with the United States. This new relation gave new lessons for Mexico, especially when it comes to terms to negotiate specific sector of the enterprise of PEMEX, which is the most larger and valuable state own. However, and due to the type of agreement, the USA investors can not take a hold of the shares of the company but they do can invest large amounts in it and be supported by the banks and invests in certain areas within the company, and at the end this also give to the investors some power in the decision-making inside the Mexican political board⁵¹.

Last of all, different interest groups in Mexico, with opposing opinions, agree to unify under the NAFTA banner in order to optimize their own benefits. Some analysts coincide in affirming that NAFTA would obligate a concretion in the Mexican national market in order to integrate the economy to the majority of habitants in the country in terms of labor force, as well as, the demand for goods and services.

⁵¹ Ramirez, De la O, Rogelio, "The North American Free Trade Agreement from a Mexican Perspective," pp., 61-86, in Globerman, Steven & Walker, Michael, Fraser Institute, Vancouver, B.C., Canada, 1993.

Although, this argument can be contradictory when is well known that the Mexican purchasing power is lower comparing with the Canadians or the USA. In Mexico with a total of 20% of the population able to purchase, and with the rest 80% which half of it lives in extremely poverty.

Nevertheless, the arguments went on and on, in Mexico on favoring a free trade with the northern neighbors, many had said, that the NAFTA, would bring the developed of the country, by creating more job opportunities, by the increase of the investments and the transfer of technology, that will improved the standard of living of the Mexicans and eventually it will accelerate the developed of the country. However, when we consider the actual situation of the Mexican economy, it is easily see, than none of the above statements have happened so far, on the contrary the living standard has dropped more, the job opportunities are much more less, the unemployment rate has increase more than 50%, and the technology transfer has not occurred as expected to be, the disparity among the classes is bigger, only the elite has really received the benefits of having such a treaty, while the rest of the population, wonders what good has it bring such Treaty?

3. 3. b. The different aspects between the USA and the Mexican market:

First, the overall impact of the NAFTA is limited by the tremendous difference in size between the U.S. and Mexican economies. In 1992, the Mexican Gross Domestic Product (GDP) was \$329 billion while the U.S. GDP was about \$5.95 trillion in current dollars. This makes the U.S. economy about eighteen times larger than Mexico's. Mexico simply is not capable of flooding the U.S. with cheap goods. In fact, the value of the goods that the United States imports each year is close to twice the size of the entire Mexican economy. Imports from Mexico accounted for less than 10% of total U.S. imports in 1992. A Canadian study of the North American textile sector illustrates the limited effect the agreement with Mexico will have on the United States. The study was designed to test a worst-case scenario for the clothing industry. According to economists at the University of Western Ontario, even if American imports of Mexican clothing increased by an extremely unlikely 4,000%, U.S. clothing production would only decline by 5% because of the relative sizes of the American and Mexican markets⁵². Mexico supplies only 2.5 % of U.S. textile imports and less than 1% of the total U.S. market for clothing.

⁵² Drusilla Brown, "Some Jobs May Go, but it's a Drop in the US Economic Budget", *The New York Times*, April 20, 1993, NAFTA Supplement.

The second factor that puts the NAFTA in perspective is the fact that U.S. investment capital flowing to Mexico is but a small portion of overall U.S. investment both inside and outside. Mexico is not a magnet for U.S. investment⁵³. U.S. Companies and individuals invested a net total of \$5.4 billion in Mexico in 1992, roughly 10 percent of the net total of \$53.3 billion Americans invested abroad that year⁵⁴. Compared to total nonresidential fixed investment in the United States of \$548.2 billion in 1992, the direct investment by Americans in Mexico was a mere statistical blip⁵⁵.

Lastly, the job losses and gains projected by both proponents and opponents must be compared to the overall job turnover rate in the United States. Most studies have projected some job gains due to the NAFTA. The U.S. International Trade Commission projects that jobs gained will outnumber jobs lost by 35,000 to 170,000⁵⁶. The Institute for International Economics has estimated that 150,000 lost jobs will be offset by job gains of over 320,000⁵⁷. The most pessimistic study has estimated cumulative job losses of 500,000 over 5 years. However, all the numbers of the estimated employment impact of the NAFTA pale in significance compared to the approximately eight million to nine million Americans who change jobs each and every year⁵⁸ and to the nearly 20 million workers displaced from their jobs during the 1980s⁵⁹. A fall of half a percentage point in long-term interest rates alone, over time, would generate over 300,000 jobs. And the net job impact of the NAFTA in the next few years would probably not even reach the 250,000 that Vice President Gore has suggested should be cut from the Federal Government. Thus, in an economy that employs almost 120 million people, the effect of the NAFTA on total employment will be very limited.

In short, integration with Mexico will provide multiple benefits for the United States, not the least of which is a further rationalization of the U.S. economy. The NAFTA will provide greater access to Mexico for U.S. exports, and it will raise living standards in the United States over the long term as this country focuses on higher skill, higher wage employment opportunities for American workers.

Mexico will have a limited, though by no means unimportant, effect on the United States. The NAFTA will not substantially change the rules governing Mexico's access to the United States, nor will it substantially alter the rules of investment for U.S. Companies seeking

⁵³ Gary, Hufbauer, "Mass Distortion", *The International Economy*, Summer 1993, p. 8.

⁵⁴ US Dept. of Commerce, "Survey of Current Business," July, 1993, p. 101.

⁵⁵ Ibid.

⁵⁶ US International Trade Commission, 1993, p.2-5.

⁵⁷ Ibid.

⁵⁸ An interview to Lawrence Katz, Chief Economist, US, Dept. of Labor, Sept. 23, 1993.

⁵⁹ Ibid.

to lower costs with cheap labor. When all of these factors are combined, the conclusion is that the agreement will not be a panacea.

In conclusion, the three rhetoric mostly concentrates on the debate of the economic growth, labor effects, financial outflows and inflows, and the concept of the “North American Community”. The NAFTA member’s expected an increase in their economy and a better trade inside the regional bloc but never foresaw the harm consequences that such free trade brought in reality for the member states. The debate in the three members’ states went so far to think that at the end, the treaty was the only possible alternative to compete in the global economy. However as we have experienced this has only worsen the scenarios. Apart from the rhetoric each government negotiated NAFTA according to the preferences of the business class and the elite groups. (Although in the United States the treaty was severely criticize in the U.S congress but was part of the interest groups and demagogy), mean while in Canada the debate neither was about the treaty nor its expansion but rather an opportunity to re-negotiate the treaty with the U.S.A As for Mexico under the Salinas’ administration NAFTA was seen as an excuse of the structural adjustments and the economic reforms that went under Salinas, so basically in Mexico NAFTA was only a matter of the politic elite and of course businessmen.

Another important aspect used in the rhetoric, was the NWO, seen the regional blocs as “the only alternative,” as an answer to the complexities of the our societies and dramatic changes, or as some authors sustain, a new transition in financial and international trade competition⁶⁰.

The next polls were pullout by the USA before the NAFTA treaty was ratify in the U.S. congress, a similar poll in Mexico was never consider under Salinas administration.

Is interesting to observe the results, in 1992 when the public was asked what they thought about the treaty, 55% of the public responds that they expected a positive trade, while in the same year 24% thought the contrary. Just a year before only 15% against 72% thought it was good. Despite this differences the treaty was approve in the USA.

The Polls:

The North American Free Trade Agreement:

"As you may know, Canada and the United States now share a free trade agreement which ensures that trade between the two countries largely is not subject to tariffs or import quotas. It has been suggested that a wider free trade zone be established consisting of the United States, Canada, and Mexico. In general, do you think a North American free trade zone consisting of

⁶⁰ For more information on this issue, see chapter 1.

these three countries would be mostly good for the United States, or mostly bad for the United States?"

Mostly good for this country:

1992.....55%

1991.....72

Mostly bad:

1992.....24

1991.....15

Neither good nor bad:

1992.....5

1991.....3

No Opinion:

1992.....16

1991.....10

Source: Gallup, September 28, 1992

CHAPTER 3- b **NAFTA 's RESULTS :**

In the next segment I will outline the most important and shocking results of NAFTA. Eventually the analysis will lead to the description of the economic constrains under NAFTA and the neoliberal economic model. The differences between the member's states basically are in terms of how strong is the country to support and confront the problems that NAFTA and the economic model have havoc.

3-b. 1. The impact of NAFTA in the United States:

The NAFTA eliminated 766,030 actual and potential U.S. jobs between 1994 and 2000 because of the rapid growth in the net U.S. export deficit with Mexico and Canada. The loss of these real and potential jobs⁶¹, is just the most visible tip of NAFTA's impact on the U.S economy. In fact, NAFTA has also contributed to rising income inequality, suppressed real wages for production

⁶¹ Potential jobs, or job opportunities , are positions that would have been created if the trade deficit with Mexico and Canada had remained constant, in real terms (and holding everything else in the economy constant). The total number of jobs and job opportunities is a measure of what employment in trade-related industries would have been if the U.S. NAFTA trade balance remained constant between 1993 and 2000, holding everything else constant.

workers, weakened collective bargaining powers and ability to organize unions, and reduced fringe benefits.

NAFTA's impact in the U.S. however, often has been obscured by the boom and bust cycle that has driven domestic consumption, investment, and speculation in the mid-and late 1990s. Between 1994 (when NAFTA was implemented) and 2000, total employment rose rapidly in the U.S. causing overall unemployment to fall to record low levels. Unemployment, however, began to rise early in 2001, and, if job growth dries up in the near future, the underlying problems caused by U.S. trade patterns will become much more apparent, especially in the manufacturing sector. The U.S. manufacturing sector has already lost 759,000 jobs since April 1998, if as expected, U.S. trade deficits continue to rise with Mexico and Canada while job creations slows, then the job losses suffered by U.S workers will be much larger and more apparent than in the U.S. NAFTA trade were balanced or in surplus⁶².

NAFTA supporters have frequently touted the benefits of exports while remaining silent on the impact of rapid import growth. But any evaluation of the impact of trade on the domestic economy must include both imports and export. If the US exports 1000 cars to Mexico many U.S workers are employed in their production. If, however, the U.S. imports 1000 foreign made cars rather than building them domestically, then a similar number of U.S. workers who would have otherwise been employed in the auto industry will have to find other work. Ignoring imports and counting only exports is like trying to balance a checkbook by counting only deposits but not withdrawals.

NAFTA has also contributed to growing income inequality and to the declining wages of U.S. production workers, who made up about 70% of the workforce. NAFTA, however, is but one contributor to a larger globalization process that has led to growing structural trade deficits and has shaped the U.S economy and society over the last few decades⁶³. Rapid growth in U.S. trade and foreign investment, as a share of U.S. gross domestic product, has played a large role in the growth of inequality in income distribution in the last 20 years. NAFTA has continued and accelerated international economic integration, and thus contributed to the growing tradeoff this integration requires.

The growth in U.S trade deficits has put downward pressure on the wages of "unskilled" (i.e. , non-college-educated) workers in the U.S. , especially those with no more than a high school

⁶² Scott, E., Robert, in *Economic Policy Research*, U.S., 1995.

⁶³ Globalization includes rapid growth in imports, exports, and the share of trade in the world economy, and even more rapid growth in the international flows of foreign investment around the world. The term is also used to refer to the international convergence of rules, regulations, and even the social structure and role of government in many countries. This process is often viewed as a "race-to-the-bottom" in global environmental standards, wages, and working conditions.

degree. This group represents 72.7% of the total U.S. workforce and includes most middle-and low-wages workers. These U.S. workers bear the brunt of the cost and pressures of globalization.

A large and growing body of research has demonstrate that expanding trade has reduced the price of import-competing products and thus reduced the real wages of workers engaged in producing those goods. Trade, however, is also expected to increase the wages of the workers producing exports, but growing trade deficits have demand that the number of workers hurt by imports has exceeded the number who have benefited through increased export. Because the U.S. tends to import goods that make intensive use of less-skilled and less-educated workers in production, it is not surprising to find that the increasing openness of the U.S. economy to trade has reduced the wages of less-skilled workers relative to other workers in the U.S.⁶⁴

Globalization, has reduced the wages of “unskilled” worker for at least three reasons, first the steady growth in U.S. trade deficits over the past two decades has eliminated millions of manufacturing jobs and job opportunities in this country. Most displaced workers find jobs in other sectors where wages, are much lower, which in turn leads to lower average wages for all U.S. workers. Recent surveys have shown that even when displaced workers are able to find new jobs in the U.S., they face a reduction in wages, with earnings declining by an average of over 13%. These displaced worker’s new jobs are likely to be in the service industry, the source of 99% of net new jobs crated in the U.S. since 1989, and a sector in which average compensation is only 77% of the manufacturing sector’s average. This competition also extends to export sector, where pressures to cut product prices are often intense.

Second, the effects of growing U.S. trade and trade deficits on wages go beyond just those workers exposed directly to foreign competition. As the trade deficit limits jobs in the manufacturing sector, the new supply of workers to the service sector (displaced workers and new labor market entrants not able to find manufacturing jobs) depresses the wages of those already holding service jobs.

Finally, the increased import competition and capital mobility resulting from globalization has increased the “threat effects” in bargaining between employers and workers, further contribution to stagnant and falling wages in the U.S. Employers’ credible threats to relocate plants, to out source portions of their operations, and to purchase intermediate goods and services directly from foreign producers can have a substantial impact on workers’ bargaining position. The use of these kinds of threats is widespread. A *Wall Street Journal* survey in 1992 reported that one-fourth of almost 500 American corporate executives polled admitted that they were “very

⁶⁴ See U.S. Trade Deficit Review Commission (200, 110-18) for more extensive review of theoretical models and empirical evidence regarding the impacts of globalization on income inequality in the U.S.

likely” or “somewhat likely” to use NAFTA as bargaining chip to hold down wages⁶⁵ . A unique study of union organizing drives in 1993- 95 found that over 50% of all employers made threats to close all or part of their plants during organizing drives⁶⁶. This study also founds that strike threats in National Labor Relations Board union-certification elections nearly doubled following the implementation of the NAFTA agreement, and that threat rates were substantially higher in mobile industries in which employers can credibly threaten to shut down or move their operations in response to union activity.

3-b. 2. Mexico and the peso crisis:

The 1994 peso crisis is commonly used to excuse the sharp deterioration of the U.S. trade balance with Mexico. However, NAFTA was the foundation for an aggressive export-led growth strategy in Mexico. This assumed that expanding Mexico's exports would create jobs for Mexico's rapidly expanding workforce and steadily increase living standards. The peso *had* to fall in order for this strategy to succeed. As Professor Robert Blecker of American University put it: “Mexico had to devalue the peso in order to attract the direct foreign investment and export-oriented manufacturing that the NAFTA agreement was designed to promote”⁶⁷.

The peso crisis is also intrinsically linked with the politics of NAFTA. The artificially high peso held down inflation in Mexico, helped to win votes in the U.S. Congress for passage of NAFTA in 1993, and improved the electoral prospects of Mexican Presidential Candidate Ernesto Zedillo in 1994 this meant the institutionalization of the liberal policy without any “safety nets”.

NAFTA-style economics mired the country in slow growth and, after the treaty's passage, led directly to the peso's collapse in 1994. The toll: more than 2 million lost jobs; 28,000 small businesses destroyed; weaker, less enforceable labor standards and rampant violations of existing worker rights; a rise in already high levels of official corruption; a slowing of the democratic reform process; and the outbreak of revolutionary movements such as that in Chiapas.

Indeed, one of the greatest ironies of NAFTA is that a treaty aimed in large part at stabilizing Mexico has heightened social and political disorder. In addition, environmental and public health conditions in the U.S.-Mexico border area have significantly worsened.

⁶⁵ Tonelson, 2000, p. 47

⁶⁶ Ramirez, op. cit., p. 65.

⁶⁷ For more information about the mechanism of FDI in Mexico. See chapter 2.

The “Export platform” strategy, however, has done little to promote broad prosperity in Mexico. Experts can argue about how much of Mexico's current woes are due to the peso crisis alone. But Mexico's experiment with NAFTA-style economics began in the mid-1980s and the inadequacy of that policy had been established well before the latest financial collapse. During the six years of Salinas' reign, for example, the Mexican economy expanded by only 2.6% annually far too low to create jobs for the roughly 1 million Mexicans entering the labor market every year. In fact, in late 1995, the U.S. Embassy in Mexico City reportedly estimated that a stunning 35% of all economically active Mexicans were either unemployed or underemployed⁶⁸.

The pre-NAFTA decade also saw major increases in economic inequality in Mexico. During this period, the wealthiest 10% of Mexicans' share of national income rose from 34% to 41%. Every other decibel's share declined. During the same period, only the top 20% of households experienced increases in real monetary income greater than 1% annually. Moreover, as in the United States, before the peso crisis, middle-class Mexican families were able to tread water mainly because women have flooded into the workforce⁶⁹.

The peso collapse has simply been the coup de grace for Mexico's development hopes. The figures are staggering. Unemployment in Mexico continues to skyrocket: the number of unemployed workers doubled between mid-1993 and mid-1995, to nearly 1.7 million. Additionally, there were 2.7 million workers employed in precarious conditions in 1996. To make ends meet, many families are forced to send their children to work, and in opposition to Mexican law UNICEF reported 800,000 children living and working on the streets of Mexico City alone⁷⁰.

Consequently, the impoverishment of millions of Mexicans deepens. In 1996, estimated real hourly wages were 27% lower than in 1994 and 37% below 1980 levels. Of the 1995 working population of 33.6 million, 19% worked for less than the minimum wage, 66% lacked any benefits, and 30% worked fewer than 35 hours per week. During five years of NAFTA, the portion of Mexican citizens who are “extremely poor” has risen from 32 to 51%⁷¹, and 8 million people have fallen from the middle class into poverty.

⁶⁸ Moore, & Anderson, 1996.

⁶⁹ Ibid.

⁷⁰ *Reforma*, December, 14, 1996.

⁷¹ Latin American Studies Research Institute, UNAM, 1999.

Nowadays, Mexico has become more active by signing FTA's with different regional blocs, although this stills being part of the domestic debates the actual government has signed a FTA with the EU, the question is: will this FTA bring the sunshine to Mexican economy or it will bring darkness, as the NAFTA and the neoliberal model had had.

The next analysis corresponds to Canada. Here we will find some similarities with the structural adjustment in Mexico but to a lesser extend in Canada albeit the outcome is almost the same re-structural problems.

3-b. 3. 1. The case of Canada:

Canada has been mired in recession since shortly after entering into the U.S.-Canada FTA in 1988. Unemployment increased from 7.5% in 1989 to 11.3% in 1992. Joblessness fell back to 9.4%, but has risen slightly in 1997, to 9.6%. Canada's policies and practices are being harmonized with those of the rest of North America downward. Between 1989 and 1995, Canada's real interest rate was 2.9% higher than in the U.S. As a result, Canada is cutting government outlays sharply and dismantling its social safety net, while increasing its unemployment rate. Overall the NAFTA speeds up the recession process in Canada and changed the Welfare State policy. Free trade makes impossible Canada's strategy of high social spending and a strong safety net. International financial markets are making Canada pay dearly for this strategy and are forcing its gradual abandonment in Health care, education, and pension systems in the name of increased competitiveness⁷².

In brief, the overriding goal of economic policy should be the creation of conditions that lead to high and rising standards of living, including improvements in environmental quality, health, and social conditions, throughout society. The evidence presented makes abundantly clear that, by this test, the NAFTA approach to North American economic integration has failed. NAFTA should not be extended, but rather modified.

The effort to forge a transitional community in North America represents a special challenge given the fact that Canada, Mexico and the United States have very different national ideologies. In contrast to Latin America, which is a community by cultural affinity, North America has always been seen as an Anglo-concept, which in the past has never included the

⁷² Nevitte, Neil, "Why NAFTA Now"? ch 4, in McPhail, Brenda, *NAFTA Now!*, University Press of America, Boston, 1995, ch 3-7.

Quebecois or Mexicans. Rather than culture and ideology, common interests and geography must provide the underpinnings for the NAC⁷³.

In this respect, environmental concerns probably represent one of the strongest rationales for continental cooperation. The case of Canada, which has also come about primarily through geography, may best exemplify the limits and perils to forming a national community. Canada has been based on common interest, on providing the “good deal”. Yet Canada represents an on-going crisis of nationhood, one that must constantly examine its *raison d'être*. In contrast, the United States and Mexican national identities are “soaked in blood”. Each of these countries nonetheless suffers from a different type of crisis. Mexico's crisis is a combination of political and economic crisis, a crisis of shared-governance. The United States is also in a profound crisis of national existence; a crisis where whole groups of the society no longer feel that they belong or fall under the institutions of the nation. Although the crisis is typically perceived as being about race, now is also about class. In general the conditions of the Canadian economy have also been affected negatively by NAFTA and by the same economic policy as in Mexico.

3-b. 3. 2. Canada and NAFTA's role:

To what extent should NAFTA take credit (or blame) for these changes? It is impossible to examine NAFTA in isolation from the broad anti-government and pro-deregulation policy agenda that has for the last two decades been transforming national economies and restructuring the roles and relationships among governments, markets, and citizens in the push to create an integrated global market economy. As a cornerstone of this well-known neoliberal family of policies (privatization, deregulation, investment and trade liberalization, public sector cutbacks, tax cuts, and monetary austerity) NAFTA has made it easier for Canadian policy makers to bring about a “structural adjustment” of the economy in line with the dominant U.S. model. Advancing and entrenching these policies in a treaty has secured investor rights, reined in interventionist government impulses and bargaining table demands of labor, and provided insurance against future governments' backsliding⁷⁴.

These policies have had, with some exceptions, an adverse impact on the employment and income conditions of working people in Canada. This is not an unintended consequences since, in essence, these policies transfer power from workers to management and investors, from wages to profits, from the public sector to the market.

⁷³ Ibid.

⁷⁴ Waverman, op. cit., p. 38.

NAFTA and its siblings have put downward pressure on employment and income conditions, but their impact varies from country to country, from sector to sector, from province to province, depending on the strength of social and labor market institutions and the commitment of governments to either counter or reinforce these pressures. To be sure, policy choices do exist, but their range is more constrained, and with each turn of the “free market” screw the NAFTA legal framework makes it more difficult and often impossible to go in the other direction. For all these reasons isolating NAFTA impacts is exceedingly difficult⁷⁵.

The very broad national treatment provisions of NAFTA oblige each member country to treat foreign investors exactly the same as it treats its own national investors, regardless of their contribution to the national economy. These provisions create an impetus for powerful alliances between foreign and domestically owned businesses to promote further deregulation and resist new regulation, since any policy to regulate foreign capital has to be applied equally to national capital. They removed important industrial policy tools, from local sourcing to technology transfer; tools that seek to channel foreign investment to strengthen industrial capacity, create jobs, etc.

NAFTA prevents governments from regulating the outflows as well as the inflow of capital. It prevents governments from placing restrictions on any kind of cross-border financial transfer. It also prevents governments from restricting the transfer of physical assets and technologies. While NAFTA claims to break down international protections and barriers, it provides strong intellectual property protection. This is another instance of taking power out of the public real and empowering corporations.

NAFTA limits the ability to state-owned enterprises to operate in ways that are inconsistent with commercial practice and in ways that impair benefits expected by private investors of the other NAFTA countries. This clearly affects the ability of public enterprises to pursue public policy goals that may override commercial goals. It also limits the ability of future governments to re-regulate or re-nationalize industries once they have been deregulated or privatized. It provides the legal framework for greater private penetration into traditionally public areas, notably health care and education⁷⁶.

Finally, NAFTA has affected Canadian corporations. Canadian Companies rationalizes their cost cutting and restructuring through takeovers, downsizing, closure, and re-locations as

⁷⁵ Nevitte, Neil, *op. cit.*, p. 30.

⁷⁶ *Ibid.*

the only means to stay competitive against their NAFTA partners. Increased competition also intensifies the pressure on employers to demand worker concessions. National borders legally confine workers (except certain elite categories). Capital has the upper hand, since it can move more easily under the new regime or threaten to move if labor does not make wage concessions. It also increases the pressure to lower the cost through production and work re-organization, leading to the increased use of part-time, temporary, and contract workers and outsourcing to non-union firms in low-wage jurisdictions⁷⁷.

Macro policies tilt to capital, away from labor. The macroeconomics policy priorities and choices, especially on the issues of wage control, changed under NAFTA. They have included disciplining labor through monetary policy austerity, reducing government income support (notably unemployment insurance and other social program spending) and lowering corporate and personal taxes. As a result the wages and well being of Canadian workers are declining⁷⁸.

In Sum, if one asks “Have the FTA and NAFTA delivered the goods that were promised? The answer depends on whom you ask. For example, for those who wanted to diminish the role of the government as an active player in the economy and provider of collective social protections, and for those who wanted to improve the environment for business competitiveness by disciplining wages, NAFTA and its predecessors have been a success. But in the public debate that preceded implementation of the free trade deal, delivering the goods, according to proponents, meant rising productivity for all Canadians. That was the promise to the Canadian public. The answer here is clearly no. The structural changes applied in the Canadian economic policy have definitely affected the public life. Workers are suffering constant constraints, while the international and domestic Companies are the net winners of NAFTA.

Likewise is the case of Mexico but with stronger problems in the structural adjustment and with almost no safety net to protect the public from the rip-off of international corporations and the political and business elite who are the ones who promote and maintain the status quo between the poor and the rich.

The following chapter will concentrate on the results of NAFTA, taken from the research institutes in each country, the effects in the economy and the impact in the social aspect. At the end I will analyze the Washington Consensus (WC) and the neoliberal economic policy. At this stage the actual WC is being questioned by the economist because of its disastrous results in the economic, social and political aspects (mostly I will concentrate in the case of Mexico). At the

⁷⁷ Randall, op. cit., p. 4.

⁷⁸ Ibid.

end of this chapter I will concluded with a full analysis taken from the above descriptions and the analysis from the World Bank on the WC, and the Speech of the IMF on the neoliberal model, plus the outcome of NAFTA nowadays in the three member states, and the questionable conduction of the neoliberal model as the panacea of the global economy for a better and sustained economic growth.

CHAPTER 4

THE ACTUAL DEBATE OVER NAFTA

The first segment of this chapter introduces the analysis of Noam Chomsky who identifies the real problems of the neoliberal system as major player in the NWO. Chomsky also analyzes the case of the global economy and the impact of the neoliberal policy as the championship of the free market where the most beneficial are the multinational corporation.

I relied on his analysis in the way; Chomsky uses, analyses, and answers some of the questions of our contemporary world. Some of these answers include; where the States are lead to, and who are the major players and where the benefits of the neoliberal policy are going. These an other questions are mentioned in his essay.

4-1. Notes on NAFTA: The Masters of Mankind.

-“All for ourselves, and nothing for other People.”⁷⁹ - Adam Smith, had few illusions about the consequences. The invisible hand, he wrote, will destroy the possibility of a decent human existence “unless government takes pains to prevent” this outcome, as must be assured in “every improved and civilized society.” It will destroy community, the environment and human values general and even the masters themselves, which is why the business classes have regularly called for state intervention to protect them from market forces.

This is what the “invisible hand” has done so far, the market and the lack of intervention of the State are part of this neoliberal system in order to prevent it from collapsing instead of improving the conditions for living, and access for a better standard of living for all.

-“In our day the masters are, increasingly, the supranational corporations and financial institutions that dominate the world economy, including international trade a dubious term for a system in which some 40% of U.S. trade takes place within

⁷⁹ Smith, Adam, “Investigaciones Sobre la Naturaleza y Causas de las Riquezas de las Naciones,” FCE, México City, 1° ed. 1776, 5° ed., 1987, pp. 377-571.

Companies, centrally managed by the same highly visible hands that control planning, production, and investment.”⁸⁰-

According to Chomsky’s essay, the major benefits goes to the bigger corporations as for the masters of the economy, the same companies that coordinate and plan the production processes, investment; are the ones who control the market, instead of being regulated by the States. As it used to be with the welfare state system.

The World Bank reports that protectionism measures of the industrialized countries reduce national income in the South by about twice the amount of official aid to the region aid that is itself largely export promotion, most of it directed to richer sectors (less needy, but better consumers).

The international aid has decreased over the years assuming new policies as the export promotion orientation that goes directly to the wealthy nations.

Another problem has been the transfer of some private banks and companies that have faced serious debts problems transferring these debts to the public as has been observed by Susan George from Transnational Institute in Amsterdam.⁸¹

-“Susan Georges notes also that commercial banks were protected by transfer of their bad debts to the public sector. As in the case of the S&L’s, and advanced industry generally, “free-market capitalism” is to be risk-free for the masters, as fully as can be achieved.”⁸²-

On top of these disorders, the major international governmental organizations as GATT, I.M.F., The World Bank have helped the companies and banks to preserve their profits and interest doubling the gap between richer and poor, plus the wage stagnation that has prevail since the 1960’s onwards extending to the college educated.

-“The I.M.F., World Bank, Group of 7 industrialized nations, GATT and other institutions designed to serve the interests of transnational corporations, banks and investment firms.”⁸³-

However, how this problematic has grown? One valuable feature of these institutions is their immunity from public influence. According to Chomsky, one of the hazards that public faces is the new thinking of the master’s including some governors, as well as intellectuals who defend the line of Walter Lippmann among others:

-“the public must be put in its place, so that the “responsible men” may rule without interference from ignorant and meddlesome outsiders whose function is to be

⁸⁰ Chomsky, Noam, *The Masters of Mankind*, 2001.

⁸¹ Ibid.

⁸² Ibid.

⁸³ Ibid.

only interested spectators of action, periodically selecting members of the leadership class in elections, then returning to their private concerns.”⁸⁴-

Therefore, the control of the market will be in free hands to the MNC supported by governments and IGO's. Thus, it is within this framework that the NAFTA and GATT should be understood.

But if we consider for a second this idea; then, the question lead us to: Why do we need the State? Why do we need the governors? What are their duties now, what the compromises towards the public? These are some of the rising questions that the intellectuals praise. The answer is lay on the neoliberal system, perhaps we should start asking ourselves, where does this system will take us?

According to Chomsky's essay the welfare state has vanish to give birth to the new masters; no longer the government makes new deals with the MNC nor Unions, the public have lost their power over the companies since they have not direct compromise with their employees nor with the Unions, the MNC can establish freely in any underdeveloped country, while the investment flies away from helping the development to continue. For Chomsky NAFTA is clear case of what he is clarifying as he states:

-“One can readily understand the need to keep the public in its place. Though the scanty press coverage is overwhelmingly favorable to NAFTA in its present form, the public opposes it by nearly 2 to 1 (of the 60% who have an opinion). Apart from some meager rhetoric and a few interventions by Ross Perot, that fact was irrelevant to the presidential campaign, as were health reform and a host of other issues on which public opinion remains largely off the spectrum of options considered by the responsible men.”⁸⁵-

Unfortunately, not only this new measures but also our entire planet will affect the common people. Some regulations on NAFTA have not consider at all the environmental impact. Albeit, some annexes on the Agreement recognize those subscribed at International rounds as was the Tokyo Protocol, but as Chomsky argues:

-“The treaty is also likely to have harmful environmental effects, encouraging a shift of production to regions where enforcement is lax. NAFTA will have the effect of prohibiting democratically elected bodies at [all] levels of government from enacting measures deemed inconsistent with the provisions of the agreement, including those on the environment, workers' rights, and health and safety, all open to challenge as unfair restraint of trade.”⁸⁶

⁸⁴ Ibid. Included on Chomsky's essay.

⁸⁵ Ibid.

⁸⁶ Ibid. Chomsky took into consideration the Committee of LAC on this report.

True, the Tokyo Protocol was not ratified neither by the U.S. nor Japan, two of the major producers of pollution in our world.

Another segment of Chomsky's essay, is the globalization and the way production and consumers are equal in tastes and likes around the globe, in other words, the privilege classes will remain in their throne while the working classes will disappear slowly especially in the third world countries increasing the gap considerably.

-“One consequence of the globalization of the economy is the rise of new governing institutions to serve the interests of private transnational economic power. Another is the spread of the Third World social model, with islands of enormous privilege in a sea of misery and despair. A walk through any American city gives human form to the statistics on quality of life, distribution of wealth, poverty and employment, and other elements of the “Paradox of '92.” Increasingly, production can be shifted to high-repression, low-wage areas and directed to privileged sectors in the global economy. Large parts of the population thus become superfluous for production and perhaps even as a market, unlike the days when Henry Ford realized that he could not sell cars unless his workers were paid well enough to buy cars themselves.”⁸⁷-

The consequence of this problematic will be reflected on the society new ways of consuming superfluous production while others will die of hunger, less possibilities of accession to a better life due to the low wages, higher taxes, lack of wealth distribution, and definitely by not being heard by their own governors whose concerns are to preserve the status-quo, let the richer get rich and do as they please by the free-hand, let the hammer smash the poor! Unlike the days of Fordism.

Chomsky's essay has explained the outcome of NAFTA, who are the masters of this Treaty, as well, as a critique to the neoliberal system and the inconsistency of the governments to stop the disparity that is provoking such system.

No free-hands should be allowed, the government's role is precisely to defend the majorities if they are to be a democratic states, the governors must represent those who have given their trust to them, while the MNC ought to be regulated by the governments and the workers. The need of a new compromise among the three actors is a key factor in order to prevent any possible revolutionary movement⁸⁸

My thesis work agrees with most of the analysis that Chomsky presents in this essay, and my hypothesis on NAFTA development has been proved to be on the right track about the

⁸⁷ Ibid.

⁸⁸ Just as it had happened in the south part of Mexico in 1994, with the revolt of Chiapas, a group of indigenous people raised in the name of their Human Rights, and a decent living. This group of revolutionaries is known as the EZLN (National Liberation Army of Zapata).

possible outcomes, and what the misleading on the neoliberal system is bringing, especially to the developing countries as Mexico.

4. 2. a. Canada: A False Promise

It has been 13 years since the Canada-U.S. FTA was implemented and eight years since it was renegotiated, extended to Mexico, and renamed NAFTA, and now is the template for the Free Trade Area of the Americas (FTAA) initiative.

Free trade agreements are force to bring adjustments onto our societies. As we will see it in the case of Canada, how its trade has changed since the signed of the FTA, and now so called NAFTA. Indeed major adjustments have been taken place in the Canadian economic and social landscape.

Trade with the U.S. has expanded dramatically during these 13 years. Canada's exports are now equivalent to 40% of its gross domestic product, up from 25% in 1989. (More than half of the Canadian manufacturing output now flows south of the border, and Canadian producers account for less than half of domestic demand). This north-south trade boom has been mirrored by a relative decline in trade within Canada. Trade has also become more concentrated with the U.S. (from 74% to 85% of exports) and less concentrated with the rest of the world. Two –way investment flows have also increased greatly. Both Canadian foreign direct investment and portfolio flows to the U.S. grew much faster than did U.S. flow to Canada during this period.⁸⁹

Canada has become a noticeably more unequal society in the free trade era. Real incomes declined for the large majority of Canadians in the 1990's; they increased only the top fifth. Employment became more insecure and social safety net frayed.

While productivity has grown (rapidly in some sectors) wages have not. Surprisingly, the case of Canada according to the results after the first years of the FTA, the price was almost as high as it was in the case of Mexico during the first years of NAFTA; albeit the outcome in unemployment is much more harmful in the case of Mexico. This data can gave us a broader picture of what are the immediate consequences of a FTA and the dismantling of the welfare state. Just as I will describe in this segment the NAFTA has cause more damage than progress.

⁸⁹ Campbell, Bruce, *Canadian Center for Policy Alternatives*. And *The Labor Force Survey, Employment Earnings and Hours, Canada's Balance of Payments, Survey of Consumers Finances, Income Distribution by Size*, and *Canadian Economic Observer*.

Successive waves of corporate restructuring (bankruptcies, mergers, takeovers, and downsizing) have been accompanied by public sectors restructuring downsizing, deregulation, privatization, and off loading of state responsibilities. Public sector spending and employment have declined sharply, and publicly owned enterprises in strategic sectors such as energy and transportation has been transferred *en masses* to the private sector.⁹⁰

In the case of Mexico as I will explain later on in this chapter, the energy sector among others is in current debate with the present administration due to the ten years phase of NAFTA on liberalizing this sector, what the consequence will be for Mexico? Let's take a closer look in the case of Canada and let's speculate on the possible outcome for Mexico after the revision of Canada's case.

FTA and NAFTA were sold based on rising productivity and rising incomes. By this standard the treaties have clearly not delivered, and their proponents can only offer a weak defense that things would have been worse in the absence of the agreements. Workers and policy makers in the FTAA countries may want to take the Canadian experience into account before buying into these unproved promises.

4. 2. b. The Canadian Labor market during the Free Trade:

As noted above, exports to the U.S. have grown rapidly during the FTA/NAFTA era. Imports from the U.S. have also grown but not as quickly, resulting in a growing trade surplus⁹¹. The average annual trade surplus was \$C19.7 billion during the 1990s, more than double the \$C9.4 billion average in the 1980s. Canada's current account surplus with the U.S., which includes net payments to U.S. investors, was also positive albeit much lower, averaging \$C6 billion annually. Here too, though, it was a lot higher than in the 1980s when the bilateral current account was roughly in balance.

⁹⁰ Ibid.

⁹¹ Despite the dramatic increase in the share of total economic output accounted for by exports, the share of total employment accounted for by exports grew much more slowly, due mainly to the increased imports content of exports. Also there was almost no growth in labor productivity in the export sector. It should also be noted that the proportions of imported inputs in Canadian exports is much higher than the proportion of imported inputs in U.S. exports.

Manufacturing employment bore the brunt of corporate restructuring, most severely in the first wave (1989-93), falling by 414,000 or 20% of the workforce. Wages were flat or falling even in the so-called winning export sectors.⁹²

Unemployment in the 1990s average 9.6% compared to the U.S. rate of 5.8%. This level of unemployment was higher than in any other decade since the 1930s. While average working earnings were stagnant, non-standard employment exploded, as people struggled to cope during the prolonged slump and restructuring.

-“Paid full –time employment growth for most of the decade was almost nonexistent. The absolute number of full-time jobs did not recover its 1989 level until 1998. Self – employment skyrocketed, accounting for 43% of new job creation between 1989 and 1999. Part-time employment accounted for another 37% of net employment growth during 1989-99. More than half of this growth was involuntary (due to the inability of people mainly women) to find full-time work. Temporary work grew from 5% to 12% of total employment during the first half of the decade. Labor force participation rates dropped sharply, and at the end of the decade they were still well below their 1989 rates.”⁹³

One may notice from these results, the increasing on part-time jobs and the decrease on full time jobs. The answer is simple; the full time jobs were divide into part time, in order to employ those who were lay out from their past jobs, so the answer to all that force of unemployment and because the government was unable to create new jobs, those persons were relocated in part time jobs. Another important observation is the participation of women in the market force, many seek for jobs because of the low income at home and the economic situation obliged them to go out and look for non-well paid works.

Evidence that the trade expansion and economic integration under NAFTA have had adverse employment effects in Canada comes from the government itself, in the form of a little-known study commissioned by Industry Canada. The conclusion of this survey was that imports are displacing relatively more jobs than exports are adding. The result is striking. Between 1989 and 1997, 870,700 export jobs were created, but during the same period 1, 147,100 jobs were destroyed by imports. Thus Canada’s trade boom resulted in a net destruction of 276,000 jobs.⁹⁴

With this evidence, is more convincingly than ever that the conventional wisdom propagated by the business and political elite’s (that the trade expansion under NAFTA has

⁹² Campbell, op. cit., p. 43.

⁹³ Ibid.

⁹⁴ Ibid.

meant a jobs bonanza for Canada) is false. On the contrary, trade expansion caused, at least in the first 8 years of free trade, a major net destruction of jobs.

Another aspect was that according to existence of macroeconomics policies whose priority is creating full employment conditions and on the expectations that displaced workers will find other jobs, and that those jobs will be at higher levels of productivity and income is also false.

True, as it was state from another Canadian report that I will expose, on the outcome of NAFTA; many researchers argued that the major problems within Canada was the macroeconomic policy rather than the effects of the NAFTA itself.

As Rodrique Tremblay stated from a survey he conducted, on five analyses of the impacts of the FTA on industrial output and employment in Canada from which three of these five studies show the FTA as a potential source for a small but significant number of job losses.⁹⁵

Supposedly these studies all suggest that the major blame is not the FTA but elsewhere, according to Rodrique Tremblay, stated that what is essential economically and politically in Canada, is to alter domestic policies including new transition programs to assist in retraining those who are caught by the new global pressures.⁹⁶ These experts sustain that:

-“NAFTA will provide more competition for Canadian exporters. Canadians cannot retain negotiated preferential access to U.S. market. The only recipe for them to longer-term Canadian export success is Canadian excellence.”⁹⁷-

Unfortunately, what the experts do not mention is the cost of this so called “Canadian excellence”, who will pay for it, who will be the absolute winners and what to do in the mean time with all those who have lost their jobs permanently?

Thus, according to Tremblay, the major impact on job losses in Canada during 1989-91, was the 55.2 % relative increase in real costs for Canadian manufacturers in the 1986-1991 periods. The recession is the second most important factor. Third is the combination of all other forces as tax changes and free trade. So, increasing the competitiveness of Canada towards the globalized market is the key to improve their economic output, albeit none of the these factors have taken into consideration the social and political dynamic and the impact in Canada.

⁹⁵ Waverman, op. cit., p., 35. In this case Tremblay Rodrique participated in the works of Waverman, although their perspectives are in contra position as it was presented on ch. 3. For more information on this issue please see footnote num., 44 on chapter, 3 p. 30.

⁹⁶ Ibid.

⁹⁷ Ibid.

However, this will be in my view rather a simplistic approach the solely consequence of not solving past economic stagnation is not the cause of the present tremble economy of Canada, but also NAFTA which had done so much to create and accelerate such problematic, for example in the specific case of employment and according to Campbell there are at least three problems:

First, it is not clear that these displaced workers are, by and large, finding higher productivity jobs outside the tradable sector, the jobs they find are likely at lower levels of productivity.

Second, workers both in the tradable sectors and in the economy generally have not seen productivity growth translate into income gains.

Third, and most importantly, macroeconomics policy in the 1990s has lately fallen to around 7%, but this is still far above the 5.4% average unemployment rate for the entire three decades from 1950 to 1980.⁹⁸

The case of Canada can be compare to a certain extent to the case of Mexico, where the most harm economy sector has been the labor market and the decrease in wages. The unemployment rates as in Mexico have increase since the entry of NAFTA. The question then arises, what happens now to the welfare state? what mechanism should the government apply in order to support the majority of the population when there are no income taxes to collect. These among other questions are what the Canadian and the Mexican citizens have in common. The next segment should help to illustrate the conclusions here mentioned.

4. 3. The Impact of NAFTA on income and wages in Mexico:

Before the Agreement was completely signed in Mexico many intellectuals as well as politicians thought that with the NAFTA many of our problems could be solved. Some of these speculations were: The Agreement will have two main economic effects: one is on the macroeconomy, in particular higher growth, a widening trade deficit, the second is on the restructuring of economic activity.

In the macroeconomy, the Agreement produces its main effects via two mechanisms: 1)lifting the rate of investment as producers want to upgrade plant and equipment; and 2) increasing Mexican exports and incomes.⁹⁹

⁹⁸ Campbell, op. cit., p. 47.

⁹⁹ These studies were made according to: Ramirez De la O Rogelio, "A Mexican Vision of North American Economic Integration," in Globerman, Steven, ed., *A Continental Accord: North American Economic Integration*, Fraser Institute, Vancouver, 1991.

-“Given the effect on investment, the NAFTA brings certain economic benefits to Mexico independently of the pace at which it facilitates access for Mexicans exports; but the likely combination of the two effects should result in a higher rate of GDP growth than without NAFTA.”¹⁰⁰-

This is what it was expected to happen, but as I will illustrate the effects that the NAFTA has brought at least to the great majority of the population in Mexico, are negative, the unemployment rate has grown, the interest rate is lower, and GDP has also dropped.

To illustrate this statement let's take a look at the research made by RISEL¹⁰¹ who presented their report on NAFTA's effects:

-“Between 1991 and 1998, the share of workers in salaried¹⁰² jobs with benefits fell sharply in Mexico. The compensation of the remaining self-employed workers, who include unpaid family workers as well as small business owners, was well above those of the salaried sector in 1991. By 1998, the income of salaried workers had fallen 25%, while those of the self-employed had declined 40%. At that point, the average income of the self-employed was substantially lower than that of the salaried labor force. This reflects the growth of low-income employment such as street vending and unpaid family work. After nine years, NAFTA has not delivered the promised benefits to workers in Mexico and few if any of the agreement's stated goals has been attained.”¹⁰³-

The only types of investment that have grown since 1994 are the maquiladora industries, reinvested profits, and stock market investments. Speculative flows of financial capital to stock market investments, in particular, increased, but overall investment in Mexico fell between 1994 and 1999. However, in our present administration the maquiladoras have been dramatically lowered their production, they report that is due to the lack of reforms on the tax collection and to the article 55 of NAFTA, which charges taxes in both sides of the borders.

Another important factor is that maquiladoras exports contain a substantial share of imported components from the U.S. and other countries, reducing the net benefits of these exports to the Mexican economy and its development. Thus, the export growth and the foreign trade performance of the Mexican economy look better on paper than in reality. But even these benefits disappear when total imports are considered. In the long run, this process of economic growth with expanding foreign trade deficits could lead to another major currency crisis similar to the one that occurred in 1994.¹⁰⁴

¹⁰⁰ Ibid.

¹⁰¹ *La Red de Investigadores y Sindicalistas para Estudios Laborales, RISEL*, conducted by: Salas Carlos.

¹⁰² Most workers in Mexico are paid a daily wage, as opposed to the hourly wage paid in the U.S. these workers are referred to in Mexico's statistics as “salaried” or, more literally, “waged” employees. These terms refer to several different methods of payment (both daily and piece-work, for example). Thus, a salaried job in Mexico can be very different from one in the U.S.

¹⁰³ Salas, op. cit., p. 50.

¹⁰⁴ See chapter 3, point 3.3.b. for the case of Mexico.

However, and despite the concrete effects that NAFTA has brought so far, there are certain issues at stake in the debate of NAFTA. One of these is the monopolistic and the oligopolistic position of large Mexican industrial groups. Demand for protection will be loud. The important point is that expanding Mexico's growth potential by allowing greater foreign investment would force a change in the historical alliance of post-revolutionary government with private-sector groups. This is probably the justification for new anti-monopoly legislation which the Mexican government is preparing and which private groups have already started to oppose.

Under the present administration of President Fox, many alliances have been broken due to the support of his administration in reinforcing the NAFTA application in our economy rather than preserving and observing for the national interest.

Migration is another alternative for Mexican workers who cannot find good jobs. Northbound international migration has increased all through the 1990's and the number of permanent migrants, in particular, has been on the rise. The geographical origin of these migrants is very diverse, as many of the new migrants come from regions with no previous history of migration flows to the U.S. At the same time, more migrants are coming from urban areas and are better educated, which provides a stark contrast with the traditional image of rural, illiterate migrants. This shift in migration patterns is another significant indicator of a decline in the supply of good jobs in Mexico, even for well-educated workers.¹⁰⁵

Not surprisingly, unemployment rates are clearly higher for the most educated who have higher incomes and greater savings capacity. But for those at the bottom of the wage scale, being, "employed" does not guarantee an adequate standard of living, especially given the broad definition of what constitutes employment in Mexican labor market. Deteriorating labor market conditions in Mexico have thus resulted in a decline in the quality of jobs rather than increases in unemployment rates, as might be the case in other economies with effective social safety nets.

Thus, the outcome of NAFTA since became part of the national strategy for development has not accomplish what the politicians and the technocrats predicted, the manipulation of the media and the static's try to cover the reality of the neoliberal policy. But despite the political speech the public, live everyday the problematic of such policy increasing the problematic as public security, unemployment, and as consequences the stronger declined of the living standards. What is the chance of Mexico to increase its GDP, and the living standards? Almost none if we continue with this policy and the consequences are getting worse.

¹⁰⁵ Salas, *op. cit.*, p. 55.

4. 4. NAFTA, globalization, and the U.S. economy:

The U.S. economy created 20.7 million jobs between 1992 and 1999. All of those gains are explained by growth in domestic consumption, investment, and government spending. The growth in the overall U.S. trade deficit eliminated 3.2 million jobs in the same period. Thus, NAFTA and other sources of growing trade deficit were responsible for a change in the composition of employment, shifting workers from manufacturing to other sectors and, frequently, from good jobs to low-quality, low-pay work. Trade displaced workers will not be so lucky during the next economic downturn. If unemployment begins to rise in the U.S., then those who lose their jobs due to globalization and growing trade deficits could face longer unemployment spells, and they will find it much more difficult to get new jobs.¹⁰⁶

When trying to tease apart the various contributing causes behind trends like the disappearance of manufacturing jobs, the rise in income inequality, and the decline in wages in the U.S., NAFTA and growing trade deficits provide only part of the answer. Other major causes include deregulation and privatization, declining rates of unionization, sustained high levels of unemployment, and technological change. While each of these factors has played some role, a large body of economic research has concluded that trade is responsible for at least 15-25% of the growth in wage inequality in the U.S. In addition, trade has also had an indirect effect by contributing to many of these other causes. For example, the decline of the manufacturing sector attributable to increased globalization has resulted in a reduction in unionization rates, since unions represent a larger share of the workforce in this sector than in other sectors of the economy.¹⁰⁷

So, although NAFTA is not solely responsible for all of the labor market problems discussed here, it has made a significant contribution to these problems, both directly and indirectly. Without major changes in the current NAFTA agreement, continued integration of North American markets will threaten the prosperity of a growing share of the U.S. workforce. Expansion of a NAFTA-style agreement such as the proposed Free Trade Area of the Americas will only worsen these problems.

Besides, the “problems” that globalization has brought to all, there are other questions that still need to be studied more deeply, this is the case of the regional blocs, which are the answer to our globalized economy as it was exposed in chapter 1, the regional blocs are formed in order to

¹⁰⁶ *U.S. Trade Deficit Review Commission* 2000, pp. 110-118.

¹⁰⁷ *Ibid.*

respond to the negative effect of globalization. But now the question is why do countries pursue greater economic integration, and what happens once these countries gather?

These questions in a way have had been answered along this thesis, however, there are some studies that I will like to add in this segment which I will call as the cultural effects of NAFTA; which are not isolated from globalization.

First of all, I will consider the aspect of the motives for integration as follows:

- 1.- Free trade agreements can be seen as strategic responses to the new realities of globalization and to the emergence of vigorous new trading blocs.
- 2.- By enlarging their trade environment, countries can reap the joint benefits of comparative advantage and the economies of scale.¹⁰⁸

But what happens to our North American area? There are some factors that I shall recall As:

- 1.- The U.S. is energy short while both Canada and Mexico seek energy markets
- 2.- Mexico is technology short; the U.S. and to a lesser extent Canada are technology exporters.¹⁰⁹

Now apart from these factors of why NAFTA exists, and adding all what has been explained in chapter 1, there is another aspect that I have to consider and that is; will NAFTA follow the patrons of the E.U.? and if so, what the outcome may be? Is this also part of the globalization?

If the NAFTA (which I really doubt) will follow into the steps of the E.U. these is what may happen:

First with Canadians, they will find it increasingly difficult to generate domestic policies that reflect Canada's founding values and Canadians values will be eroded and submerged under the weight of the vital cultural and economic influences coming from the U.S.

As for Mexico, the case is rather difficult not only the cultural is quite different from that of the Anglo-Saxon neighbors but also the lack of trust in Americans that has prevail in Mexican history, so the impact of importing the "American way" will definitely find its difficulties in Mexico.

¹⁰⁸ Nevitte, op. cit., p. 33.

¹⁰⁹ Ibid.

One study made by Karl Deutsch¹¹⁰ about this matter is the dynamic of integration that presents the possible outcomes in an integration process as follows:

- 1.- high transactions between people encourage greater similarities in the main values of publics in adjacent states.
- 2.- similarities in main values, in turn are conducive to greater trust between people
- 3.- it suggests that higher levels of trust, encourage greater cooperation and economic integration, and it concludes, to a greater political integration.

Now, if we apply the present characteristics of Deutsch's analysis, into NAFTA the present situation has shown that major integration is happening at the borders, between south of Canada- north of U.S and south of U.S - and north of Mexico. Indeed the people that at the borders have much more similarities with their next door neighbor, however, this phenomenon, could also bring division and disparities inside each nation, the case of Mexico is relevant in this aspect, its northern side seems to be more developed than the south, and the transfer of American culture seem also to be more acceptable by our northern states than the southerners.

However, despite the effects on transculturization,¹¹¹ the question remains on how willing is the public to accept a political integration as that in the E.U? At present the public has respond that they prefer an economic integration rather than a political one.¹¹²

Thus, if we consider the globalization effect in the U.S. most likely the results will also affect the entire northern area, due to this economic ties, but if we pretend to step further beyond economic integration as in the E.U. probably we will be facing more problems especially because of the characteristics of the zone, the culture, the economic disparity among members, and the idea of expanding NAFTA towards the south will only bring more problematic and greater conflicts to solve.

4. 5. The Washington Consensus:

The Washington Consensus is a document made by the technocrats' think-tank of Yale New York, sponsored by the World Bank (WB), the International Monetary Fund (IMF), and supported by the US government. This report was a response of the economic crises in the

¹¹⁰ Deutsch, Karl, "Nationalism and Knowledge," in Groom & Olson, ed., *Structural Approaches to IR*, Harper Collins Publishers, London, 1991.

¹¹¹ The term transculturization is part of the effects of globalization where the major countries tend to preserve and transfer their culture to other nations as the U.S. has done in publishing their "American way" or as is known as the "American Dream."

¹¹² The survey is shown on Nevitte Neil p. 36.

1980s in the Latin American Countries LAC. Thus the Washington consensus is seen as an economic model for the LAC to heal their economic crises. But the model requires: fiscal discipline, liberalization of trade, deregulation of domestic markets, privatization of public enterprises. All what is known now as the neoliberal system that was first pursued by Great Britain under Margaret Thatcher and in the US under Reagan administration. This economic model ignores the changes in government's institutions accelerating economic crises and disparity in the region. I had already emphasized this assumption when I described the situation in Mexico (as mentioned in chapters 3).

Another fact that this economic model also did not take in consideration were the characteristics of each LAC but rather took the region as a whole entity lacking different perspectives and applications in each. The model was been handle by each LAC government ending in a different economic situation for all, bringing more disparity among the LAC many times in terms of regional trade.¹¹³

The supposedly outcome expected from the neoliberal model were: rise in the economic growth, at the same time would have reduce poverty and inequality. The based of this economic growth was, instead of being internal; external growth, in other words, the capital inflows and the export growth were expected to promote the development of labor-intensive- sectors. But instead of reducing poverty and inequality the neoliberalization brought exactly the contrary, as I have presented during this work not only, the neoliberal system has brought its complications but also, the NAFTA itself for the three member states, although the capacity of sustained growth is different in each country, the negative results are bigger comparing with the benefits, speaking of the wealth distribution and the development.

In short the Washington consensus far from been a remedy to the economic crises in the 1980s has followed into another crises but in the mid 1990s. In real terms, the measures of neoliberalization model have been more disparity between social structures, higher rate in poverty, unemployment, low industrialization, over exploitation in natural resources, growth in informal employment, lack of regulations in labor market, financial crises because of free volatile foreign investment, and strong absences of social safety nets, and disappearing of the welfare state.

However, the neoliberal model might be not the solely cause of your problems, the way that has been implanted is also part of this present outcome, the government no longer represent the majority; but rather the economic interest of the MNC's. So, in top of the internal problems

¹¹³ As the economic crises as it was in Mexico in 1994 the so called "Tequila effects" and most recently the case of Argentina.

of governability in each LAC, the economic model has brought or raise the instability not only, in the political level but also, in the economic aspect and the last affected dramatically are the people creating social disorder.

Despite the economic problems that neoliberalization and globalization have brought, I cannot say that everything is a bad scenario. There are some positive consequences, ironically, as a result of the negative effects, people have reacted demanding better and more competitive governments, defense of human rights, in other words, increase of social movements for better standard of living are the cries of millions.

4. 6. Sustainable economic growth and institutional reforms:

Now the outcome of the so-called Washington Consensus has provoked a new perspective and waves of demand for institutional reforms. Although the political-economic of neoliberalization still been applied and sustained by the new government.

Before introducing the regulations of institutions transformations, is necessary to outline the general panoramic of the external effects that have also influence these new economic reforms.

The globalization of national economies has been preceding at a rapid pace in resent years. Merchandise trade flows have grown three times faster than in the last decade, foreign investment has been doubled in developing countries, especially in the new independent states in Eastern Europe, also a growing number of transcorporations places their assembly plants, establish their offices, and sell their products and services across the world. All these trends have affected the LAC, particularly through the liberalization of their trade. Globalization has finds its ways also through technology, increasing the rapid development in capital inflows.

Everything is transforming and developing into a new phase that we still figuring out where will it lead us. Some of the results that have pressure the government's institutions into a democratic transition. This process of consolidation and deeper democracy is receiving significant support from the international community. The end of the Cold War brought global attention to new issues such as, access to justice for poor people, the protection of fundamental human rights, and democratic institutions in general. This development, too, is adding new demands for reform in government institutions.

In sum, globalization and the recent financial crises, structural adjustment, democratization, and the end of the cold war, has opened a new window of opportunities for implementing comprehensive institutional reforms aiming to alter fundamentally the behavioral

incentives for individuals and organizations. These developments have raised the effective demand for institutional reforms and human rights.

We can assume that this is the good side of the globalization. The questioning of the structural adjustment and the civilian power are two of the most significant “progress” that has brought up by globalization. However, the problems continue to rise while the answers to those problems still await.

4. 7. The IMF and The Globalize World:

The following is a speech given in conference of the IMF for better understanding of the global economy, and recommendations for a better trade, especially for the developing countries of the LAC. This speech supports the actual model of neoliberalism. I should concentrate only in the outline of it recommendations. At the end I will compare it with the analysis of this thesis concerning the justification of the economic model and the so called-Globalize world economy. The first “successful” item that the IMF pretends to used as a sample is to minimize the risks of today’s integrated global economy through the promotion of the IMF’s cooperation.

The IMF sustains the situation of the LAC as a better opportunity for development in the region through the continuation of the economic model (neoliberal). The IMF also compares the situations of the LAC ten years ago and emphasizes that the neoliberal economic model is the only way to reduce the negative economic trends of the past models, (i.e. ISI) also neoliberalism promotes democratic reforms, and “more” safety nets¹¹⁴.

In general, what the IMF promotes in the LAC is: macroeconomics stability, democratic reforms, reduced poverty, open market economies,

In order to obtain what the IMF is recommended to the LAC is more transparency, competitiveness, sound democratic institutions, and combat corruption. According to these and the vision of the IMF, the LAC will have a better opportunity to be included in the global economy by attracting more direct investment flows. But only through the neoliberal model.¹¹⁵

¹¹⁴ Nevertheless, the actual situation of Mexico is worse than it was ten years ago. Compare data presented by the INEGI, (Statistic Research Center of Mexico) of economic balance as GDP, per capita, unemployment, the balance of payment and development. Also the results presented in this thesis and the outcome of the NAFTA , as well as the neoliberal economic policies. If I were to make a comparison between 1990 and 2000 Mexico was in a stronger position in the 1990s than it is now.

¹¹⁵ Part of the Conference of the *IMF and Globalized World*, by Kohler, Horst, Ma 7, 2001.

According to the IMF's vision of the global market, the promotion and continuation of the neoliberal model will carry on with the development in the third world countries.

The IMF in order to solve and prevent economic crises the governments should apply the mechanism called the Capital Market Consultative Group (CMCG) strengthens the crisis prevention and resolution.

Another mechanism to prevent further financial crises one-way is following the IMF Contingent Credit Line (CCL).

“good policies are still the best precaution against crises.”¹¹⁶ But as I have explained and analyzed through this thesis, the outcome of such “good policies” are not always “good,” in the sense of bringing what they were meant to; economic growth, reduction of poverty rates, less risky investment and equality and egalitarian system for the citizens in question.

This CCL policies had had affected considerably the foreign policy of Mexico, by supporting certain international policies favoring only those who control most of the capital inflows. As MNC's and the U.S. especially. These result is notorious in the case of Mexico the compensation of the bailout lending system of this financial organization among other actors (USA) has resulted in a deterioration of the foreign policy of Mexico and the lending system agreement with the IMF in 1994 was restricted and highly risky for the people, the citizens were the ones who really paid off the debt, while the financial system was subsidy by the government in order to proceed with the economic model. I have already emphasized this situation in chapter 3.¹¹⁷

The IMF recommended that “committed reformers” should be in charge of the countries' economic policy. If this was the case then the technocrats will be the only winners of each administration and the continuation of the same disastrous economic model will preserve, while the rest of the population will suffer the negative consequences and the only democratic mechanism to prevented will also be mislead or misused. According to democratic standards the only way to pressure the government is through the voting system but the population do not vote for the technocrats, only for politicians. And technocrats have no way to be judge by the public because they do not represent the public interest (sometimes not even the national interest).

Another statement by the IMF in this speech was “to help any country that is willing to adopt the right policies,”¹¹⁸ what they mean by the right policies? The continuation of the

¹¹⁶ Ibid.

¹¹⁷ For more information, see chapter 3, the case of Mexico.

¹¹⁸ Kohler, op. cit., p. 33.

neoliberal model or any other as long as the countries willingly adopt the mechanism imposed by the international financial organism.

Where is the sovereignty of each nation to conduct their economic policies? In this statement the IMF contradicts its own mission, reduction of poverty in countries that do not apply the IMF's "recommendations" will they be helped out by the IMF standards?

Macroeconomics stability, domestic and international financial stability is the precondition for sustained growth and poverty reduction. The IMF presumes to "reduce poverty by opening market access to the poorest countries,"¹¹⁹ again this assumption is similar to the above; what if the poor country does not follow the IMF recommendations?

And last but not least, the IMF strongly support NAFTA arguing that promoting open-market liberalization brings a win-win outcome, the IMF also promotes the Free Trade Agreement of the Americas (FTAA).¹²⁰

Expansion of the international trade has been one of the channels through which globalization has contributed to decrease world prosperity.

The next segment, is a perfect illustration of the structural adjustment sponsored by the Washington Consensus in Mexico. This report was prepared by Equipo Pueblo.

4.8. Structural Adjustment in Mexico:

The Root of the Crisis

The economic and social crisis gripping Mexico today began some thirteen years ago when the Mexican government, confronted with a massive foreign debt, implemented a set of structural adjustment measures promoted by the World Bank and the International Monetary Fund.¹²¹ Those policies, intended to control inflation and generate foreign exchange to help pay off the debt, resulted in increased unemployment, poverty and economic polarization. By steadily tearing away at Mexico's economic and social fabric and particularly at the well being of its small rural and urban producers, these measures set the stage for the economic collapse of December 1994.

Even then, the Clinton Administration, the IMF, and the Mexican government refused to address the failure of the economic model. To the contrary, they designed a US\$51 billion

¹¹⁹ Ibid.

¹²⁰ Ibid.

¹²¹ See, 4.7 in IMF recommendations.

bailout package that, by further entrenching the very policies that caused the collapse, has plunged the country into an economic depression¹²².

The further tightening of credit, suppression of wages, cuts in social spending, and liberalization of trade and financial markets have intensified the decline of local productive capacity, deteriorated the welfare of the vast majority of Mexicans, and increased the country's dependence on foreign capital, imports and markets. Social and political tensions, manifested most dramatically in the Chiapas crisis, threaten to tear the country apart as its economy founders.

Since the onset of the crisis in December 1994, the Mexican stock market has fallen 35% and the peso has lost half its value vis-à-vis the dollar. Annual inflation reach nearly 50% that year. With consumer interest rates at 80%, businesses and individuals are finding it impossible to pay back loans. Nearly two million workers have lost their jobs as factories and other businesses fail or severely cut back production. Sales of basic goods in supermarkets were down by 25%, construction fell by 35%, department store sales have dropped by 40% and sales of new cars are down 67%.¹²³ These were the effects right after the 1994 crisis.

From 1982 right up to the economy's collapse in late 1994, the Mexican government implemented virtually all of the adjustment policies promoted by the World Bank and the IMF: reductions in public expenditures (including social services); elimination and/or targeting of subsidies; tax reform; restriction of credit; privatization of most state enterprises; trade liberalization; devaluation; removal of barriers to foreign investment.¹²⁴ Privatization and deregulation contributed to a steep concentration of income and wealth, a trend that ran counter to the imperative of creating a strong domestic market as a factor in ensuring sustained economic growth. In what analysts term a “trickle up” process, there was in Mexico, a massive transfer of resources from the salaried population to owners of capital, and from public control to a few private hands.

NAFTA frees corporations from government regulations that would constitute a barrier to trade. It permits relatively unrestricted movement of money, capital, goods, and services, while at the same time providing investors and corporations with extensive protection of their property rights.

¹²² This was mentioned on chapter 3, with the debate in the USA about whether it was a loan or a bailout packed?

¹²³ *Equipo Pueblo*, by Heredia, Carlos, and Purcell, Mary, 2000.

¹²⁴ As known as the “Washington Consensus,” see 4.5

Mostly NAFTA it is about protecting corporate ownership and monopoly over the patenting of plants, processes, seed varieties, drugs, and software. The intellectual provisions are just one example of how there is extensive protectionism in this so-called “free trade.” However, this protection applies only to corporations, not to workers, consumers or small farmers.¹²⁵

The next is a sum of what has been happening with some of the key sectors in Mexico, as health conditions, unemployment, production, etc. All in constant threat because of the adjustments and the policies of NAFTA.

Health and Nutrition: One of the first adjustment policies implemented was a drastic cut in public spending. In general, adjustment suggests the cutting of “non productive,” or primarily social, spending so as not to affect output or revenues.

Thus, during the decade of the 1980’s, the health budget as a percentage of overall public spending fell from 4.7% to 2.7%. The World Bank acknowledged in a 1990 staff appraisal report that the Mexican government “...may be under spending on health care,” but because of the need to control public spending the Bank argued that it was necessary to look for alternative sources of financing, “...including the possibility of privatizing health sector activities such as curative services.” The poor who rely on these services are hardest hit by such cuts, since they cannot afford private alternatives. One result was that between 1980 and 1992 infant deaths due to nutritional deficiencies almost tripled to rates higher than those in the 1970’s. In September 1995, the Salvador Zubiran National Institute on Nutrition reported that 80 children under the age of one die each day in Mexico due to malnutrition. With 30,000 such deaths each year, Mexico is near the bottom of UNICEF’s rating of countries efforts to address malnutrition. The only countries with a greater rate of infant mortality are at war.¹²⁶

Squeezing Small Producers: Meanwhile, trade-liberalization and restrictive-credit policies were undermining many domestic small industries and agricultural producers who were unprepared for the dropping of trade barriers and unable to compete with cheap imports. Many of them went out of business or turned into retailers for U.S. manufacturers. This situation has been exacerbated as interest rates have skyrocketed in 1995 and priority access to the limited credit that is available is given to producers with export potential. This credit structure has reinforced monopolies in the Mexican economy and is now devastating micro, small and medium-sized

¹²⁵ Ramírez, *op. cit.*, p. 80.

¹²⁶ Heredia, & Purcell, *op. cit.* p. 60

businesses, more than a third of which have not survived the current crisis. 60% of these smaller enterprises, which historically employ 80% of the country's labor force, have laid off workers in 1994. Even before the peso crash and the bailout program, those who could get credit faced extremely high real interest rates, maintained in an effort to attract foreign investment and prevent capital flight.¹²⁷

Unemployment: the World Bank as a successful example of a country where adjustment has included a real wage reduction in order to prevent massive unemployment had cited Mexico. However, in a 1991 study, the Labor Congress (CT) indicated that, out of an economically active population of 34 million, 15% were openly unemployed, and over 40% some 14 million people were underemployed. According to the United Nations' Economic Commission for Latin America and the Caribbean (ECLAC), Mexico is the rare case in which the economy is marked by an inverse relationship between investment and employment. While the former has increased by 9% from 1992 to 1994, the creation of new jobs went down. Furthermore, every day since January 1995 an average of 7,933 people have lost their jobs. The government only measures urban unemployment, while the problem is thought to be greatest in rural areas. But even by government figures, unemployment has risen by 106% since the start of the Zedillo administration in December 1994.¹²⁸

Declining Wages: Mexico witnessed a steep and continual decline in real wages during the 1980's alongside massive layoffs and high levels of unemployment. By mid-1994, the minimum wage in Mexico was the equivalent of US\$4.42 per day. According to a study by researchers at the Faculty of Economics of the National Autonomous University of Mexico (UNAM), from the initiation of the government's Pact with business and labor in December 1987 until May 1994, the minimum wage had increased by 136%, while the cost of the Basket of Basic Goods had grown by 371%. Official government figures show the minimum wage lost 53% of its purchasing power between 1982 and 1988, another 28% from 1988 to 1994, and an additional 13% during only the first four months of 1995.

Thus, cheap labor and poor enforcement of environmental standards and labor rights have been part of Mexico's comparative advantage and there is no reason to assume that this will change with NAFTA. So, beyond the direct threat of job loss, there is a downward pressure on wages and working conditions in Mexico.

¹²⁷ Ibid.

¹²⁸ Ibid.

Growing Poverty: The World Bank estimates that the number of Mexicans living in poverty grew by an average of 660,000 during each of the past 15 years. The United Nations Population Fund says that the number living in poverty is growing by 1.2 million annually. According to a 1992 study commissioned by the government's primary anti-poverty agency, Pronasol, about one half of all Mexicans lived in poverty in 1990 (42 million) and 18 million lived in conditions of extreme poverty. The study goes on to say that "... if the poverty figures are frightening, their consequences should be even more frightening... Malnutrition has become the normal condition of society..." A recent study by the newspaper *El Financiero* revealed that the intensified adjustment program of 1995 had caused the ranks of those classified as "extremely poor" to swell by 2.193 million by August of this year.¹²⁹

Skewed Income Distribution: Over the past decade, the already large gap between the rich and the poor in Mexico have widened. The richest 20% of the population received 54.2% of national income in 1992, against 48.4 per cent in 1984. The income of the poorest 20% fell from 5% in 1984 to 4.3% of national income in 1992. To illustrate the extreme concentration of wealth and income, the wealthiest Mexican, Carlos Slim, the owner of Telefonos de Mexico, is said by Forbes magazine (18 July 1994) to be worth 6.6 billion dollars. At the other extreme, about 20% of the population (17 million people in extreme poverty) subsist on incomes of less than \$350 per person per year. In other words, the assets of the richest man in Mexico total more than the annual income of the poorest 17 million people combined. Slim is not an isolated case: during the Salinas Administration the number of billionaires in Mexico rose.¹³⁰

The adjustment policies have thus resulted in decreased peasant production and productivity and a further concentration of land ownership. A vicious cycle of descapitalization, low productivity, decline in incomes, deterioration of living standards, and migration is repeating itself. The overall quality of life in the state has deteriorated.

The effects of these policies include; (as mentioned before) a reduction in real income, and purchasing power, an increase in the importance of the informal economy and family labor, an increase in the relative price of many basic goods, and services, and a reduction in the quality of public services while their costs increase.

Declining real wages and job opportunities are the most serious problems faced by families. A central feature of the government's stabilization and adjustment program has been the reduction of real wages, while declining investment, the growing privatization of the economy, and public

¹²⁹ *ibid.*

¹³⁰ *Ibid.*

sector cutbacks (all part of adjustment) have led to fewer employment opportunities. In general, families are working harder and longer for less income today than 12 years ago.

In sum, the economic collapse of December 1994 generated headlines around the world, but the problems associated with the economic course chosen by Mexico were apparent well before then. While the World Bank and the IMF were applauding Mexico's economic performance under adjustment, one half of the population was living in poverty and their ranks were swelling daily.

The removal of government from most areas of economic planning left the future development of the country principally in the hands of the market. This change has helped generate even greater profits for a relative few, but it has not addressed structural problems blocking long-term participatory and sustainable development. The case of Mexico is a clear lesson that success in the achievement of some macroeconomics indicators of "success" does not necessarily translate into the improved social well being of the population. The pursuit of economic efficiency and short-term profits overrode concerns about greater equity, leading to an increased economic polarization of society.

The net effect of the adjustment program on the population groups is extremely negative. Not only has adjustment not contributed to laying the groundwork for an improvement in their standard of living, but also it has threatened their very livelihood. Small farmers have seen the prices of their products go down while the prices of their inputs have increased substantially. Residents have seen prices rise much faster than wages, while social services decline in quantity and quality. Many have been cut out of subsidy programs and forced to supplement family income in any way possible.

What has been lacking throughout the adjustment process in Mexico is a social and economic policy that truly puts people first. Needed in particular is an income-generation policy that more fully incorporates the poor into the national economy. Nevertheless, both the Mexican government and the IMF continues to support an economic program that has more to do with bailing out commercial banks and foreign investors than with addressing the people's needs.

Mexico is one of many cases worldwide where adjustment and the free market have not only failed to alleviate poverty, but have further polarized the country and led to disaster, economic and social. World Bank and IMF officials continued to say (right up to the current crisis) that adjustment's attack on poverty would take time, but, after more than a dozen years of

adjustment in Mexico, things have never been worse than they are today, and there is no light at the end of the tunnel. There must be a point at which these institutions acknowledge that their strategy has failed and needs to be abandoned, and that a new, more democratically determined approach to the country's development has to be taken.

As the beginning of this work, the great question I think up to this point has been answered and with the ample example I have given there is no doubt who are the real winners and the losers, terms that reminds me the scheme of cost-benefits that Bela Balassa applied to integrative processes.¹³¹

However, the key to any cost-benefits analysis is not only to ask simply what the cost and the benefits are but also to determine who will pay the costs, and who will gain the benefits. If a trade deal is to be mutually beneficial, then the winners (those who will gain from the agreement) should be obliged to pay some of the costs of the dislocations and losses to the losers. This has been at least partially incorporated into the E.U. through the principle of compensatory financing. That is, there is a recognition that there will be winners and losers, both among nations as well as within nations among different regions and sectors of the economy. Rather than taking a “trickle down” trade economics approach as is found in the NAFTA.¹³²

In the NAFTA, we already have had a fair amount of experience during the last dozen years with business driven regulations and privatization, and the record to date is not very inspiring. Re-regulation has meant that one groups of people pays the costs while another group of people reap the benefits (that is mostly MNC). I think the majority are losers. So when we were told that with free trade there will be more winners (in fact that is how it was sold to the public) I think it should be clear of what this really means. Working people, small farmers, and peasants will be the bigger losers. They are experiencing lower wages and living conditions.

Definitely, NAFTA has affected the overall social and political context in which public policy decisions are made and it will impose a range of new rules for the development of future policies. The main thrust of NAFTA is to reduce and redirect the role of governments, while enhancing the role of the market. This will increase the pressure on the public sector, public enterprise, and public programs.

¹³¹ For more information please go back to chapter 1.

¹³² There are many different aspects between the EU and NAFTA concerning this problem, for example the EU count with Regional Aid programs, with Free movement accepted by some of its members that make possible the advantage of the integration for all or at least less disparity is seen.

In brief, what has been happening so far is just what the MNC's with the support of IGO as the IMF and World Bank (as I explained on 4.5 and 4.7) wanted a free market with no regulations or intervention from the governments, so the real rulers of democracy are the bigger enterprises which got nothing to do with the welfare state nor with the public.

Concluding Comments

I believe that Mexico should have rejected NAFTA. But despite its acceptance, we need to continue the discussion and education on globalization, economic integration, and trade liberalization. NAFTA represents a corporative vision of the integration of North America, which assumes that all activities must be subordinate to the dictates of commerce and the market.

Yet, opposition to the NAFTA version of "free trade" does not imply isolationism, protectionism, or the rejection of greater economic cooperation. NAFTA represents one model of economic integration, neo-liberal business model that removes barriers to the movement of capital, but leaves workers and governments paying the bill for the dislocation and adjustment costs. It is a way of socializing the costs and privatizing the benefits of globalization. This is not the only way. There are other models of economic cooperation and development.

Here is a brief outline of some of the elements of a very different type of international agreement, one that would have moved in the direction of fair trade and sustainable development. Government representatives with no input from labor and community groups a deal would not secretly negotiate such. A fair trade and sustainable development treaty would actively seek public involvement, not only through the labor advisory committee, (if there is one as in the case of the U.S., but in Mexico shall be the voice of Unions) but also through the creation of other advisory committees for the environment and consumers concerns. Rather than seeing these committees as a hindrance, a more open process could assure that labor, environment, consumer and community concerns (again in the case of Mexico the participation of green political parties as well as non-governmental organizations could work as committee). Rather than seeing these committees as a hindrance, a more open process could assure that labor, environment, consumers and community concerns would be taken into consideration during the negotiations. A more open and inclusive process would make it much more difficult to pretend that such agreements are simply about trade and investment and have nothing to do with communities and civil societies.

A fair agreement would need to include a program of debt relief for Mexico. As the second largest debtor nation in the developing world, debt service payments are a major drain on the country's resources. Under the IMF, and World Bank austerity programs, the Mexican government has been encouraged to keep wages down, to invest in an export oriented growth strategy and to privatize public resources. This has resulted in growing income disparities. The incomes of working people and small farmers need to rise in Mexico if trade is to be mutually beneficial. One way of assisting in this is by assuring that debt reduction payments are reinvested in Mexico through a development fund administered by non-governmental organizations as I mentioned above.

In short, if there is no way out to get out of NAFTA, neither neoliberal model, then at least the government should assure the inclusion of society in order distribute the gains of integration, or at least have some sort of public policy if not similar to the welfare state at least one that takes into consideration those who are left out from the benefits of the NAFTA, and of course a better understanding of the situation of Mexico comparing with its two economic partners which are richer, by re-negotiating some of the key sectors of the treaty (as the energy sector).

CONCLUSION

Widening our Free Trade Agreements will not bring a sustainable economic, social and political development to the countries. The treaty by itself is not the solution to our deepest structural problems.

Now that the transition towards "democracy" and a liberal economic had begun it is time to ensure the national interest where most of the population will really receive part of the benefits, a stronger, more equitable economy requires fundamental changes in the current NAFTA; labor rights; where provisions will need to be made stronger and more enforceable, to prevent employers from oppressing Mexican workers and arbitraging the difference between U.S. labor rules and their weaker Mexican counterparts, these agreements should include provisions on minimum wages, health and safety standards, the right to organize unions, prohibition of child labor, and other measures. Provisions to safeguard labor and environmental standards should be just as effective as the existing provisions protecting intellectual property and other investor interests.

The United States, the International Monetary Fund, and other international institutions and organizations also need to start giving to the Mexican government dramatically different policy advises. Mexico needs to stimulate growth by rising, not lowering, the incomes of its workers. Mexico must depend less on exports as the main source of growth, and work on the development of its domestic market. A substantial increase in Mexico's minimum wage and renewed public spending on infrastructure would help to jump-start its domestic economy. A more progressive tax system, targeting the excess profits of foreign investors as well as the ebb and flow of portfolio capital would help solve Mexico's financial problems.

Also, there must be a process to include trade unions, non-governmental organizations, and other representative organizations in shaping any new trade agreements to emphasize sustainable development. Trade is not an end in itself and must instead be viewed as a tool for bringing prosperity to all, particularly those at the lower end of the economic spectrum.

Future agreements must have enforceable social and environmental provisions that address key issues of respect for worker rights, protection of the environment, and provision for economic development of those people who have traditionally been left out of the benefits of trade (especially emigrant workers, indigenous peoples, and peasant). Without such provisions, national laws will be subverted in a race to attract capital investment by slashing regulations and safety nets.

The framework of market-preserving federalism presented by Barry Weingast can be used to think about federalism in a comparative perspective. Under ideal circumstances “market-preserving federalism” meets five conditions. The conditions include: (1) a hierarchy of governments with a delineated scope of authority, i.e., two levels of government or more with specific powers; (2) the subnational governments have primary authority over the economy within their jurisdictions: property law, civil law, etc.; (3) the national government has the authority to provide national public goods, in particular a common market, and to ensure the mobility of goods and factors across subgovernmental jurisdictions; (4) all governments face hard budget constraints and revenue sharing among governments is limited; (5) there is an institutionalized degree of durability which protects the division of authority so that the delegation of authority is not at the discretion of the national government.

This framework can be seen as ideal from an economic perspective to enhance prosperity as it guarantees optimal incentives for individual states. Throughout history the richest countries have been de facto federalists, including the Dutch federation, Great Britain, and the United States. But meager growth has been a feature of modern Russia and of post-war

Argentina, Brazil, India, and Mexico. In contrast, the United States has managed to meet all of five conditions of market-preserving federalism. It is interesting to ask what happens if any one of the conditions is fundamentally compromised? Since 1937, the second and fifth has been compromised in the United States. Much of Latin America, including Mexico, has experienced disappointing nominal growth. Today, Mexico's de jure federalism has only met condition one. Condition two has been compromised in fundamental ways while condition five has been compromised because of revenue sharing

What Mexico needs to do in order to obtain the most benefits from its trades? The government should go along with transformation with the new globalization and it should include the whole society but first it has to “clean up its home” (that is corruption).

Mexico is experiencing a shift in public policy from a debate centered on “what should we do?” to “who shall decide?” Federalism offers a way of structuring responsibilities and addressing “who shall decide?” Pluralist tendencies in Mexican society have created a need for a new federalism. In its Latin derivation, federalism meant alliance. The new federalism implies a deep transformation of the Mexican State in its legal definition and practice. As centralism is increasingly less efficient, the executive has transferred resources to states and municipalities. The Mexican government remains committed to improving the quality of life for Mexicans in the whole country. Federalism is seen as a means to such an end. Federalism in itself is not the objective. Many Mexicans still believe that economic and political decisions come from the top. Federalism should be seen as a code of values. To have a stable and equitable development, federalism needs to support national unity and look for equity in the spirit of “co-responsibility.” Yet federalism needs to have deep democratic roots so that all of society participates and so that it does not become an imposition from the federal government. Given the entrenched power of caciques in Mexico, federalist measures run the danger of being kidnapped by such local interests. Moreover, many times states and municipalities may not have capabilities to deal with new responsibilities. There is a misconception that Mexico's new federalism is about allocation but it is a broader attempt to create wealth.

As I have also stayed all through this thesis, the main target is to reanalyze and to renegotiate the NAFTA, in order to have the less cost and the most benefits from the Free Trade. The three member states until this date had had not the chance neither the opportunity to the real economic growth that was expected during the first speeches of the free trade, but on the contrary most of the problematic in the economy and therefore the negative impacts in the society are easily seen, especially in chapter 3 if we compare it with chapter 2 where the debate over NAFTA was mostly around the panacea for the economic growth and as an answer to the

regional blocs, and the competition in international trade. Whereas in the second part of chapter 3, the consequences and the results speak for themselves.

Is it surprising to see how the NAFTA along with the neoliberal model have had their negative and damaging effects in the social, economic and even political aspects in the three countries. In one hand, Canada is losing its welfare state and the public wonders when the benefits of the NAFTA are going to start to show, while in the U.S. the public calls for a revision of the NAFTA before the enlargement into the FTAA, in the case of Mexico the economic situation speaks for itself, the population is also demanding a better and more fair economic reforms and a rapid phase to democratic transition.

The problem with the NAFTA and the neoliberal model does not stop in the negative results outlined in this thesis, but the questions persist, for how long should we stand this free trade?, how much more we will have to pay for the sake of the neoliberal model?, how much longer the suffering of the poorest of the population can stand this standard of living? These and other questions are to be resolved in the short term, unless, the civilian power starts to take its own measures in order to pressure their governments as it was the case of Mexico back in 1994 with the Zapatista revolt.

These and many other questions are still not answered and the governments seem not to listen to their voters, pressure groups among other civil organizations are starting to act on its own with their own resources, many of these organizations are creating links to combat the NAFTA as well as the neoliberal model. However, no matter how hard can a group of people may react against, as long as the governments keep the neoliberal system things will not change that easy, but as citizens we have the responsibility to pressure our governments through the democratic mechanism in order to be heard.

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