

## Mexico and NAFTA Expansion

by Luis Rubio

*\*editors note: this article is re-printed from the Brazilian publication Carta Internacional, (John Wirth serves on the Board of Advisors) and with Mr. Rubio's permission.*

Mexico's original journey into a free trade arrangement with the United States and eventually Canada was the result of a primarily political rationale. Though the negotiations themselves, as well as the content of the agreement, are all economic in nature, the objectives that the Mexican government was pursuing had more to do with its search for credibility in the long term permanence of the free-market reforms that had been implemented over the previous half a decade. The Mexican government

was attempting to attract foreign investment into the Mexican economy in order to accelerate the pace of modernization and to rapidly increase the levels of domestic productivity. Once NAFTA was approved and launched, however, developing new markets for Mexican producers and opening new sources of foreign investment became an objective in itself.



Today, five years after NAFTA was ratified, two issues have become paramount for Mexico. The first one has to do with the expansion of NAFTA, for which there is a general provision in the text of the agreement. The second issue has to do with the growing network of trade agreements Mexico has negotiated and aims to negotiate in

the future. Both of these questions are relevant, not least because the Mexican government itself has been attempting to broaden its trading relationships throughout the world.

NAFTA was a watershed decision for Mexico. That agreement entailed not only a tough negotiation on trading and investment issues, but fundamental definitions of where Mexico wanted to go and, not less difficult, defining its age-old love-hate relationship with the United States. Thus, for Mexico, NAFTA was much more than a trade arrangement. As political and economic events unfolded immediately after NAFTA came into being, NAFTA's relevance grew ever more. But so did its detractors. The recent thrust of Mexico's trade policy has been largely aimed at expanding the market for Mexican producers and to attract foreign

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### From Great Expectations to Restraint: NAFTA, Five Years Later

by María Cristina Rosas

The North America Free Trade Agreement (NAFTA) is celebrating its fifth birthday, as is the Zapatista uprising in Southern Mexico. Although the NAFTA certainly merits an in-depth analysis at this juncture, there are a number of lessons that can be learned thus far, both from an economic as well as a political standpoint.

Five years ago, when NAFTA came into existence, the political bantering about its potential positive impacts were widespread. The Mexican government, needing such an agreement with the United States, used unprecedented human, economic and political resources to ensure the ratification of NAFTA. For Mexico, the proposed trade agreement meant that Mexicans could negotiate, at the highest level, a more stable access to an American market that had theretofore been protectionist-oriented. For

Washington, the trade deal with Mexico was a logical step after the signing of the 1989 Canada-US Free Trade Agreement, giving priority to market access for its major trade partners, particularly due to the stagnation of the then Uruguay Round of Multilateral Trade Negotiations of the General Agreement on Tariffs and Trade (GATT).



Even though a number of business organizations, non-governmental organizations (NGOs) and trade-unions of the three North American countries objected to the NAFTA, the Mexican, American and Canadian Governments supported the trade deal and sponsored a wide range of publicity campaigns to promote it, such as when then-President George Bush touted the NAFTA as a major platform of his electoral

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# Editorial

## Continental Expectations

By John Wirth

Serving for five years on the Joint Public Advisory Committee (JPAC) of the Nafta Commission for Environmental Cooperation (CEC) has given this historian a unique opportunity to see globalization in action. This is better than a ringside seat, because I actually am a team player in the ring, helping to specify the links between trade and the environment and then to operationalize the programs that make Nafta, "the first green trade agreement," work. True, given the power of special interests; and the scorn of nationalists and the yahoos who don't want economic and social integration to work; and the clucking of academic "realists" who claim cooperation among such unequal partners as Canada, the U.S. and Mexico cannot work by definition, my colleagues on the JPAC (five from each country) and I sometimes feel quite alone and exposed in this new arena. But from what I have already seen of the changes now under way in North America I am convinced that those saying "thumbs down" to Nafta and the processes it both represents and unleashes are on the wrong side of history.

Nafta is not just about trade; it is also a big umbrella under which a host of conversations and connections, until recently inconceivable, can legitimately take place. The environment is one such area.

Detailed maps of such fundamental things as ground water reservoirs, pollution sources and cultural sites on the U.S.-Mexican border used to stop at the international frontier. For example, in the water department of Ciudad Juárez that part of the map where El Paso lies was literally a blank. Now in the face of serious water shortages, the shared aquifers are being mapped and regional planning to conserve and remediate this fundamental resource is under way. Likewise, Juárez and El Paso have launched the first cross-border air management plan, soon to be followed by

the San Diego-Tijuana metroplex. Meanwhile, along the entire northern border, the long-standing International Joint Commission is implementing a water basin approach to resource and pollution management.

However, despite expectations, the three governments have not yet reached agreement on a Transboundary Environmental Impact Assessment agreement (TEIA), which would for the first time attach community right to know and other safeguards on both sides of the borders to the permitting process in the future siting of industrial facilities. With TEIA in place, long drawn-out disputes such as the Sierra Blanca low-level nuclear waste depository site in Texas, or the coal-fired power plants on the Mexican side polluting into Big Bend National Park could have been avoided.

Trade integration is indeed eroding borders, but the institutions to deal with the environmental consequences of rapid growth still lag continental needs and expectations. In fact, the pace of institutional innovation has been slowed by factors specific to each of the three federal governments. For example, the U.S. State Department legal affairs division dragged out the Paso del Norte airshed agreement for almost two years and has looked upon the TEIA with bureaucratic animus, reducing an issue of national policy--recognized as such by Presidents Zedillo and Clinton in their communique at Merida a few weeks ago--to narrow legalisms. Continental integration fits awkwardly in a foreign policy portfolio.

For their part, trade bureaucrats in the Mexican government continue to assault one of the most innovative aspects of the environmental side agreement: articles 14 and 15 under which citizens have the right to sue their own government for non-enforcement of national environmental laws, and to bring charges before the Commission for investigation. Never happy with the grafting of the environment onto



Nafta, the trade ministry has been warning its counterparts in South America about including environmental considerations in the Free Trade Agreement of the Americas.

In Canada, budget cutting has reduced the federal government's capacity to enforce environmental laws, and to date only three of the provinces have ratified the environmental side agreement. Furthermore, many Canadians have been surprised to learn that their toxic release record compares less favorably to the U.S., the result of laxer enforcement in an economy still dominated by natural resources. Interestingly enough, Canadian as well as Mexican NGOs have made greater use of the non-enforcement provisions of the side agreement than their American counterparts.

And yet, progress is being made. We now understand much better the pollutant pathways of toxics in the North American airshed. Mexico has agreed to cut its use of DDT by 80 per cent, and then to phase it out entirely. For its part, the CEC is now a mature organization and is doing useful work. Despite its small budget, shared equally between the three federal governments, the CEC sits in the middle of some very important issues. If, acting cooperatively, Canada and the U.S.--two rich nations--and Mexico--a developing nation--can deal successfully with the trade-environment nexus there is hope for bridging the North-South divide worldwide.

What we do in the North will also affect the future of hemispheric integration. While teaching at the Stanford undergraduate center in Santiago last fall I was invited to attend the first public session of a new JPAC formed under the new Chile-Canada free trade agreement which is modeled closely on Nafta. Citizens, representing various sectors of the public, now sit on two similar bodies in the hemisphere, each Committee a constituent part of an environmental agreement linked to trade. Nothing like this has been done before.

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## North America and the Pacific Rim

By Michael Pretes

In the nineteenth century, when Canada, the United States, and Mexico were emerging as important nations, the focus of world

commerce—in culture as well as in commodities—was centered in the Atlantic Ocean. North America and Europe were closely tied through commercial, cultural, and political bonds. The cities of eastern North America, among them Montreal, New York, New Orleans, and Veracruz, constituted the primary gateways between North America and the rest of the world.

Things began to change in the twentieth century. The Pacific side of North America, formerly regarded as something of a back door to the continent, began moving towards parity with its Atlantic counterpart. Vancouver and Los Angeles, among others, became world cities. North American attention turned towards Asia in the context of

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both war and trade. Though ties with Europe remain as close as ever, at the close of the twentieth century North America is increasingly moving towards a Pacific alignment. Could the Pacific coast become the perceptual front door of North America?

The growth of the North American west coast parallels the economic and political rise of Pacific Rim nations—especially those in Asia—as their economic and political power continues to expand vis-à-vis the Atlantic centered world. Many North Americans now think of themselves as part of a new region called the Pacific Rim. Yet though understanding North America as part of a larger Pacific community is certainly beneficial, there is a danger of marginalizing or even excluding some of the smaller nations—mainly those outside of Asia—that also form part of the Pacific community. In this essay I suggest that the Pacific Rim is really a misnomer if it fails to link all the circum-Pacific nations as well as the island states lying within it.

### **Defining the Region**

The Pacific Rim is a large and diverse area, comprising a multitude of cultures, lan-

guages, political regimes, economies, and standards of living. The physical geography of the region is also varied. Can such a diverse place constitute a region?

Regions are ultimately self-defined places; if the inhabitants of an area perceive the existence of a region, then that region exists. Historical ties and links are also important. In the Pacific, transoceanic links have an ancient lineage. Oceanic peoples had settled nearly every inhabitable island in the Pacific—and reached the Americas—before the arrival of Europeans. Melanesian, Micronesian, and Polynesian societies had spread over a large area, and a common origin and culture coupled with trade links created an incipient regional identity. Inuit people in the North Pacific also regularly crossed between Alaska and Asia. Later, European culture spread rapidly after the first European sighting of the Pacific in the sixteenth century. Within a few decades of Balboa's first glimpse, the Spanish had de-



veloped an extensive transoceanic trade, with the famous Manila galleons plying the route between the Philippines and Mexico, connecting Asia with the Americas. Russian fur traders also linked the continents. Some sense of a common region in the Pacific must have existed before European arrival; European exploration and commerce strengthened this identity.

The current high level of trans-Pacific trade began after the Second World War. Pacific trade has surpassed Atlantic trade in the United States, while in Canada trade is evenly split between the two oceans. Pacific Asia's trade with North America is greater than its trade with Europe. Trade between the members of Asia-Pacific Economic Cooperation (discussed below), all of which are Pacific Rim nations, constituted more than forty percent of world trade in 1997. While trade links alone do not define a region, they certainly suggest a growing level of cooperation and linkages across the Pacific.

The size and diversity of the Pacific and its rim should not preclude defining the area as a region. In addition to important and grow-

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investors, but also to defend its interests in NAFTA. All of this in an extraordinarily complex domestic political environment.

This essay aims to explain and analyze the politics of trade liberalization in Mexico in the post-NAFTA era. The first section summarizes the political thrust that led the Mexican government to call on the United States to negotiate NAFTA in the first place and describes the interminable question of diversification vis-a-vis concentration that has plagued Mexico's trade (and, for that matter, foreign) relations for decades. A brief second section describes the network of trade deals that have been negotiated over the past four years and the impact of NAFTA on Mexico's economy. The third section deals with the complex political environment in which trade policy is proceeding these days. The fourth part analyzes the ongoing rationale for further trade agreements and the politics of trade negotiations with Mercosur and Chile. Finally, the concluding section discusses the inherent difficulties of negotiating a FTAA in view of the conflicting visions and realities that characterize NAFTA and Mercosur.

1. The political rationale of NAFTA for Mexico.

The decision of the Mexican government to call on the US to negotiate an all encompassing trade agreement in 1989 was deeply political in nature. A few years earlier the Mexican government had launched a drastic shift in economic policy, one that departed away from the fairly autarkic trade and industrial policies of the previous decades. After years of economic stagnation and inflation rates that had threatened to skyrocket during the early 1980's, the new economic policy constituted a radical departure from tradition. The government redefined its role in the economy and society, no longer assuming that its purpose was to run the economy; rather, the new focus would be on creating the conditions for economic growth. Along the way, it became quite clear that it would be impossible to turn Mexico into a competitive nation if it did not succeed in growing its international economic presence. On the other hand, the ups and downs of the previous decades had made it impossible for successive administrations to earn and retain the confidence of the private sector and the investment community, in Mexico and abroad, without which rapid growth would be impossible. By the same token, it became quite clear in Mexico that liberalization alone would not bring about private sector confidence. If the Mexican government was to succeed in consolidating its domestic reforms, it would need credible long term guaranties that

those reforms could not easily be overturned.

Economic reform had proceeded through the 1980's, but enjoyed little credibility in the business community, among foreign investors and in the country at large. The Salinas administration reached the conclusion that the reforms needed a strong political anchor not only to secure credibility for the economic policy, but to make it permanent. Once all domestic options proved to be inadequate to attain the stated objective, the United States, a quasi historical enemy, was identified as the only potentially credible source of permanence for the country's reforms.

Negotiating NAFTA entailed a profound transformation of some of the country's key power relationships, as well as deeply held myths. By the time NAFTA's negotiations were launched, Mexican politics had already begun to experience deep convulsions. The economic reforms that had been undertaken since the middle of the 1980's had fundamentally altered the equation on the basis of which Mexican politics rested. The old arrangement that had secured political peace since the 1930's -based upon loyalty and discipline of all political forces to the president in exchange for access to wealth (i.e. corruption) and to power- was

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rapidly unraveling. Import liberalization and deregulation had increasingly stripped the government of its ability to guarantee access to wealth, while rapidly growing electoral competition threatened the PRI's monopoly. NAFTA would constitute the unavoidable signal that those reforms could no longer be rolled back.

In launching the economic reforms the governments of de la Madrid and Salinas had taken a daring, albeit calculated, risk. Their aim had been to shore up the political system through a revitalized economy. The threat they were responding to was the potential unraveling of the political system as a result of economic collapse. They reasoned that the political status quo could be saved by restructuring the economy. From this perspective, the economic reforms were deeply political in nature. This circumstance also explains why there was no political reform launched in parallel and why there remain so many contradictions in the way the government protects various interests in the parastatal sector and elsewhere, many of which have hindered a full fledged economic recovery.

Seen in retrospect, it is all but obvious that the status quo would not be saved by a strengthened economy. Economic liberalization and deregulation lifted countless, often less-than-obvious mechanisms of political control; this, on top of years of economic crisis, freed all sorts of political forces, many of which were already active before. By the late 1980's Mexico's politics were extremely active and increasingly polarized. Whether the two initial reformers - de la Madrid and Salinas- had calculated this turn of events is impossible to tell, but even if they did not, the mere fact of having created the conditions for strengthening the economy had already begun to develop new political constituencies for reform.

The NAFTA decision also undermined deeply held myths, particularly those having to do with the United States. Economic integration with the United States was not an easy decision for the Mexican government. The uneasy historical relationship with such a powerful neighbor had imprinted profound suspicions among Mexicans, and the post revolutionary administrations had exploited those suspicions to maintain domestic political control. The result of said process had been twofold: on the one hand, rhetoric had led successive Mexican administrations to pursue a diversification of trade. On the other hand, reality had been imposing its terms: trade with the US had been concentrating, accelerating, and deepening. Decades after the policy of diversification had been announced,

trade was much more concentrated than it had ever been. Furthermore, the border was ever more characterized by a process of "silent integration" that no government could easily revert.

Those two traits -rhetoric and reality- had created unique attitudes among Mexicans. First, there had been some sort of collective amnesia about the nature of exchanges taking place along the border, and of the potential long term social and political consequences of that. There was no lack of academic awareness of the issue, nor was there business ignorance of the advantages or potential of the region, but that did not mean the government was about to heed reality. Second, the willingness to ignore the obvious reached amazing extremes. During the 1982-1988 administration, for instance, 50% of all new jobs that were created in the country overall, were provided for by in-bond, maquiladora plants along the border. Yet, nothing was done to strengthen the industry, to expand and upgrade the strained infrastructure of the region, or otherwise to further tap a source of enormous potential. (It is important to note that the maquiladora regime will end in 2001 when the duty drawback provision that gives it life will be terminated, as agreed within the terms of NAFTA).

The government's reaction to changes taking place along the border was well in accordance with an equally important national reality. Mexico has debated with itself, since its independence early in the 19th century, on whether to increase the relationship or to maintain a prudent distance vis-à-vis the United States. Despite the purposeful use of history to the benefit of some special interests within the political bureaucracy, it was impossible to ignore or deny some hard facts about the territorial expansion of the United States during the 19th century, often at Mexico's expense. In fact, Mexico's foreign policy was built around the notion that the United States constituted a permanent threat to Mexico's sovereignty. Hence, although several administrations had in fact held close ties with the northern neighbor, most governments had opted for a purposeful distance that would guaranty the country's sovereignty with the rationale that it was better to be poor than subjects of a foreign power. In fact, for decades, one government after another pursued a diversification of trade as a matter of almost national security. Rather than expanding trade with the United States, Mexican governments were looking for ways to diminish the relative importance of the United States in Mexican affairs.

In sum, after decades of serving the interests of a relatively small cluster of political

and industrial groups, economic reform represented a transcendental break with the past and a redefinition of political alliances, as well as of the constituencies sustaining the governing coalition in power. The cement that held this coalition together was the expectation of economic recovery and a distribution of the benefits among the coalition partners, which included large segments of the middle classes and of the ascendant "popular" classes, including most of the working class, business and exporters. For all these groups, the free trade agreement constituted a guarantee of the permanence of economic reform and, accordingly, of the viability of this coalition. Furthermore, a free trade agreement could serve to depoliticize economic reform, as the latter became, as it were, "sunk in concrete".

NAFTA, therefore, was sought as political insurance for all of the groups involved in the governing coalition. It provided a guarantee to the business sectors (both foreign and domestic) that were expected to bear enormous responsibility for bringing about economic recovery and to Mexicans at large that any future government would have no choice but to pursue the path of reform in order to attain a higher stage of development. NAFTA was meant to be, above all, an instrument to depoliticize the economy and, thus, to strengthen the path of change. History has so far been true to that, but not in too happy a fashion.

## 2. NAFTA's first few years.

NAFTA was inaugurated on the very day that the Zapatista army showed up in the southern state of Chiapas. That opened up the most violent year in Mexican politics since the end of the Revolution in 1917. The year included two major political assassinations, kidnappings of major businessmen, threats of resignation by key government officials and, last but not least, a devaluation of the Mexican peso that reverberated around the world. None of that, however, significantly altered the course of economic policy or, much less so, of the country's trade policy. NAFTA began to prove its worth -and strategic relevance- much earlier than anyone had anticipated.

There's no question that the foremost non-economic impact of NAFTA has been that the overall trading regime and economic policy framework were kept virtually intact, despite the political and economic circumstances of 1994 and 1995. All previous crises had led to a change in policy. NAFTA had become a straight jacket that forced the government to stay the course, despite the instincts of some major officials

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and endless cries by opposition parties and small businessmen.

But the process of political change of which NAFTA is an integral part has itself also been experiencing an extraordinary transformation. Whereas elections were always bitterly disputed, today everybody in Mexico sees elections as the normal way to select who is going to govern them. Though many Mexicans disagree with NAFTA and blame it for all sorts of ills, there is hardly a question that NAFTA has been a critical factor of political change.

Change has also been brewing elsewhere. NAFTA has had an extraordinary impact on Mexico's trade. Total trade between Mexico and the United States went from 89.6 billion dollars in 1993 to 176.71 billion in 1997 and an estimated 188 billion in 1998. At the very outset, the United States held a trade surplus of five billion dollars, which turned into a deficit of more than twelve billion dollars after Mexico's 1995 recession. The figures for 1998 are likely to show a declining Mexican surplus of about eight billion dollars. More significant than the aggregate numbers is the fact that Mexico's manufactured exports have grown dramatically, representing more than 80% of the country's exports.

Despite NAFTA and its dispute settlement mechanisms, several trade conflicts have proven impossible to resolve. The most notorious have to do with tomatoes, avocado and free transit for Mexican trucks inside the United States. Other conflicts include parcel delivery in Mexico, cement and steel.

Five years after NAFTA was ratified, Mexico has also signed a vast array of free-trade agreements. Save for an agreement with Chile, that preceded the NAFTA negotiations, all of the others were made to be NAFTA-compatible. These include agreements (or ongoing negotiations) with: Bolivia, Costa Rica, Venezuela, Colombia, El Salvador, Honduras, Guatemala, Jamaica, Nicaragua, Panama, Ecuador, Peru and Trinidad Tobago. Negotiations with the Mercosur nations have had a complex dynamic that transcends the trade arena, as is described in section four. In addition, Chile and Mexico renegotiated, expanded and updated the original agreement to both make it NAFTA-compatible, as well as to include not only trade in goods, but also safeguards, services and intellectual property. This agreement is awaiting legislative approval in both countries. Needless to say that, while politically Mexico would have neither problems nor objections of any kind to adding Chile to NAFTA, its inherent eco-

nomical interest clearly lies in maintaining NAFTA as is, as long as possible.

3. The political environment surrounding further free trade negotiations.

While NAFTA has been a resounding success in advancing each and every single objective that was pursued, its political fallout has been largely negative. From a strictly analytical perspective, NAFTA has been immensely successful in integrating Mexico's economy with both the US and Canada, in attracting investment, in increasing overall trade and in institutionalizing the Mexican economic reforms. However, it is not a popular trade pact in either Mexico or the United States, albeit for different reasons. Both the extreme politicization that the American unions forced upon the ratification process in the US and the Mexican economic collapse of 1995 turned NAFTA into a political outlaw inside the US.

In Mexico, NAFTA is less unpopular than it is in the United States, but it is nonetheless seen as the cause of all sorts of ills. In analytical terms, NAFTA has affected a very small number of Mexican producers, most of which are in agriculture and live stock. However, Mexico liberalized imports only a few years before NAFTA was negotiated, a fact that has led to severe confusions about what impacts are due to NAFTA and which to overall trade liberalization in a worldwide scale. Free trade in general, totally unrelated to NAFTA, has badly hurt a vast array of firms and industrial sectors. Imports from China, Taiwan and, in general, Asia, have had a severe impact upon various industries: from toys to garments, fabrics and machine tools. Most Mexicans do not differentiate liberalization of imports in general (which took place only in the second half of the 1980's) and NAFTA in particular. Politically, NAFTA is seen to be at the root of the current troubles of a large part of Mexican firms.

Behind the politics of these issues lies a complex process of adjustment and non-adjustment to import competition and globalization. Though the Mexican economy as a whole has succeeded in dramatically raising its level of exports and successfully competing against imports, the number of firms that have actually turned around is not larger than fifteen thousand, out of a universe of more than one hundred and fifty thousand industrial firms. Firms that export, grow, compete and thrive are both small and large, operate in any number of sectors, and often develop their own technologies. Also, very important in the current Mexican environment characterized by the weakness of the banking system, all of these firms enjoy access to foreign credit.

Firms that have been left behind are typically characterized by poor entrepreneurial leadership, lack of understanding of the changes that have taken place around them, lack of access to credit, and are often burdened by old debts. Most of these firms grew and developed under the protection of a policy that barred imports and subsidized domestic production, a situation which they have been unable to transcend.

The successful firms account for up to 80% of industrial production, even though they are a minority in absolute numbers; they also tend to concentrate in the center-North, North and West of the country. Most of the unsuccessful firms are concentrated in the political heart of the country, a wide area around Mexico city. Those firms compose a segment which concentrates about 70% of the of the industrial labor force of the country. Hence, even though their economic relevance has diminished, its political importance is extraordinary. Despite the fact that these firms are ever less significant in economic terms, their political relevance and clout is often extraordinary, particularly now that the main opposition parties are looking for ways to exploit the government's failures in the economic arena.

Most of the successful industrial firms are deeply involved in NAFTA, have developed networks to distribute their products or have established long term arrangements with American or Canadian producers and/or distributors. Their productivity levels closely match those of their American competitors or partners. The opposite is true of the firms that have stayed behind: they have become ever less competitive and more vulnerable to import competition, changing technologies and overall modernization.

The growth of foreign investment has further added to the process of economic change in the country. NAFTA has turned Mexico into a secure sourcing arena for American and Canadian corporations, many of which have established themselves in various Mexican states. One indicator of the importance of this source of investment can be seen in the fact that several Mexican states -from Aguascalientes to Chihuahua, Queretaro and Guanajuato, and so on- enjoy today a labor market characterized by virtual full employment. This in stark contrast with other regions of Mexico which suffer double digit levels of actual (as opposed to legal) unemployment. This fact lies at the core of the ongoing squabbles about the government's economic policy in general and NAFTA in particular. The vast disparities in economic performance throughout the country make for an exceptionally fer-

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tile ground for political controversy and partisan activism.

Despite the latter, no political party seriously -as opposed to rhetorically- disputes the need to pursue a policy of economic integration into the world economy. The dispute that surrounds NAFTA has as much to do with Mexico's peculiar historical relationship with the US as with the ideological leaning of many of NAFTA's critics about closer integration with the US. But nobody disputes negotiating trade pacts with countries to the South or, for that matter, with Europe. More important, the number of states, people and corporations that increasingly benefit from NAFTA and foreign investment is such, that is has become a strong constituency for continuity that is far more coherent than any one opposed to such a course.

#### 4. The rationale -and inherent complexity- of trade negotiations with Mercosur.

Though the roots for Mercosur are historical, it is probably not unfair, nor too exaggerated, to say that the fact of NAFTA coming into being was a prime catalyst for Mercosur to be propelled into life. Thus, inevitably, more than economics lies at the heart of the implicit rivalry that characterizes the two blocs. A little history is hence key to explaining the inherent conflict that makes it difficult to advance and deepen a trading relationship.

To begin with, NAFTA is a potent source of both disdain and envy. Most nations in the southern part of the hemisphere would like nothing more than to enjoy Mexico's access to the largest market in the region. Thus, paradoxically, while Mexicans often bicker about NAFTA and some of its political parties threaten to renegotiate it should they ever lead the government, other Latin American nations stand in line to join in.

For years, Mexico was at the front, leading the charge in liberalizing its economy and negotiating trade and investment agreements to rapidly modernize the economy. Various layers of technocrats recognized the urgency to open up markets for Mexican producers and attract investment in order to increase productivity, as a means to create new jobs and better salaries. There was no lack of vision or technical wisdom. However, it is clear in retrospect that the Mexican technocrats ultimately failed to develop a political consensus behind their thinking and actions, nor did they develop a power base to sustain those policies in place. Their long term success today depends largely on

the speed with which the beneficiaries of those policies develop a constituency on their own and turn it into an effective political force.

The situation was different in other nations, above all in Brazil. The Brazilian government did not take Mexico's negotiations with the United States and Canada lightly. On the contrary, it saw it much more like an affront against its interests. Brazilians had always seen themselves as a continent in itself, and the leading economy among the Latin American nations. Mexico's decision to negotiate NAFTA was seen as a challenge to their leadership in the region. Their reaction was to organize a trade agreement with its three neighbors -Argentina, Uruguay and Paraguay- in order to develop a front of four or more nations in the future to negotiate, as a group rather than as individual nations, with the United States.

Structurally, the Brazilian and the Mexican economies were very similar at the end of the 1980's. From this perspective, the Brazilians perceived that NAFTA constituted an extraordinary competitive advantage for Mexican producers and thus, in their view, a competitive disadvantage for their own. The success of Mexico in dramatically increasing its manufactured exports within the framework of NAFTA has further deepened the feeling of envy and disdain.

It is in this context that two parallel negotiating agendas are gradually advancing (or stalemating) in the region. One has to do with Mexico and the Mercosur nations and the other with the proposed Free Trade Area of the Americas (FTAA). The old general agreements of preferences that linked most Latin American nations under the umbrella of the ALADI (Latin American Integration Association) have been gradually replaced by formal, NAFTA-compatible, trade agreements. Negotiations with the Mercosur nations have been advancing very slowly. According to Article 44 of the ALADI charter, Mexico owed the other members compensation for the benefits it accrued as a result of NAFTA. Mexico and the Mercosur nations agreed back in 1994 that compensation would not be either automatic nor universal. They also agreed to negotiate a general agreement with the Mercosur nations to replace the bilateral treaties that existed before Mercosur came into being. The objective was to equalize tariff rates and thus avoid (in their view) undue preferences for Mexican producers that today enjoy lower tariffs to access in some of the Mercosur partners.

Mexico proposed to negotiate a NAFTA-like agreement with Mercosur, but was turned down, largely because the Brazilians

saw any deal with Mexico as precedent setting for future negotiations with the United States. In addition to this, other issues loom high in the Brazilian decision not to negotiate, including the question of leadership, their own difficult macroeconomic situation and the fact that many Mexican producers have become world class. The result was an attempt by Brazil to eliminate an ever increasing number of sectors from a potential trade deal and, thus, a halt in the negotiations. In the meantime, successful negotiations have been virtually completed with Argentina, Uruguay and Paraguay on the old preferential agreements. So far, the old arrangements have been renewed every year, but a NAFTA-like agreement could be a possibility as well. The question today is whether any of those nations would be willing to sign a deal, even if temporary, independent from Brazil (the first time such a thing would happen).

Behind the complexity of the Mexico-Mercosur negotiations lies a fundamental difference in the nature of the southern and northern trade blocs. The objectives that underlie each pact could hardly be more different. The same goes for the structure of the documents and the dynamics of each set of nations. NAFTA is an objective in and of itself. The NAFTA nations share precisely the same objectives and they have spelled them out in detail. They do not aim to reach political integration nor go beyond economic integration. The implicit strategic objectives that dwell behind NAFTA are perfectly clear to the three signing partners. Furthermore, everything in NAFTA is specifically detailed in documents that add more than two thousand pages, which include institutions, rules of origin, rules of behavior, settlement of disputes, an investment regime and a general provision to incorporate new members. Most important, the NAFTA partners have very limited and specific objectives and do not aim to expand them beyond the trade and, in any event, the economic arenas.

Almost the opposite is true in Mercosur. The four initial Mercosur partners aim to build a deeper relationship, much more along the lines of the European Union. The timetable they have set reflects priorities that are different from sheer economic integration. The documents that they have developed are general in nature and do not contain detailed definitions of what is acceptable and what is not in terms of trade. The process for them is ongoing and has no time limit. There are few institutional definitions and no dispute-settlement procedures. Because of its nature as a customs union, there are no rules of origin or other similar trade instruments. In addition, the

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original unspoken aim of Brazil to build a front to eventually negotiate a deal with NAFTA (or the United States) as a group makes Mercosur a means toward a further end, that is not necessarily shared by all four members. The fact of Mexico being part of NAFTA poses such a challenge to Brazil, that its negotiations with Canada and the United States had the effect of triggering Mercosur in the first place. But above all, Mercosur aims to attain a much broader and deeper integration among its members, reflecting a fundamentally different view of the world. The question is how these two groups can come up with a compromise to further the cause of economic development on a continental scale.

It is not self evident that a trade agreement will be reached between Mexico and Mercosur. The rivalries are deep and complex, as are the economic realities. More important, Brazil perceives that any arrangement with Mexico inexorably constitutes a concession to the United States in any future negotiation. Given the shaky situation of the Brazilian economy at present, the odds are that a general deal will be left wanting.

Negotiations with the European Union fall into an altogether different area. Though Mexico obviously seeks access for Mexican goods into the European Union, attracting investment constitutes a fundamental and equally important component of those negotiations. Conceptually speaking, a trade arrangement with the European Union falls just behind NAFTA in order of importance, albeit with two fundamental differences. One is that there is virtually unanimous political consensus in Mexico as to the need to negotiate such a deal and, not less important, the emotional and historical drawbacks that characterize any formal dealing with the United States are totally absent. The other is that the European Union has normally negotiated trade agreements that do not include rules for investment, which is not only a prime objective of Mexico, but a crucial component of NAFTA. Mexico has signed agreements on investment with several European nations but it is not clear at present how (or whether) those will be incorporated into the final negotiations. The variety of issues and the non-economic components (particularly those related to democracy and human rights) that will be included in the negotiations will undoubtedly pose severe challenges to both sides. Yet, in stark contrast with the NAFTA negotiations, the stakes for Mexico in this instance will be far smaller.

5. Conclusion: does a FTAA stand a chance?

The inherent conflict that compounds ongoing negotiations between Mexico and Mercosur are indicative of the difficulties that lie ahead for continent-wide negotiations on trade. Presently there are far too many objectives in the FTAA negotiations and very little substance. Since the negotiations have been scheduled to end by the year 2005, no country has the slightest incentive to advance any concessions until the very last minute. In addition to that, there are several major sources of uncertainty that make it impossible for those negotiations to advance any time soon. Among these, two are particularly important: one is the fact that within the next twenty four months all major nations in the hemisphere will have elected new governments. The other is whether the US government will enjoy fast-track trading authority from the Congress, without which no final deal is conceivable.

But beyond the immediate general difficulties, the complexity that a continent-wide deal entails is daunting. The logic of power suggests that any deal that might end up being negotiated would look rather more like NAFTA than Mercosur (or, for that matter, the European Union). But accomplishing it is much easier said than done. Politically, however, it will be necessary to find a way to encompass the nations of both NAFTA and Mercosur in a way that does not appear that either has triumphed over the other.

While politically difficult, NAFTA's point of departure was an easy one. After all, both Canada and Mexico already traded more with the United States than with anyone else. This might appear to be an irrelevant point, but it becomes critical when negotiating critical components of NAFTA, such as the rules of origin. These rules were no big deal in North America because Canada and Mexico were already heavily supplied by American firms. With the possible exception of some Caribbean and Central American nations, that wouldn't be true of Chile, Brazil or anyone else in the hemisphere. Elimination of those rules does not appear likely in the foreseeable future. In this context, it is not inconceivable that the Caribbean Basin Initiative may be given NAFTA parity in the future (an action that would threaten Mexican producers, particularly in the garment industry).

From Mexico's perspective, the broader the market opening the better, with the obvious exception that it would rather hold on to its NAFTA advantage as long as possible. The driving force behind additional trading deals has been the government, but with strong support, even prodding, of the new breed of successful industrial firms that have not only understood the benefits of

NAFTA-like deals, but have become deft at exploiting their advantages. In this regard it is the successful Mexican companies that will not let go; unsuccessful firms are rather marginal in ongoing trade negotiations. There is no question that Mexico will continue to pursue trading agreements, particularly with smaller economies that offer a potential market, without the emotional and political components that are intrinsic to the relationship with Brazil. The same goes for investment-driven negotiations, like the one with the European Union.

Just as Mexico represents a challenge for Brazil, many Brazilian goods pose an important threat to Mexican producers. NAFTA does in fact constitute an extraordinary competitive advantage and Mexico would rather push any major competition further into the future, particularly that coming from mighty producers, such as Brazil's. This, in the context of the US Congress' unlikely willingness to act on NAFTA-expansion anytime soon, virtually guarantees the status quo for a long time to come. In any event, since a date has been set for the FTAA to be finalized (2005), no country will negotiate anything substantial until the very last minute.

If the technical obstacles are enormous, the political ones are extraordinary. For a FTAA to become conceivable and actually be negotiated two things must happen. One is that the world economy regains a capacity to attain reasonably high rates of growth. Rates high enough to sustain US exports at a high rate of growth, thus diminishing opposition inside the US. Also, rates high enough for all the Latin American nations to begin to enjoy the benefits of free trade, thus dismantling the wide and deeply held suspicions that today make further liberalization so difficult. The other condition is for NAFTA itself to become politically successful, thus surmounting its current status as the easy whipping boy of every politician in the US and his mother in law.

The history of the Canada-US Free Trade Agreement suggests that overcoming the current hostile environment to NAFTA is neither impossible, nor should it take too long to accomplish. The latter notwithstanding, the interests that the FTA affected were far fewer and less politically driven than those undermined by NAFTA in both the US and Mexico. Thus, that is a story yet to be written.

*Mr. Luis Rubio is a political scientist and Director of the Centro de Investigación para el Desarrollo de México (CIDAC)*

(Continued from page 1, **NAFTA– 5 YEARS**) campaign and presented it at the National Republican Convention as one of the most important achievements of his administration. Later, in 1993, Vice President Al Gore compared Mexican access to the NAFTA to the United States purchase of Alaska from the Russian Empire in 1867. This unfortunate comparison revealed the importance of the NAFTA to the United States.

During the first year of the NAFTA, euphoria (*naftaphoria*) ruled in the three countries, so much that in December, President Bill Clinton invited 33 Presidents and Prime Ministers from all the Western Hemisphere nations to meet in Miami for the so-called Americas Summit, where, among other things, it was announced that by year 2005, the continent would be a Hemispheric Free Trade Area (HFTA). However, a few days after the summit, Mexico was racked by a severe financial crisis which, in effect, tempered the US desire for the HFTA.

The Mexican financial crisis of 1995 makes it difficult to measure the impacts of NAFTA. Some blame the North American agreement for the financial disruption, though in many respects this is an exaggeration. NAFTA is an extension of the economic reforms carried out by Mexico since the end of the Miguel de la Madrid administration and through the Carlos Salinas de Gortari government, but it is not reasonable to blame NAFTA for all the problems that Mexico faces. According to some analysts, without NAFTA, Mexico would have never been able to receive the 51 billion dollar financial rescue package sponsored by the United States in 1995. Here is another exaggeration of the role of NAFTA; the bailout package may have succeeded regardless of NAFTA, given the United States' growing interdependence with Mexico.

By 1997, a year of presidential elections in the US, NAFTA had virtually disappeared from the electoral agenda. President Clinton had not been able to get from Congress *fast track* authority, in order to negotiate trade agreements with the countries of the Western Hemisphere to make the HFTA a reality. But it is clear that Clinton feared the criticism from his political rivals on NAFTA and Mexico, who would have likely argued that the benefits of the trade deal were almost nonexistent. It should be

remembered that in 1994, Mexico still maintained a major trade deficit with respect to the United States, and that by 1995, the financial crisis had changed the balance, making it possible for Mexico to enjoy a surplus, at least for a couple of years, at the expense of the US. For many years, free trade advocates in Washington argued that bilateral free trade agreements were a way to overcome the trade deficit that the US maintains with most of its partners. Today the US current account deficit with the world is on the order of \$300 billion dollars.

To be sure, it should be mentioned that the North American trade agreement has increased trade among the three countries in a very important way, and particularly in Mexico. At the time when the NAFTA came into effect, Mexico was the third largest trade partner of the US, but has since advanced to become the second largest partner (displacing Japan), behind Canada. The Mexican Ministry of Trade considers that in ten more years, with the completion of the NAFTA goals and objectives, Mexico could potentially become America's biggest trading partner.

Nevertheless, expanding trade relations between Mexico, the US and Canada do not signify the dissolution of trade disputes. Among Mexico and the United States there are a number of trade disputes that existed prior to NAFTA and which today remain unsolved, such as the tuna embargo promoted by the US government and the anti-dumping measures imposed against Mexican producers of cement. With the inception of the NAFTA, other disputes have developed, involving trucking, tomatoes, brooms, to name just a few. These dumping and anti-dumping accusations continue. In this respect, the NAFTA has done little in the promotion of a more rational, predictable and reciprocal environment among its partners.

One of the most interesting achievements of NAFTA is the mutual re-discovery between Mexico and Canada, two countries that have ignored each other for a long time. For political and economic reasons, however, the links between the two nations have not increased enough to counter unilateral and arbitrary initiatives of the United States such as the *Helms-Burton Act*. Trade among Mexico and Canada is increasing, but is far

from counteracting the American dominance of both Mexican and Canadian economies.

On the other side, the NAFTA has not brought about the expected levels of cooperation in non-trade related areas. On the contrary, confrontation seems to rule, often at the expense of Mexico in the areas of drug-trafficking, undocumented migration of Mexicans to the US (and human rights abuses perpetrated by American authorities), and environmental degradation. Thus, despite Mexico's trading status with the US, it is nevertheless designated by Washington as a "drug-trafficking country" that does not cooperate to fight drug lords. At the same time, Mexican undocumented immigrants in the US are exposed to a number of abuses, and the American authorities are developing anti-immigration policies in an attempt to thwart potential immigrants. To the Mexican public, these actions portray the US as a country that stands for confrontation and carries a big stick when it comes to dealing with non-trade related issues of the bilateral agenda, all the while continuing to embrace Mexico in the trade arena.

Thus, NAFTA has not contributed to a better understanding of Mexico in the US, and of Americans in Mexico, nor has it been able to promote a framework for cooperation among the two countries. Instead, it has exposed the growing asymmetries between Mexico and the US, and between Mexico and Canada, asymmetries that were hidden five years ago by the NAFTA hype that was promoted by the three countries. Today it is clear that Mexico, Canada, and the US must enter into the dynamics of a *new regionalism* approach, where better knowledge and understanding about their aspirations and achievements could contribute preparing North America to face a challenging 21<sup>st</sup> century.

*Ms. Rosas holds a PhD. from the National Autonomous University of Mexico and is currently a professor of International Economic Relations at the Center for International Relations, UNAM.*

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(Continued from page 3, **PACIFIC RIM**) ing trade links, the Pacific Rim nations are united through patterns of migration, transportation, cultural interaction and blending (of which Pacific "fusion" cuisine is but one example), tourism, and political and eco-

nomie change, as well as a growing sense of Pacific Rim identity.

#### **Building the Pacific Rim**

Formal institutions in the Pacific have solidified many of the informal ties noted

above. The two most notable of these are the Pacific Economic Cooperation Council (PECC) and Asia-Pacific Economic Cooperation (APEC). Though these two institutions have an overlapping membership, and

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(Continued from page 8, **PACIFIC RIM**)  
have close ties to each other, they nevertheless operate as two separate bodies with differing capacities and functions.

PECC is the older of the two institutions, having been established in 1980 at a meeting in Canberra, Australia. Members of PECC consist of private individuals from business, government, and academic circles, and represent 23 member countries in Asia, North and South America, Australia, and Oceania. PECC's purpose is to serve as an "independent, regional mechanism to advance economic cooperation and market-driven integration." The council functions as an independent forum for policy coordination and the promotion of economic development by building trade, transport, and communication links, and through joint ventures and the development of human capital. PECC acts in an advisory capacity to other international organizations and agencies, including APEC. It convenes a general meeting every two years in addition to more frequent standing committee, task force, and project meetings on specific topics. The council's secretariat is based in Singapore.

The second major regional institution, APEC, was founded in 1989, building upon the less formalized structure of PECC. Whereas PECC is an independent, advisory organization, APEC is a multinational governmental body, sponsoring meetings between key leaders and ministers from Pacific Rim nations. The first major leaders meeting was held in the United States in 1993, hosted by President Clinton. Subse-

quent leaders meetings have been held in Indonesia, Japan, the Philippines, and Canada. APEC has 18 members drawn from around the Pacific Rim, representing over half of the world's Gross National Product between them. APEC promotes Pacific Rim trade and economic cooperation, and, like PECC, maintains an office in Singapore. Together, PECC and APEC have created a common sense of regional identity and purpose, and in doing so have helped to establish the Pacific Rim as a recognizable world region.

#### **North America and the Pacific Rim**

Canada, the United States, and Mexico each have an extensive Pacific coastline and have been active members of a Pacific community for centuries. Especially in the twentieth century, each nation has developed an extensive Pacific outlook, a realization that trade is becoming increasingly centered in the Pacific. Port cities such as Vancouver, Anchorage, Seattle-Tacoma, Portland, San Francisco-Oakland, Los Angeles-Long Beach, San Diego, and Acapulco have grown rapidly, reflecting expanding Pacific trade. The three North American nations each hold membership in PECC and APEC, and each is active in the activities of those institutions. Canada and the United States have hosted APEC leaders meetings, and undoubtedly Mexico will do so in the future.

North America's Pacific connections could be enhanced by an increased public awareness of both internal trade linkages in North America—through the North America Free Trade Agreement (NAFTA)—and interna-

tional links between North America and the rest of the Pacific community. Part of this educational process must involve bearing in mind the scope of the region, so that the term Pacific Rim is not used when North American-East Asian trade is meant. Alaska, Russia, Southeast Asia, Australia, New Zealand, Latin America, and Pacific Island states must also be recognized as part of the Pacific Rim.

Boeing 747s are constantly flying across the Pacific, connecting Canada with Australia and Chile with Japan, and linking numerous other places. Air transport has made the Pacific seem smaller. We should, then, celebrate the emerging Pacific community, provided that it is an inclusive one, going full circle around and through the ocean center.

Additional information about PECC and APEC is available from their web sites:  
<http://www.pecc.net>  
<http://www.apecsec.org.sg>

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## **Email Conversations (this one is a must-read!)**

Dear Sirs:

I ran across your website and have just become aware of Canadian politics. Many people here in the United States are completely unaware of Canada's political leanings and dealings. For instance, many here are unaware that your country wants to eliminate guns and that handguns are already not allowed for self protection. This is a constitutional issue for us. And why is it that your country would want to trade with Communist Cuba?

I believe I will help you spread your message by telling all I come in contact with about your website. I truly think that once the realization that our northern neighbors are as socialistic and determined to trade with Communist Cuba is known, that warm and fuzzy feeling that we once had for the maple leaf will soon fade away.

Jim Matthews  
Dallas, Texas

At 04:12 PM 7/26/99 -0600, you wrote:

Dear Mr. Matthews,

We are all red blooded Americans in this office, which staffs the Secretariat of the North American Institute, a trinational organization. Your interest in Canada is commendable, but from your comments it seems you have much to learn about our neighbor. For one thing, Canada is a capitalist democracy, currently led by the Liberal Party which espouses free trade. For another, Canada has long maintained diplomatic relations with Cuba, including trade relations. When it comes to guns, the large majority of Canadians prefer a more orderly society than ours and do not feel that unrestricted access to hand guns would be compatible with the maintenance of that order.

Just as Canada has a different flag than ours, so it has a distinct identity expressed in its history and traditions. We at the

North American Institute take pleasure in knowing about these differences and as you discover more about Canada it may well be that you will come to the same conclusion.

Thanks for writing,

John Wirth, President

At 05:58 PM 7/26/99 -0500, you wrote:

Dear Mr. Wirth,

Thank you for taking the time to reply to my note. All I was saying is that it would appear that the Canadian government has been undermining the efforts of the United States to encourage respect for human rights and the adoption of a free market for Cuba for some time. As an average working guy in Texas, I was surprised to learn about our neighbors to the north. I believe that these differences that you have pointed out are not well known to the public.

I am not a gun fanatic. However, I under-

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(Continued from page 9, **EMAIL**)

stand the value of an armed population as did our founding fathers. Historically, each time a government commits atrocities against its people, it is preceded with some type of gun control. I fear a nation that fears guns in the hands of its citizens.

Does the North American Institute have a web address? I wish to learn more about the North American Institute. I want to know more about what you do, and what your agenda is, and how you are funded.

Thanks for your attention,  
Jim Matthews

Date: Tue, 27 Jul 1999 11:34:29 -0600

Dear Mr. Matthews,  
Thanks for the follow-up. In your first message you mention having heard about NAMI via the web.

Canada's Cuban policy is well covered in the *Globe and Mail*, Canada's leading newspaper published in Toronto, and the *New York Times*. Both can be accessed on the Web. You will see that Canada is not only highly concerned about human rights violations in Cuba, but has also for some time been sending specialists to Cuba advising

the Cuban government on how to convert to a market-based economy. How much of this the Cubans have seen fit to absorb is another matter. But Canadian policy is to support human rights and the market transition in Cuba. However, they feel that they can be more effective within the context of maintaining normal diplomatic relations, than the US policy which has been based for almost 40 years on the boycott and confrontation while from time to time holding conversations with the Cubans behind the scenes about how they, the Cubans, could open up. In short, with respect to Cuba, both governments have the same objective; they each have different means for achieving this objective.

On gun control, I think you are assuming the U.S. tradition of constitutionally sanctioned private gun ownership is some sort of universal right. Almost nobody outside our country accepts this view, seeing the American position as highly contextual and coming out of our own unique history and thus unique to the U.S. Albania provides a good example of what can happen when assault weapons fall into civilian hands when the arsenals in that country were looted as the central government collapsed. These arms are being used by ban-

dit gangs as well as the KLA, which KFOR is seeking with some success to disarm. It is hard to believe that the mayhem and widespread violence in that part of the world is in any way alleviated by the diffusion of assault weapons to civilians. As for the Serbs, they were defeated by NATO, not civilians bearing arms in self-defense.

As for guns in Canada, one major way Canadians see themselves as different from the US is their tight controls over handguns while the US is awash with them. It is true that Canadian hunters are upset with plans to tighten registration over hunting guns and this is a big debate in Canada right now. This issue is well covered in the *Globe and Mail* and the *NY Times*, by the way. But when it comes to hand guns, the great majority of Canadians is clearly and unequivocally determined not to follow our example.

I hope these observations are helpful as you dig deeper into Canadian policy.

John Wirth



## Book Review

[NAFTA Trade Dependency: The Ramifications, Solutions and Guidebook for NAFTA Family Members](#), by Linda P. Deck, Page Masters, Greenfield WI, 1997, 1998 and the sequel, [Job Mobility Across the 49th: the FAQs](#), 1998.

Reviewed by John Wirth

So you are a professional who wants to work across the border. With a job offer, under NAFTA, as a so-called "Trade National" filling one of 63 recognized professional careers you cross with multiple entry status. Family members, the so-called "Trade Dependents," enter but cannot work legally,

which means that spouses must put careers on hold while teens go without the part-time earnings that underpin the lifestyle of North American youth.

The result, says Linda Deck, a Canadian spouse who discovered the multiple ramifications of being a Trade Dependent herself in the U.S. and wrote two books about it, is that "The modern and equal marriage you probably enjoyed before leaving must be maintained *in spite of NAFTA*." She finally did receive authorization to work after three and a half years of waiting, but only because her husband became a permanent resident of the U.S. In fact, Linda and her sons fell between the cracks and the three NAFTA governments still see no compelling need to address this anomaly which not only reinforces the traditional pre-World War II family but also increases the risk and uncertainties of chang-

ing jobs.

Written in a breezy style from a Canadian perspective, the two manuals under review are detailed and repetitive, which makes the anomaly all the more irritating and outrageous. To be sure, the North America she describes includes only the slightest reference to Mexico, and it is because of Mexican illegal immigration that the issue is difficult for the American authorities to deal with. Nonetheless, Linda Deck has raised an important issue. She is also determined to solve this problem, thus doing her part to create a viable North American community. For more consult her web site at [www.pagemastersinc.com/nafta](http://www.pagemastersinc.com/nafta).

## Book Review

Globalization And The Meaning Of Canadian Life, William Watson, (University Of Toronto Press, 1998)

By Thomas Chambers

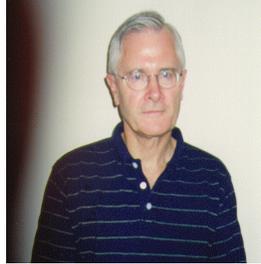
In the 1990s, globalization has become a much used and abused word. It will, if it continues, many people believe, "cause all the world's countries to become more and more alike in their tax rates, regulation, and public spending." William Watson recognizes this fear and then shows convincingly in Globalization and the Meaning of Canadian Life that it is mistaken.

Watson, associate professor of economics at McGill University in Montreal and editorial-pages editor for the Ottawa Citizen newspaper is a good writer. His book is well researched and interesting. Since his conclusions are contrary to much of the conventional wisdom discussed in the Canadian media this book should be hotly debated. Canadians who believe that the globalization process has resulted in Canada becoming more like the United States and should therefore be halted will be annoyed that Watson proves them wrong. Nationalists will no doubt, consider him a right-wing economist and his views not worthy of consideration. This would be wrong for *Globalization and the Meaning of Canadian Life* brings a measure of sanity to what has often been an emotional debate devoid of facts.

With the signing of the Free trade Agreement between Canada and the United States in 1989 many Canadians believed that Canada would, at worst, become a part of the United States, or, at best, a carbon copy of the American republic. The Canadian government would then be unable to pursue distinctly Canadian policies. This belief, almost a fear, was intensified with the signing of the NAFTA in 1993. The process of Americanization was considered inevitable and irreversible and, as a result, Canadians should become resigned to the fact that their country might soon disappear. This would mean that many of the things Canadians had come to cherish, such as the social safety net where the state provides cradle to the grave security, would end. It would mean that Medicare, which many Canadians consider their country's finest achievement, would be dismantled and replaced by an American system of health care. Taxes would fall, the state would become less intrusive in the lives of citizens, and Canadians would have to assume greater responsi-

bility for their own social security. This was considered by many to be a fate worse than death.

Watson shows beyond a doubt that globalization, in spite of economic integration, has not meant a harmonization of tax and social policies around the world. It has certainly not meant that Canadians have become carbon copies of Americans.



"Despite what the globalization hypothesis predicts, growing trade competition from the United States and growing dependence on U.S. capital have *not* kept us from building a distinctive public sector. Quite the contrary, the period of our closest economic ties with the Americans has also seen our greatest fiscal difference from them."

To further prove his point and put Canadian fears to rest, Watson looks at the economic federalism that exists in the United States as a prototype of economic integration. People and businesses are free to move about the country as they please. Language and culture have not been an obstacle to this mobility nor have state laws which are quite similar across the union. In spite of this, income tax rates vary considerably across the United States from 0 in seven states to 12% in Massachusetts. Corporate tax rates vary as well from 0 in five states to 12.5% in Pennsylvania. In addition there is also considerable variety in the amount of sales taxes levied. There has not been a great movement of people from the high taxing states to the low. This means that there are considerations other than taxes that determine where people live and work. It also means that Canada can retain its higher income taxes and different social policies as it becomes more closely integrated into the American economy.

It has become an article of faith in Canada that Canadians are different from Americans. This difference is seen as a virtue that must, at all costs, be maintained. How the two countries differ is often hard for Canadians to explain but it usually ends in discussions of health care and social security. Canadians have been told by politicians and the media that their country is more caring, a kinder, gentler world. For many, Canada's socialized medicine and social security system are what most distinguish them from

Americans. It makes them better and if high taxes are necessary to maintain this distinction it is considered a small price to pay.

Watson argues that Canada is not that different from the United States. In area after area he shows that the differences are superficial or that Canadians are wrong about their society being better. One example of the similarity concerns social welfare, an area where Canadians believe they are much more generous than Americans. Watson shows that social assistance is actually more generous in the United States.

Canadians also think that their country is more tolerant and less racist than the U.S. Watson indicates that much of what Canadians think about themselves is the result of a serious lack of historical awareness. For example when the American W.E. B. Du Bois asked about Canada's immigration policy he was told "There is nothing in the Canadian immigration law which disbars any person on the ground of color, but since colored people are not considered as a class likely to do well in this country ..... it is quite possible that a number of your fellow countrymen may be rejected." The Canadian government also prepared legislation preventing black immigrants from entering the country. While this was not passed it does show that there has been a serious undercurrent of racism in Canada. Evidence that it still exists is found on a regular basis in the press as Canadians react, often negatively, to the increase in non-white immigrants from Third World countries.

This is a valuable book and will prove to be as interesting to Americans as it is to Canadians. It may surprise Americans to learn that Canadians spend much of their time navel gazing and continuously comparing themselves to Americans. It will show all readers just how insecure Canadians are.

*Mr. Chambers currently serves on the staff at Canadore College of Applied Arts and Technology, North Bay, Ontario.*

## Book Review

### Integrating Cities and Regions: North America Faces

Globalization, Edited by James W. Wilkie and Clint E. Smith (co-published by Universidad de Guadalajara, UCLA Program on Mexico, and Centro Internacional Lucas Alamán para el Crecimiento Económico A.C., 1998)

By Michael Pretes

Globalization—the increasing interconnectivity between economies—is here to stay. An offshoot of this globalizing process is the reassessment of what constitutes the component economies of a globalized world. Are they national economies, or something else? The scholars whose work appears in *Integrating Cities and Regions* make a strong case for the inclusion of regions and cities among the constituent parts; in doing so, they ask us to reconsider how globalization is structured. In Europe, countries are being split apart while simultaneously the European Union is moving towards an integrated, united economic bloc. In North America there is no apparent trend towards a reconstitution of national borders (with the possible exception of Quebec), but new economic regions are emerging that increasingly make the concept of national economies less useful. The stimulus behind much of this global and regional restructuring is the elimination of trade barriers between the three nations that comprise the North American Free Trade Agreement: Canada, the United States, and Mexico. It is the emergence (or re-emergence) of economic regions—including major cities as regions—that is the focus of this book.

The book is the result of a series of conferences and workshops convened between 1994 and 1997. In addition to the two editors, twenty-five scholars, from Mexico, the United States, and Canada, have contributed single- and jointly-authored chapters. The authors are concerned with a constellation of related questions: What is the impact of freer trade on globalization and the emergence of regional economies? What changes are apparent? What drives these changes? And how are governments responding to the new challenges? By examining cases from across the continent—transboundary regions, megacities, and single-nation regions—the contributors are able to shed a great deal of light on these questions.

Unlike many books resulting from work-

shops and conferences, *Integrating Cities and Regions* has not merely one, but three introductory sections, setting the stage for the case studies to follow. The short preface by William Miller of Stanford University sets the tone of the book and hints at its major concerns. The formal introduction, by Clint Smith, also at Stanford, provides an excellent overview of the cases to come, and can be read as an executive summary of the entire work. A third Stanford scholar, Clark Reynolds, in his chapter “The Political Economy of Open Regionalism,” elaborates an analytical framework for the individual case studies, which allows for direct comparing and contrasting of the cities and regions studied. Reynolds notes the problems of defining regions that exhibit great internal diversity, as well as the increasing impact of technological, financial, and social change. Clearly, this book is no jumbled hodge-podge of conference papers, but a well thought out, sharply focused analysis of a continental issue, well supported by case study evidence.

Three case studies are of transborder regions in the western part of the continent, at the extreme northwest and southwest of the conterminous United States. The first is North America’s best known and perhaps best researched transborder region, Cascadia, which, though variously defined, is generally thought to comprise the Pacific Northwest of the United States and the Canadian province of British Columbia. This region, clearly identifiable by a distinctive name, has a long history of regional identity. Though traditionally dependent on timber and mineral resource extraction, the region is becoming increasingly united through its contemporary economic emphasis on computer software, aerospace, and entertainment industries. The second transborder region, that of San Diego-Tijuana, is more sharply divided by differing standards of living on the two sides of the border. The presence of two languages, and the disparity in economic power between Mexico and the United States, also makes common policy making more difficult than in Cascadia. The third transborder region, Arizona-Sonora, faces some of the same problems as its neighboring region to the west, as well as its additional dependence on resource extraction and *maquiladora* manufacturing. The authors argue that these latter two sectors are inherently unsustainable, and that the region must consider other options if it is to prosper in the long term.

Transborder regions are one of the three types of case study examined in the book. The second type is that of regions lying entirely within Canada, the United States,

or Mexico. Three case studies illustrate this type of region, one in each country. The Canadian and Mexican cases, Newfoundland and Oaxaca respectively, are impoverished or declining regions; they are places that have experienced more bad than good from economic integration. The Newfoundland chapter, by Morley Gunderson of the University of Toronto, investigates the national transfer payment system and the curious unemployment insurance scheme that have been used to maintain at least some level of regional parity between Newfoundland and the rest of Canada. In proposing a series of reforms to the current system, Gunderson notes that regional economies can become dependent on outside assistance, and that the maintenance of employment programs in regions can often work against the movement of capital and labor that freer trade is supposed to engender. The chapter on Oaxaca, one of Mexico’s poorest states, by Raul Livas and Rafael Gamboa, explores a similar situation. Oaxaca, like Newfoundland, is heavily dependent on federal government assistance. Livas and Gamboa conclude that this assistance is best directed towards productive spending rather than social spending—a finding similar in some respects to the Newfoundland example.

Silicon Valley, the now famous nickname of the Santa Clara Valley and surrounding region in California, is a third region examined in the book. Unlike Newfoundland and Oaxaca, Silicon Valley is a prosperous region, and its success is attributed by the chapter authors to both its common sense of identity and purpose, and to the close networks and mutual assistance among commercial, governmental, and educational sectors in the region. Though the Silicon Valley experience is probably not replicable by more depressed regions such as Newfoundland and Oaxaca, the success achieved by close integration and cooperation is a lesson that may benefit all.

The third and final type of region under consideration is the megacities, the giant urban complexes that dominate much of the North American economy. Contributors consider three such cities and their immediate surrounding metropolitan regions: Mexico, New York, and Toronto—each of these the largest and most dominant city in their respective countries. Mexico dominates its country in the same way that Paris dominates France: as a primate city. Mexico contains an enormous proportion of its nation’s industrial, commercial, educational, technological, and cultural capital. Like more traditional regions, megacities are diverse

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(Continued from page 12, **BOOK REVIEW**) places, with many linked nodes rather than a single center of power. Like other megacities, Mexico has an often turbulent relationship with the rest of the nation, as the authors of this chapter document.

The two other megacities, New York and Toronto, are often compared to each other. The tri-state New York region (which includes parts of New Jersey and Connecticut) is a declining region, as much of its industry and commercial activity shifts towards other parts of the United States. Many of both Toronto's and New York's problems stem from conflicts between the core city and its suburbs, and from the absence of a regional authority to coordinate policy and resolve disputes.

The nine case studies presented in the book—three each on transboundary regions, single-nation regions, and city-regions—provide a wealth of data on the geography of prosperity and decline and the impact of freer trade in North America. This data alone would make the book extremely useful in understanding the changing nature of the North American economy. The reader is, however, treated to not just one, but two concluding chapters. The formal conclusion, by Clark Reynolds, is a lengthy consideration of what the case studies mean; the chapter compares and contrasts, and draws forth the key issues of concern in all of the regions considered. In highlighting these issues, Reynolds, like James Wilkie in his afterward to the book, illuminates the

central areas of concern for North American regional scholars, as well as the implications for future policy and research.

As befitting a North American study, the introductory and concluding chapters—but not the case studies—appear in Spanish translation as well. I would have preferred to see the case studies ordered as I have done in this review: by the three types of region (transboundary, single-nation, and city), rather than in the seemingly random order in which they appear in the book. With such a structure, the book could have been divided into three parts, which would have helped emphasize the differences and similarities in the types of regions under consideration. An index would also have

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## Upcoming NAMI events:

**Advancing the North American Community: The Role of Community Service and Volunteering**, El Paso, Texas, September 24-26, 1999. This symposium, which is co-sponsored by NAMI along with the Center for Inter-American and Border Studies at the University of Texas at El Paso (UTEP) is designed to initiate dialog amongst the NGOs, government entities, and other organizations working in the field of Volunteerism. The topics will include a discussion on what types of volunteer programs currently exist in North America, what has worked and not worked, and where to go from here. This symposium will be trilateral in focus. Represented at the symposium will be the Corporation for National Service, Katimavik, Canada World Youth Corps, the State of Washington, Cornerstones Community Partnerships, and the Program for the Mexican Communities Abroad.

**Trade Corridors in North America**, San Antonio, Texas, October 1-3, 1999. This workshop is co-sponsored by NAMI, the Rio Grande Institute (administrator for the heritage river project), and the Austin-San Antonio Corridor Council. The focus of this workshop will be to examine some of the existing trade corridors between Canada, Mexico, and the United States, and discuss strategies for "Green Trade Corridors." Also on the agenda will be a discussion of common problems along the two borders, highlighting the Canadian and Mexican perspectives, an analysis of existing transportation modes, a proposal for assessing the impact of increased trade on the border communities, and a look at possible border scenarios in the future as well as future transportation technologies. Represented will be the United States DOE and EPA, the CEC and JPAC, public policy representatives from the State of Texas and several northern states of Mexico, NGOs,

private Foundations, and private enterprises.

**Media Workshop**, October 22-23, 1999, Mexico City. This will be the second in a three-part series of workshops designed to address the issue of access to information and the lack of media coverage on matters concerning the NAFTA and its relationship to the environment, border communities, etc. This will be co-sponsored by NAMI, Reforma News Syndicate from Mexico City, the San Diego Union Tribune, and possibly one other major US newspaper. The first meeting was in San Diego, and the third will be in Canada.

**Commission for Environmental Cooperation (CEC) and Joint Public Advisory Committee (JPAC)**, Santa Fe, December 2-3, 1999. This meeting, hosted by NAMI, is part of the Commission's quarterly reunions.

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## Recent NAMI Developments

The North American Institute is proud to announce the inclusion of Mr. Roberto Ortega, NAMI Board member, to the BECC (Border Environment Cooperation Commission) Advisory Council. The council of five members, 2 from San Diego, 1 from Tucson, 1 from Albuquerque, and 1 from El Paso, are White House appointments.

Judith Espinosa has been accepted as the Chair of the Good Neighbor Board.

John Wirth has recently completed his latest book, entitled Smelter Smoke in

North America: The Politics of Transborder Pollution, University Press of Kansas, 1999, following eight years of research. Call the Institute for details on purchasing the book.

### Staff Changes

Mr. Sanford Gaines, outgoing NAMI Executive Director and outgoing chairman for the National Advisory Committee for the Commission for Environmental Cooperation (CEC), has taken a year-long sabbatical from the University of Houston Law Center and moved to Europe on a Fulbright scholarship to continue his research on law

and the environment.

Mr. Kevin Drennan has taken a full-time position with the Santa Fe Institute as webmaster, and continues to provide valuable work on the NAMI website.

In April, NAMI welcomed Mr. David Griscom as Associate Director, recent MBA graduate from Monterey Institute on International Studies and former US Peace Corps from Honduras.

Karie Duran is the new receptionist.

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been useful, as would a map of North America depicting the regions discussed.

*Integrating Cities and Regions* constitutes one of the most impressive and thorough considerations of regionalization and the regional impacts of freer trade in North

America. It is a great pity that only one thousand copies of the book were printed. We can only hope that these few copies are widely distributed and read, and that the editors increase the print run for their projected second volume on regionalization and the Pacific Rim.

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NAMINEWS is published by The North American Institute, a trinational public affairs organization providing a forum for the cooperative development of ideas for managing the emerging North American Community. The purpose of NAMINEWS is to monitor and disseminate information about events, publications, and research with potential policy implications for Canada, Mexico, and the United States.

Readers are invited to send articles, notices, and comments to: The North American Institute, 708 Paseo de Peralta, Santa Fe, New Mexico 87501 USA Tel: (505) 982-3657 Fax: (505) 983-5840; Email: [nami@northamericaninstitute.org](mailto:nami@northamericaninstitute.org)

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NAMI has been asked by Senator Jeff Bingaman, D-NM, to remind its readers that the fourth annual New Mexico International Trade Conference, of which Sen. Bingaman serves as the Honorary Chairman, will take place on January 13, 2000 at the Albuquerque Hyatt Regency, in Albuquerque, New Mexico. The conference will address New Mexico's economic stake in Latin America and Asia. For more information, please contact Kate Willink at the New Mexico-US-Japan Center at (505) 842-9020.