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Introduction

Our purpose here is to:

1. Explain Mexico's role as linchpin for free trade integration in the Western Hemisphere.
2. List the free trade organizations in the Western Hemisphere as of January 1, 1995, and compare the U.S. and Canadian plans for the expansion of free trade areas.
3. Show how the emerging Mercado Común del Sur (MERCOSUR) poses a special challenge to and opportunity for Mexico. (Although MERCOSUR is a customs union in the process of becoming a free trade area, it seeks to become a common market.)
4. Determine whether free trade is being imposed from above to exploit workers in the name of globalization or is a result of popular demand.

The discussion is divided into four sections. The first examines the expansion of free trade in the Americas led by Mexican President Carlos Salinas de Gortari beginning in 1990. Section 2 presents data and graphs that enable us to analyze relationships in the hemisphere and the rise of blocs elsewhere in the face of economic globalization. Section 3 evaluates future prospects for expanding and consolidating free trade areas (FTAs). The fourth section poses tests to determine whether free trade is being imposed on the people or demanded by them.

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Whereas some observers describe a "crazy-quilt" pattern of FTAs, President Salinas envisioned a grand design of overlapping FTAs permitting Mexico to exercise significant international influence. The crazy-quilt phenomenon is of concern to countries that fear possible entry of duty-free products which appear to come from free trade partners.

1. Mexico as Linchpin for Western Hemisphere Free Trade

Although the idea of the North American Free Trade Area (NAFTA) can be traced back to presidents Lyndon B. Johnson and Ronald Reagan,[1] it was President Carlos Salinas de Gortari who, in February 1990, explicitly proposed NAFTA.[2] Salinas sought to attract U.S. investment to Mexico and pursued the goal of shared economic growth

[1]President Johnson called for free trade at the 1967 Summit of the Americas, according to Michael Kleinberg, "After Americas Summit [December 9-11, 1995], the Real Work Begins," *Mexico City News*, December 18, 1994. President Reagan called for free trade in the Americas during his presidential campaign of 1990, according to Michael G. Wilson, "The Next Step After NAFTA: Expanding Free Trade in Latin America and the Caribbean," *Heritage Foundation Backgrounder* 978, February 24, 1994, p. 5.

[2]Art Pine, "Bush, Salinas Agree to Seek Trade Accord," *Los Angeles Times*, June 11, 1990. Mexico had finally overcome internal opposition to joining GATT in 1986, which laid the basis for developing framework accords for expanded trade between the United States and Mexico (1987) and Canada and Mexico (1990). In the meantime, negotiations on the U.S.-Canadian FTA (which began in May 1986) led to the signing of an agreement in January 1988; the accord went into effect January 1, 1989. In June 1990 President George Bush agreed to Carlos Salinas's proposal to create NAFTA. The two leaders joined in June 1991 with Canadian Prime Minister Brian Mulroney to begin trilateral talks. The negotiations culminated in the NAFTA signing on December 17, 1992. Legislative approval in the three countries would occur during 1993 and the agreement would become effective on January 1, 1994. See Gary Clyde Hufbauer and Jeffrey J. Schott, *Western Hemisphere Economic Integration* (Washington, D.C.: Institute for International Economics, 1994), pp. 220 and 247.

and development in North America. Until then, the world model for such a framework had been dominated by the European Community (EC). (On January 1, 1994, the EC became the European Union, or EU.)

Capitalizing on Salinas's concept of NAFTA, President George Bush proposed, in June 1990,[3] the Enterprise for the Americas Initiative (EAI),[4] which called for establishing free trade from the Yukon Territory to Patagonia. Because the United States was unmoved by the notion of such an initiative and Bush did not undertake a leadership role in the hemisphere, President Salinas took concrete steps toward promoting free trade in the Americas,[5] making Mexico the linchpin for its expansion in the region. With NAFTA negotiations successfully under way by 1990, Salinas began immediately to sign the following accords to develop agreements for economic integration:

1. Mexico-Colombia-Venezuela (G3); proposed in September 1990; establishes a free trade area as of January 1995; creates a duty-free umbrella; plans to eliminate all tariffs by 2006.[6]
2. Mexico-Chile; signed October 31, 1990; took effect January 1, 1992.[7]
3. Mexico-System for Central American Integration (SICA); proposed January 12, 1991, with an effective date of December 31, 1996.[8] May include Panama, not a member of the original Central American Common Market, or of CACM (which included Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). Implementation hampered by serious disagreements within and among participating countries during 1992 and 1993, slowing Mexico's plans for free trade with the region.[9]
4. Mexico-Costa Rica bilateral free trade pact; signed in February 1992; effective January 1, 1995; considered critical boost to lagging Central American free trade.[10]
5. Mexico-Nicaragua free trade agreement; proposed August 1992; effective date not yet determined.[11]
6. Mexico-Association of Caribbean States (ACS); signed in Colombia in July 1994, becoming politically but not economically effective in January 1995.[12] The 25-member ACS comprises the Caribbean Community and Common Market (CARICOM, 14 members), Mexico, Cuba, Colombia, Dominican Republic, Haiti, Venezuela, and the 5 Central American countries, and is offering associate membership to several independent territories in the region (see SALA Preface, Table 3, in Part 1). For Cuba, membership in ACS became most important following the collapse, after 1990, of the USSR-Eastern European Council for Mutual Economic Assistance (COMECON).
7. Mexico-Bolivia; signed September 11, 1994; effective date, January 1, 1995.[13]

Beyond these seven agreements, Mexico has or is negotiating another eight (listed in Table A1). Mexico is especially concerned about its position vis-à-vis the MERCOSUR customs union, which not only seeks to become an EU of the Southern Cone but also to influence all of South America.[14] The members of MERCOSUR are Brazil, Argen-

[3]For FTA chronologies, see Hufbauer and Schott, Appendix C, pp. 219-249.

[4]Wilson, "The Next Step."

[5]Ibid.

[6]Gregory D. Cancelada, "Southern Strategy," *Business Mexico* 1, March 1991; and James Brooke, "In Latin America a Free Trade Rush," *New York Times*, June 13, 1994.

[7]See Table A1.

[8]*Los Angeles Times*, January 10, 1991; *Times of the Americas*, July 24, 1991.

[9]*Central American Report*, February 12, 1993.

[10]Mónica Gutschi Salazar, "Mexico, Latin America Free Trade in Peril," *The News* (Mexico City), June 21, 1994; Wilson, "The Next Step"; Brooke, "In Latin America"; Mexican Free Trade Office in Canada.

[11]Idem; "Decision Time for the MERCOSUR," *Mexico and NAFTA Report*, RM-94-07, July 21, 1994.

[12]James Canute, "CARICOM Shrugs Off U.S. Concerns Over Cuba," *Financial Times* (London), July 8, 1994.

[13]*El Financiero Internacional*, September 19-25, 1994.

[14]On the rise of MERCOSUR since the mid-1980s, Peter H. Smith notes that it has established a Council of the Common Market (coordinated by the ministries of foreign and economic relations of its member countries) and a Joint Parliamentary Commission drawn from the national parliaments. See Peter H. Smith, ed., *The Challenge of Integration: Europe and the Americas* (New Brunswick, N.J.: North-South Center and Transaction Books, 1993), pp. 8-9. MERCOSUR seeks to establish a fully functioning FTA as part of a joint trade policy which coordinates and harmonizes national economic policies in relation to nuclear development, military exchange, communications, and transportation (including river traffic). Over the long term, there exists the prospect that MERCOSUR may develop into a full economic and monetary union, according to Alberto van Klaveren, "Why Integration Now? Options for Latin America," in Peter H. Smith, ed., *The Challenge of Integration*, pp. 122-123.

tina, Paraguay, and Uruguay. Although Salinas's free trade agreement blitz of the early 1990s did not lead to Mexico's merger with MERCOSUR, it did produce free trade planning discussions between Mexico and the MERCOSUR countries[15] (see Section 3, below). Suffice it to say here that for some in MERCOSUR, Mexico is a link between the Southern Cone and NAFTA; Brazilian policymakers, however, see Mexico as an impediment to organizing the South American Free Trade Area (SAFTA) under Brazil.

2. The Western Hemisphere and the Rise of Global Trading Blocs

Table A1 lists the major free trade organizations in which Mexico participates. Some of these are outgrowths, now being revitalized, of older regional associations dating to the 1960s. Such regional blocs as the Latin American Free Trade Association (1960) and Central American Common Market (1961) were only marginally successful in encouraging intraregional trade and did not promote trade outside their own bloc.

Table A2 shows the status of other free trade area agreements (FTAs) in the Americas. Part I lists those with which Mexico is not yet associated or which are under discussion. Part II shows two bilaterally organized FTAs of which Mexico is not a part, one led by Chile and the other by Colombia.

Table A3 compares the major world trade blocs into which Mexico and Latin America fit. Mexico clearly has a minor role in NAFTA but is a big player in Latin America. Its gross domestic product per capita (GDP/C) is 15 percent that of the United States but the highest among Latin American countries shown in Table A3. Its GDP/C exceeds by 22 percent that of Venezuela, its oil-producing competitor.

The historical record achieved by FTAs in the developing world is shown in Table A4. In keeping with the original goal of the 1960s and 1970s to increase intraregional trade, the Central American Common Market (CACM) "flourished" from its establishment in the 1960s, intraregional exports increasing from 7.0 percent in 1960 to 25.7 percent in 1970. In 1969 the "Soccer War" between El Salvador and Honduras disrupted the region's trade; and "low-intensity" warfare beginning in Guatemala in the 1960s and in Nicaragua and El Salvador in the late 1970s spelled the end of the CACM, intraregional export trade declining to 14.8 percent by 1990.

In the meantime, the Latin American Free Trade Area (LAFTA), comprising Mexico, Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela, was founded in 1960 to increase intraregional trade, which rose from 7.9 percent in 1960 to 13.7 percent by 1980. LAFTA underwent a "rejuvenation" in 1980, becoming the Latin American Integration Association (LAIA), but by 1990 intraregional LAFTA/LAIA export trade had declined to less than 11 percent.

Given the mixed record of intraregional trade (only the European Community achieved the desired gains), in the 1990s the goal of such blocs has become to increase interregional trade. Countries that had sought to maximize exports and minimize imports now realize that imports are necessary because they:

1. Provide leverage to open new export markets.
2. Help prevent inflation.
3. Permit the acquisition of state-of-the-art machine tools and technology.

Tables A5 through A12 show how Mexico, the United States, Canada, and the European Union have expanded their worldwide and Western Hemisphere trade.

Mexico's emergence on the global economic scene is depicted in Tables A5 and A6 which present the geographical distribution of Mexico's US$101 billion export-import trade with the world, as of 1992, the most recent year for which we have complete data as reported by partner countries about one another. The United States is Mexico's major trading partner, accounting for about three-quarters of Mexico's exports and about 63 percent of its imports. In contrast, apparently Mexico sends only 5 percent of its exports to Canada and Canadian imports amount to 1 percent of Mexico's imports. But as Table A6 notes, Mexico and Canada lose track of an estimated 15 to 30 percent of their trade with each other when it passes through the United States and becomes

[15] Luigi Manzetti, "Economic Integration," *North-South*, December 1992; Luigi Manzetti, "The Political Economy of MERCOSUR," *Journal of Inter-American Studies and World Affairs* 35:4 (1993-1994), p. 101ff.; Cancelada, "Southern Strategy."

Table A1

MEXICO PARTICIPATION IN OR PLANS FOR FREE TRADE AREA AGREEMENTS

(January 1995; Agreements in effect in boldface)

Name	Members	Date Proposed	Date Effective
NAFTA	Mexico, United States, Canada	February 1990	January 1, 1994
G3 (Members of the LAFTA,[1] sclerotic by the 1980s)	Mexico, Colombia, Venezuela	September 1990	January 1995
Mexico-Costa Rica		February 1992	January 1, 1995
Mexico-Bolivia[2]		September 11, 1994	January 1, 1995
Mexico-Chile		October 31, 1990	January 1, 1992
Mexico-Nicaragua		August 1992	No date
ACS (formerly CARICOM)[3]	Mexico, CARICOM, SICA, Cuba, Haiti, Venezuela, Colombia, Dominican Republic, Surinam	July 1994	1995; in discussion
Mexico-SICA[4] (formerly Central American Common Market)[5]	Mexico, Costa Rica, Nicaragua, El Salvador, Guatemala, Honduras	January 12, 1991	End of 1996; in discussion
Mexico-Belize[6,7]		September 1994	1995; in discussion
Mexico-Guatemala[7]	Key to an effective Mexico-SICA	November 1994	1995; in discussion
Mexico-El Salvador[7]		November 1994	No date
Mexico-Honduras[7]		November 1994	No date
Mexico-Panama[7]		November 1994	No date
NAFTA-Chile[8]		December 1994	1996; in discussion
FTTA[9]	34 Western Hemisphere countries, excluding Cuba	December 1994	2005; in discussion
Mexico-European Union[10]		February 1995	

1. Founded in 1960 as the Latin American Free Trade Area (LAFTA), which includes Mexico, Argentina, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, Uruguay, and Venezuela. In 1980 the Association was "rejuvenated" as the Latin American Integration Association (LAIA). Between 1960 and 1990, however, intraregional LAFTA/LAIA export trade increased from 7.9 percent in 1960 to 13.7 percent in 1980 before declining to 10.6 in 1990 (see Table A4, below.)
2. *El Financiero Internacional*, September 19–25, 1994.
3. The Association of Caribbean States (ACS) has 25 members compared to 12 original members of the Caribbean Community and Common Market (CARICOM). CARICOM may survive as the expanded political arm of the ACS and/or take over the ACS economic role.
4. System for Central American Integration.
5. The original Central American Common Market (CACM) "flourished" from its establishment in 1961 (Honduras joined in 1962, Costa Rica in 1963) through 1968, intraregional exports increasing from 7.0 percent in 1960 to 25.7 percent in 1970. In 1969, the "Soccer War" between El Salvador and Honduras disrupted the region's trade, and Honduras's explicit withdrawal from the CACM in 1971 came two years after it implicitly did so in 1969. "Low intensity" warfare beginning in Guatemala in the 1960s and in Nicaragua and El Salvador in the late 1970s spelled the end of the CACM, intraregional export trade declining to 14.8 percent by 1990 (see Table A4, below.) Panama, which has never had more than CACM observer status, has refused to join CACM/SICA because of its service-based economy which contrasts with the agriculture-based economies of the other Central American countries. See "Panama's Balladares Strikes Discordant Note at Central American Summit," *Latin American Regional Reports: Caribbean and Central American Report*, October 6, 1994 (RC-94-08).
6. Therèse Margolis, "Belize Seeks Closer Ties with Mexico," *Mexico City News*, September 27, 1994.
7. President-Elect Ernesto Zedillo Ponce de León developed bilateral FTA talks in his November 1994 travels to Belize, Central America, and Panama.
8. See "NAFTA Invitation to Chile Caps Summit in Miami," *Latin American Regional Reports: Southern Cone*, December 29, 1994 (RS-94-10).
9. Free Trade Agreement of the Americas. On the schedule for FTAA negotiations, see Michael Kleinberg, "After Americas Summit [December 9–11, 1995], the Real Work Begins," *Mexico City News*, December 18, 1994.
10. "Aprueba la Comisión Europea un proyecto de libre comercio con México," *Excélsior*, February 9, 1995.

SOURCE: Interviews with policymakers, text notes, and sources and notes given in Table A2. About the number of Mexico's free trade partnership countries (seven in five agreements), as of December 31, 1994, see statements by Mexican Secretary of Commerce Herminio Blanco Mendoza, quoted by Patricia Cerda, "Aumentó 25 y 30% el comercio con EU y Canadá a partir del TLC," *Excélsior*, January 1, 1995.

Table A2

NON-MEXICAN FREE TRADE AREAS IN THE AMERICAS (January 1995)

PART I. FTAS WITH WHICH MEXICO DOES NOT HAVE OR YET HAVE AGREEMENTS

Name	Members	Date Proposed	Date Effective
MERCOSUR[1]	Argentina, Brazil, Uruguay, Paraguay	March 1991	January 1, 1995, as an imperfect customs union
MERCOSUR-Chile-Bolivia[2]		December 1994	1995; in discussion
Renewed Andean Pact[3]	Bolivia, Colombia, Ecuador, Peru,[4] Venezuela	January 1993	December 1995
Rerejuvenated LAIA[5]	See Table A1, note 1, above	1994; in discussion	
SAFTA (South American Free Trade Area)[6]	Brazil's plan to counter NAFTA	1994; in discussion; to link MERCOSUR with Bolivia and Chile by June 1995; and with Peru, Ecuador, Colombia, and Venezuela by December 1995	
Northern South America-Central American Triangle	Colombia, Venezuela, El Salvador, Honduras, Guatemala	1994; in discussion	
Central American Triangle	Guatemala, El Salvador, Honduras	May 1992	January 1, 1993
European Union-MERCOSUR[7]	EU plan for preferential trade	September 1994	

PART II. NON-MEXICAN FTAS

Name	Members	Date Proposed	Date Effective
Chile-bilateral pacts with	Argentina, Bolivia, Colombia, Venezuela		Since 1990
Chile-Andean Pact		December 1994	No date
Chile-European Union		September 1994	No date
Andean Pact-European Union		September 1994	No date
Colombia-bilateral pacts with	22 countries worldwide		1991–1994
Costa Rica-Venezuela		April 1991	No date
Honduras-Guatemala		April 1991	No date

1. By establishing the Mercado Común del Sur (MERCOSUR in Spanish, MERCOSUL in Portuguese), this area of southern South America effectively has taken itself out of the foundering LAFTA/LAIA scheme, although it claims to follow LAIA principles. On the inauguration of this bloc, see "MERCOSUR Presidents Give Go-Ahead for 'Almost' Full Customs Union," *Latin American Regional Reports: Southern Cone*, December 29, 1994 (RS-94-10).
2. *Excélsior*, December 18, 1994.
3. The original Andean Pact (1969, except Venezuela 1973) included Chile, which withdrew in 1976 over a dispute about a Pact restriction on remittances of foreign investment profits. The Pact's intraregional trade exports (21 percent in 1970) had declined to 16 percent by 1980 and stood at 19 percent by 1990 (see Table A4, below).
4. By late 1995 Peru was leaning toward leaving the Andean Pact in order to join MERCOSUR directly. See "Possible que Perú se retira del Pacto Andino por incompatibilidad," *Excélsior*, December 3, 1994.
5. ALADI is the Spanish acronym.
6. Two articles by James Brooke: "Brazil Cuts Its Tariffs on Many Goods," *New York Times*, September 12, 1994, and "A New Common Market Widens Brazil's Export Horizons," *New York Times*, January 4, 1995.
7. Brooke, "Brazil Cuts Its Tariffs"; Busca el Mercado del Sur el Libre Comercio con la UE," *Excélsior*, November 11, 1994.

SOURCE: Interviews with policymakers; notes to text; "Decision Time for MERCOSUR," *Mexico and NAFTA Report*, RM-94-07, July 21, 1994; "Interesa a la UE un TLC con el MERCOSUR y Chile," *Excélsior*, September 29, 1994; Gary Clyde Hufbauer and Jeffrey J. Schott, *Western Hemisphere Economic Integration* (Washington, D.C.: Institute for International Economics, 1994), Appendix C, "Chronology of Regional Agreements"; and two articles by James Brooke, "With a View of One Hemisphere, Latin America Is Freeing Its Own Trade," *New York Times*, December 29, 1993, and "In Latin America, Free Trade Rush," *New York Times*, June 13, 1994.

Table A3

MAJOR WORLD TRADE BLOCS[1] AND SAMPLE COUNTRIES, ABOUT 1993

PART I. BLOCS

Trade Bloc	Number of Members	Population (M)	GDP (B US)	GDP/C[2] (US)
NAFTA	3	363.3	6,404.2	17,622
SICA	6	29.5	36.0	1,222
ACS	25	198.7	474.0	2,386
G3	3	137.8	377.7	2,740
Andean Pact	5	93.8	160.1	1,707
MERCOSUR	4	191.6	544.1	2,840
European Union	12	345.0	6,144.0	17,809
APEC	13	1,961.0	11,135.1	5,678

PART II. SAMPLE COUNTRIES[3]

Trade Bloc	Number of Members	Population (M)	GDP (B US)	GDP/C[2] (US)
NAFTA				
Mexico		83.3	282.5	3,391
United States		252.7	5,610.8	22,203
Canada		27.3	510.8	18,711
SICA				
Costa Rica		3.1	5.6	1,796
ACS				
Cuba		10.7	26.9	2,500
G3				
Colombia		33.6	41.7	1,241
Andean Pact				
Venezuela		20.2	53.4	2,644
MERCOSUR				
Brazil		151.4	414.1	2,735
Chile (nonmember)		13.4	31.3	2,336
European Union				
Germany		76.6	1,692.0	21,256
APEC				
Japan		124.0	3,337.0	26,911

1. Mexico included in NAFTA, SICA, ACS, and G3; Colombia and Venezuela included in ACS, G3, and Andean Pact; European Union = 12 countries.
2. Revises source data.
3. Except NAFTA includes all three member countries.

SOURCE: Adapted and calculated here from data in: For the Americas: Clint E. Smith, ed., *Viable Paths of Accession to a Greater North American Common Market*, Conference on North America and the Caribbean, Stanford University, January 14–16, 1994 (North American Forum Working Paper 94-1), Appendix C.
For the EU and APEC: Hubert Suárez, "Libre comercio, el orden mundial del siglo XXI," *Epoca* 129 (November 22, 1993), pp. 50–51.

incorporated in U.S. figures. With regard to other areas, Mexico trades more with Japan than with all other Western Hemisphere countries combined. Japanese trade with Mexico exceeds by about US$1 billion the Mexican totals for all the rest of the Western Hemisphere. The value of Mexican trade with Central America and Cuba is minuscule, but will increase if Mexico's trade projections progress as planned.

U.S. foreign trade (totaling US$1 trillion) data are shown in Tables A7 and A8. Canada is the most important U.S. trading partner, accounting for about 20 percent of U.S. exports and imports; Japan is second with about 11 and 18 percent, respectively; and Mexico is third, within 2 percent of matching Japan's share of the U.S. export market (Table A8). The United States exports more to Mexico than it does to all of South and Central America and the Caribbean. It imports as much from Mexico as it does from all the countries to the south of Mexico combined.

Canada's foreign trade (US$260 billion) is mainly with the United States and resembles the pattern of Mexican-U.S. trade: apparently three-quarters of Canadian exports go to the United States, and about 63 percent of Canada's imports come from the United States. (But these data include Canadian-Mexican trade "lost" in U.S. figures [see Table A10].) For Canada, export-import trade with Japan is four and seven times more important, respectively, than with countries to the south of Mexico. It is interesting to note that Canada trades less (in percentage terms) with the EU than Mexico does.

European Union foreign trade (US $3 trillion) data are shown in Tables A11 and A12. EU trade with the United States (about 7 percent of exports and imports) is greater than its trade with Japan (at 4 and 2 percent, respectively). EU trade with Canada is insignificant (.6 and .8 percent of exports and imports, respectively), with Mexico even less important (only .2 and .5 percent of EU exports and imports). The rest of the world, apart from the Western Hemisphere and Japan, receives 86 percent of EU exports in exchange for 88 percent of EU imports (Table A12).

Figure A:1 illustrates world trade flows (early 1990s) in another way, showing for each region the absolute value of exports to competing regions. (Five rectangular blocks represent exports totaling more than US$150 billion; four rectangular blocks equal US$101-150 billion; three blocks represent exports of US$51-100 billion; two blocks equal US$11-50 billion; and one corresponds to less than US$10 billion in exports.)

With regard to the world's leading importing regions, NAFTA and Europe, Asia dominates with exports of more than US$150 billion. Europe follows with exports between US$101 and $150 billion. Extended Latin America (ELA),[16] Africa, and the Middle East each export less than US$10 billion to NAFTA and Europe.

Africa stands out as the least important area in world trade. Economic dislocations following independence from European tutors have worsened in many countries, thus limiting trade possibilities.

ELA's ability to compete is only slightly better than Africa's. Statist policies of the 1960s to the 1980s turned the region inward at a time when world capital was readily available. Unfortunately, ELA now seeks capital when it is in short supply, underscoring the need to engage in the trading schemes listed in Table A2. ELA imports only slightly more from North America, Asia, and Europe than from Africa and the Middle East.

Table A4

EXPORT SHARES OF SELECTED FREE TRADE AREAS, 1960–90

(% of Region's Total Exports)

Area	1960	1970	1980	1990
PART I. INTRAREGIONAL				
Andean Pact	.7	20.7	15.9	18.6
CACM[1]	7.0	25.7	23.3	14.8
CEAO[2]	–	6.3	9.4	11.3
European Community	34.5	51.1	53.5	60.4
LAFTA/LAIA	7.9	9.9	13.7	10.6
UDEAC[3]	1.5	5.0	1.7	4.6
PART II. WORLD				
Andean Pact	2.9	1.6	1.6	.9
CACM[1]	.4	.4	.3	.1
CEAO[2]	–	.3	.2	.2
European Community	24.9	39.0	34.9	41.4
LAFTA/LAIA	6.0	4.4	4.2	3.4
UDEAC[3]	.3	.2	.2	.1

1. Now SICA.
2. Economic Community of East Africa.
3. Customs Union of Central Africa.

SOURCE: Augusto de la Torre and Margaret R. Kelly, *Regional Trade Arrangements* (Washington, D.C.: IMF, 1992), pp. 20 and 30.

At the mid-range of world importers, the Middle East significantly trails Asia, which approaches but does not match Europe's higher level of imports. Europe itself is a leading exporter to both areas.

With regard to exports, NAFTA:

1. Ties Europe for competition in the ELA and Asia markets;
2. Is second to Europe for competition in the Middle East market;
3. Is second to Asia for competition in the European market;
4. Lags behind Europe and Asia for competition in the African market.

The assumption underlying NAFTA and other trade blocs is that effective union will increase competitiveness in relation to other areas of the world.

[16]Extended Latin America excludes Mexico and includes the Caribbean countries where the language is not based on Latin.

Table A5

MEXICO FOREIGN TRADE,[1] 1992

(M US)[2]

Area	Mexico Exports	Mexico Imports
World	42,700	58,545
European Community	3,498	8,213
Japan	1,130	3,805
United States	32,624	40,598
Canada[3]	2,207	613
Cuba	103	105
SICA	379	141
Costa Rica	87	41
El Salvador	118	9
Guatemala	122	68
Honduras	40	1
Nicaragua	12	22
Other Western Hemisphere (including other countries not listed below)	1,592	1,976
Argentina	181	259
Bolivia	7	7
Brazil	288	1,111
Chile	199	92
Colombia	151	61
Dominican Republic	106	2
Ecuador	43	21
Haiti	2	1
Panama	38	6
Paraguay	-	-
Peru	88	95
Uruguay	34	42
Other World	1,167	3,094

1. Calculated by DOT (Direction of Trade).
2. DOT data, based on figures as reported by copartners about each other, often differ markedly from figures reported to IMF-IFS by each country about its own trade. For example, the IMF-IFS series gives Mexico exports to the world as US$27,878 million, imports as US$45,982 million. (The IMF-IFS figures are presented only as yearly totals in source below in which DOT data are given in detail.)
3. Canadian trade with Mexico is understated because it becomes "lost" as it travels through the United States. The lost amount is estimated at 15 to 30 percent of each country's trade.

SOURCE: Calculated from IMF-DOT-Y, 1993, pp. 280–281.

Table A6

MEXICO FOREIGN TRADE SHARES, 1992

(%)

Area	Mexico Exports	Mexico Imports
World	100.0	100.0
European Community	8.2	14.0
Japan	2.6	6.5
United States	76.4	63.4
Canada	5.2	1.0
Cuba	.2	.2
SICA	.9	.2
Other Western Hemisphere	3.7	3.4
Other World	2.8	11.3

SOURCE: Calculated from Table A5.

3. Free Trade and the Challenge of MERCOSUR

Complications as well as opportunities have greeted Mexico's efforts to expand free trade in the Americas (with NAFTA included explicitly or implicitly). Beyond its successes in forging FTA agreements in the Western Hemisphere, Mexico faces new issues raised to the north and south. Canada and Brazil, for example, seek leadership roles in world trade, while the U.S. plan for expanding NAFTA is not always clear because of mounting congressional opposition by the "isolationist" Republicans and Democrats who took office in January 1995.

The U.S. government has concerns about the overlapping FTAs established by Mexico. One is the "rules of national origin" issue, where, for example, Costa Rican goods enter Mexico under the new Mexico-Costa Rica free trade agreement and then are sent to the United States as Mexican goods under NAFTA. Another concern is that Mexico's proliferating trade agreements may force the United States to bring other countries into NAFTA with a major unintended result: increased protectionism not through tariffs as in the past but through sophisticated import regulations that impede trade.

Under NAFTA such regulations already have been incorporated into U.S.-Canadian and U.S.-Mexican trading agreements and could multiply under an expanded NAFTA. They include in-

Table A7

UNITED STATES FOREIGN TRADE,[1] 1992

(M US, FOB)[2]

Area	USA Exports	USA Imports
World	447,400	552,616
European Community	102,851	97,110
Japan	47,764	99,481
Canada[3]	90,156	101,292
Mexico[3]	40,598	35,886
Cuba	0	0
SICA	4,293	4,056
Costa Rica	1,348	1,542
El Salvador	741	409
Guatemala	1,208	1,182
Honduras	808	851
Nicaragua	188	72
Other Western Hemisphere (including other countries not listed below)	30,848	31,916
Argentina	3,222	1,370
Bolivia	222	166
Brazil	5,740	8,145
Chile	2,455	1,627
Colombia	3,282	3,064
Dominican Republic	2,098	2,452
Ecuador	999	1,482
Haiti	217	111
Panama	1,100	273
Paraguay	415	38
Peru	1,002	781
Uruguay	231	281
Venezuela	5,438	8,636
Other World	130,890	218,847

1. Calculated by DOT.
2. DOT data, based on figures as reported by copartners about trade with each other, often differ markedly from figures reported to IMF-IFS by each country about its own trade. For example, the IMF-IFS series (also shown in source below but for total only and not detail) gives U.S. exports to the world as US$448.164 million, imports as US$553.923 million.
3. Includes some Mexican-Canadian trade which is "lost" as it passes through the United States. See notes in Tables A5 and A9.

SOURCE: Calculated from IMF-DOT-Y, 1993, pp. 403–405.

Table A8

UNITED STATES FOREIGN TRADE SHARES, 1992

Area	United States Exports	United States Imports
World	100.0	100.0
European Community	23.0	17.6
Japan	10.7	18.0
Canada	20.2	18.3
Mexico	9.1	6.4
Cuba	.0	.0
SICA	1.0	.7
Other Western Hemisphere	6.9	5.8
Other World	29.1	33.2

SOURCE: Calculated from Table A7.

creased inspections and paperwork requirements intended to limit imports by imposing complicated new rules of national origin and labeling standards, numerous antidumping lawsuits, new health and safety requirements, and new labor and environmental standards. The result could be that many businesses will be no better off than they were before NAFTA.[17] From another point of view, however, enforcement of the rules of origin is having the desired result of assuring that supplies are produced to stimulate the expansion of FTAs. Mexico is forcing importers to utilize raw materials and manufacturing components from NAFTA countries or other countries with which it has FTAs, such as Bolivia, Chile, and Costa Rica.[18]

Although some observers expected Canada to oppose an expanded NAFTA precisely because of the bureaucratic struggles it has experienced with

[17]See Allen R. Myerson, "New Limits Are Seen to Freer Trade," *New York Times*, September 6, 1994, p. C1, for a review of the report to the U.S. Federal Reserve Bank by William C. Gruben and John H. Welch. See also Juanita Darling, "Despite NAFTA, Barriers Remain for Small Business," *Los Angeles Times*, September 1, 1994. Laurens Grant, "Ahoga la burocracia a las comisiones del TLC," *Excélsior*, September 27, 1994. Cross-border trade has been hampered by an unrealistically low nontaxable limit of US$50 per individual on the amount of goods that can enter Mexico from the United States. (The nontaxable limit when entering Mexico by air or boat is US$300.)

[18]See William Kail, "[Mexican] Importers Squeezed by Customs Rules," *Mexico City News*, September 24, 1994. Kail notes that Mexico is seeking to prevent "triangulation," a situation where non-FTA countries circumvent Mexican antidumping laws by shipping goods through a Mexico-related FTA country and falsely claiming origin there of the goods.

Table A9

CANADA FOREIGN TRADE,[1] 1992

(M US, FOB)[2]

Area	Canada Exports	Canada Imports
World	133,447	126,830
European Community	9,315	11,897
Japan	6,073	8,914
United States	103,860	79,294
Mexico[3]	613	2,207
Cuba	94	212
SICA	66	307
Costa Rica	20	109
El Salvador	10	10
Guatemala	19	34
Honduras	9	18
Nicaragua	8	27
Other Western Hemisphere (including other countries not listed below)	1,822	1,630
Argentina	80	93
Bolivia	11	4
Brazil	506	590
Chile	128	150
Colombia	195	108
Dominican Republic	50	27
Ecuador	56	89
Haiti	6	1
Panama	16	5
Paraguay	4	1
Peru	74	79
Uruguay	10	17
Venezuela	386	309
Other World	11,604	22,369

1. Calculated by DOT.
2. DOT data, based on figures as reported by copartners about each other, often differ markedly from figures reported by each country about itself and published in IMF-IFS series. For example, the IMF-IFS series (also given in source below but only for totals and not detail) gives Canada exports to the world as US$134,056 million, import as US$26,003 million.
3. Canadian trade with Mexico is understated because it becomes "lost" as it travels through the United States. The lost amount is estimated at 15 to 30 percent of each country's trade.

SOURCE: Calculated from IMF-DOT-Y, 1993, pp. 123–125.

Table A10

CANADA FOREIGN TRADE SHARES, 1992

(%)

Area	Canada Exports	Canada Imports
World	100.0	100.0
European Community	6.9	9.3
Japan	4.4	7.0
United States	74.4	62.5
Mexico	.4	1.7
Cuba	.1	.2
SICA	.1	.2
Other Western Hemisphere	1.3	1.3
Other World	12.4	17.8

SOURCE: Calculated from Table A9.

the United States about issues such as rules of origin and implicit subsidies, Canadian Minister of International Trade Roy McLaren stated otherwise. Meeting with Chilean Treasury Minister Eduardo Aninat in Santiago in October 1994, he offered Canada's help to restart the stalled NAFTA negotiations between the United States and Chile. McLaren noted that, because NAFTA lacks a formal method for adding new members, each member is free to initiate talks with prospective members; and McLaren proposed to work with Mexico to make Chile's NAFTA membership a reality.[19]

Figure A:2 presents the Canadian view of possible outcomes of trade liberalization in the Americas. (Although Canada is presently a member of NAFTA, it may not necessarily remain so; the conditions of its membership could be altered if Quebec province becomes independent.) The graph presents alternative groupings with Canada in or out of NAFTA. With Canada a member of NAFTA, the present trilateral FTA could remain in place or could lead to a plurilateral FTA. Without Canada, trade in the Americas could develop as a hemispheric system of spokes with the United States as the hub.[20]

[19] *Reforma* (Mexico City), October 7, 1994.

[20] Ronald J. Wonnacott, *NAFTA: A View from Canada*, North American Forum Policy Paper 94-3 (Stanford: Stanford University, 1994).

Table A11

EUROPEAN UNION FOREIGN TRADE,[1] 1992

(M US)[2]

Area	European Union	
	Exports	Imports
World	1,470,400	1,465,200
Japan	62,901	31,399
United States	102,851	97,110
Canada	9,315	12,194
Mexico	3,340	7,649
Cuba	304	641
SICA	873	992
Costa Rica	459	340
El Salvador	87	171
Guatemala	202	335
Honduras	155	47
Nicaragua	110	99
Other Western Hemisphere (including other countries not listed below)	26,068	25,192
Argentina	3,799	3,912
Bolivia	284	166
Brazil	10,730	5,202
Chile	2,856	2,257
Colombia	1,878	1,614
Dominican Republic	142	350
Ecuador	575	591
Haiti	27	71
Panama	185	132
Paraguay	203	204
Peru	964	626
Uruguay	418	317
Venezuela	1,642	3,024
Other World	1,264,748	1,301,423

1. Calculated by DOT.
2. DOT data, based on figures as reported by copartners about trade with each other, often differ markedly from figures reported to IMF-IFS by each country about its own trade. (See Table A5, note 2.)

SOURCE: Calculated from IMF-DOT-Y, 1993, pp. 57, 59, 61.

Figure A:3 illustrates Mexico's view of trade integration in the Americas. This configuration places Mexico at the hub, linking the Caribbean, MERCOSUR, and Chile to NAFTA, or at least as a transition to an expanded NAFTA. On the one hand, this structure solves a political problem for the United States, where protectionism, antiforeign sentiments, and fears of job losses and subservience to an extranational power such as GATT are on the rise. On the other hand, the plan complicates issues such as the rules of origin governing the use of raw materials and manufacturing inputs.

Table A12

EUROPEAN UNION FOREIGN TRADE SHARES, 1992

Area	European Union	
	Exports	Imports
World	100.0	100.0
Mexico	.2	.5
Japan	4.3	2.1
United States	7.0	6.6
Canada	.6	.8
Cuba	.0	.0
SICA	.1	.0
Other Western Hemisphere	1.7	1.8
Other World	86.1	88.2

SOURCE: Calculated from Table A11.

Concern in the United States about its trade situation is becoming entangled with the possibility that the U.S. government may have to assume responsibility for two very troubled Caribbean economies.[21] Haiti has been a problem since October 1994 when the United States and the United Nations embarked on a plan to create a new national infrastructure for the post-Cédras period. Cuba is a short-term problem for the United States, as Fidel Castro's prospects dim for maintaining his totalitarian power in the face of a crumbling economy. The United States believes that it must undertake a leadership role in both cases, to discourage massive emigration by boat to the Florida coast.

U.S. policy in the Caribbean is further complicated by the fact that in 1993 President Clinton removed many of the tax benefits that had been so successful in attracting U.S. investment to Puerto Rico.[22] The policies of both Republicans and Dem-

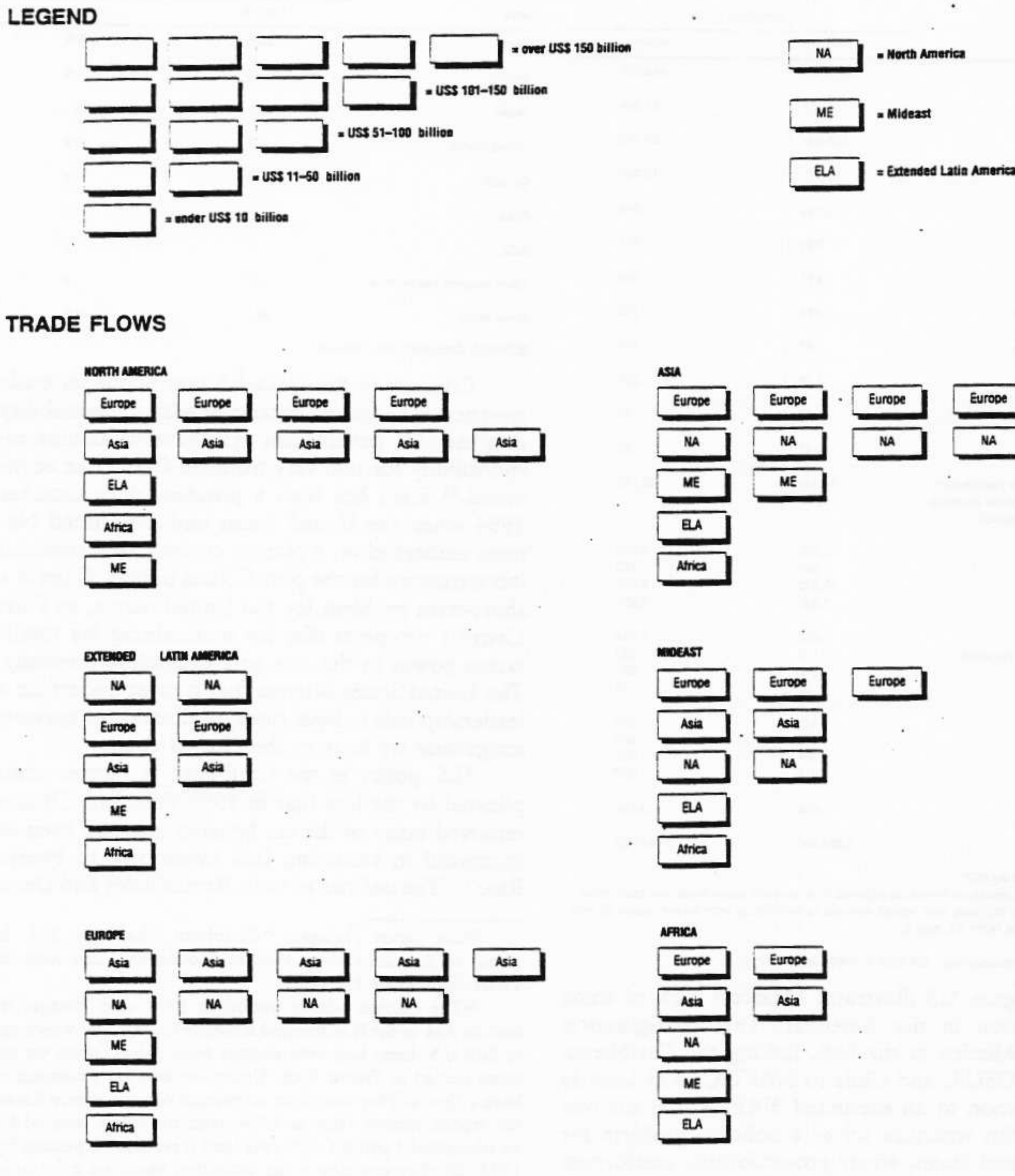
[21] See James Flanigan, "Caribbean Challenge: U.S. Is About to Acquire Cuban, Haitian Economies," *Los Angeles Times*, September 18, 1994.

[22] The Clinton administration in 1993 won changes in Section 936 of the U.S. Internal Revenue Code under which up to 300 U.S. firms had been exempt from federal taxes on income earned in Puerto Rico. Under the new law, companies have a choice. They can claim 60 percent of their Puerto Rican tax credits current value in 1994, with the credit reduced by an additional 5 percent each year until it reaches 40 percent by 1998. Or they can take a tax deduction based on a formula that reflects Puerto Rican wages, fringe benefits, and depreciation. The latter option is more attractive to labor-intensive industries. The administrator of economic development for the Commonwealth of Puerto Rico, Clifford Myatt, suggested at the time that Section 936 was modified so that in the long term Puerto Rico will have to look for business investment

Figure A:1

TRADE FLOWS AMONG MAJOR WORLD REGIONS

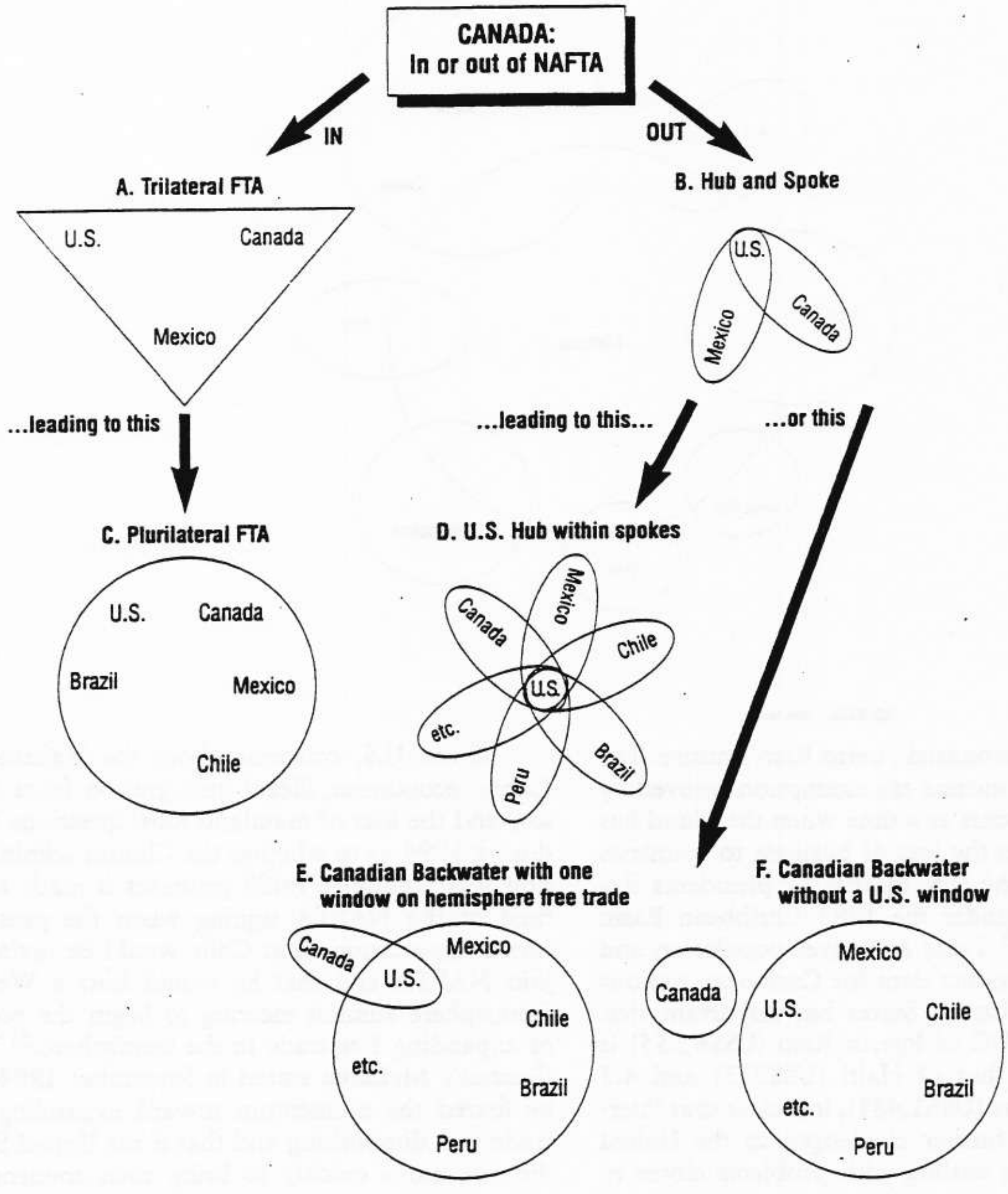
(Early 1990s)



SOURCE: Adapted from *Los Angeles Times*, May 18, 1993, p. H/11, which is based upon IMF-DOT-Y, 1992.

Figure A:2

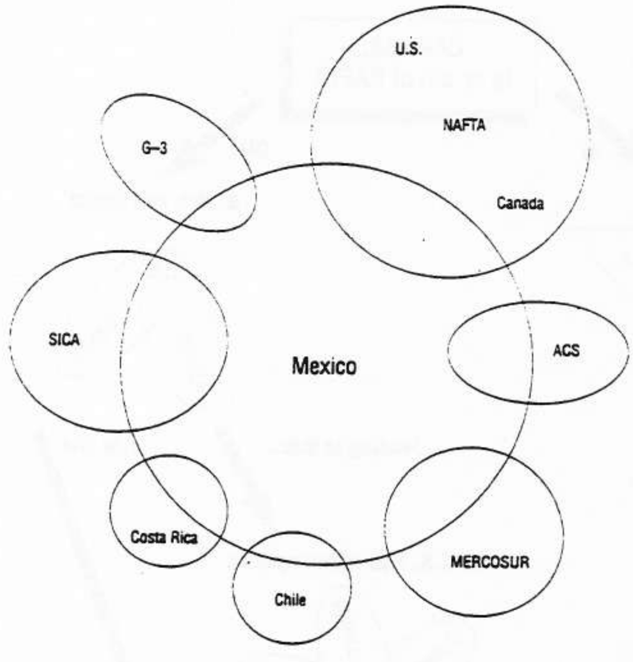
CANADIAN VIEW OF POSSIBLE TRADE LIBERALIZATION IN THE AMERICAS



SOURCE: Ronald J. Wonnacott, *NAFTA: A View from Canada*, North American Forum Policy Paper 94-3 (Stanford: Stanford University, 1994).

Figure A:3

MEXICAN VIEW OF TRADE INTEGRATION IN THE AMERICAS



SOURCE: See text.

ocrats have compromised Puerto Rico's future. The phase out of the income tax exemption enjoyed by Puerto Ricans occurs at a time when the island has been reeling from the loss of business to countries given access to the U.S. market by presidents Reagan and Bush under the 1983 Caribbean Basin Initiative (CBI).[23] Table A16 gives population and gross national product data for Caribbean nations with which the United States has important ties. Because the GNP/C of Puerto Rico (US$6,555) is about 18 times that of Haiti (US$373) and 4.5 times that of Cuba (US$1,481), it is clear that Puerto Rico will be further challenged as the United States focuses on dealing with problems closer to its shores.

from Europe and Asia rather than from mainland United States. See David R. Olmos, "Hazy Forecast for Puerto Rico [with Modification of Section 936]," *Los Angeles Times*, August 16, 1993.

[23]On the CBI, established in 1983, see James W. Wilkie, "On Defining the Concepts of Latin America, the Caribbean, and Economically Questionable Nations (EQNs)," in James W. Wilkie and Adam Perkal, eds., *Statistical Abstract of Latin America*, vol. 23 (Los Angeles: UCLA Latin American Center Publications, 1984), pp. xx-xxv.

Given U.S. concerns about the Haitian and Cuban economies, illegal immigration from Mexico, and the loss of mainland jobs, questions arose during 1994 as to whether the Clinton administration was willing to fulfill promises it made at the time of the NAFTA signing when the president raised expectations that Chile would be invited to join NAFTA and that he would host a Western Hemisphere summit meeting to begin the process of expanding free trade in the hemisphere.[24] Thus Canada's McLaren stated in September 1994 that he feared the momentum toward expanding free trade was diminishing and that if the United States did not move quickly to bring such countries as

[24]Seeming U.S. reluctance to move decisively on expanding NAFTA may also be influenced by the erroneous view of Charlene Barshefsky, deputy to U.S. Trade Representative Mickey Kantor, who suggested in a memo circulated internally in the Clinton administration that Mexico will not want to support U.S. plans to expand NAFTA. Ironically, Barshefsky's interpretation may be backwards. She claims that Mexico (not the United States) will jealously guard the NAFTA connection to benefit only itself. See Keith Bradsher, "U.S. Memo Says Mexico May Bar NAFTA Growth," *New York Times*, March 1, 1994, who quotes Mexican Ambassador Jorge Mantaño as strongly denying any truth in Barshefsky's memo.

Chile and Argentina into NAFTA, no other country would ever be admitted.[25]

In response to such pressure, President Clinton convened the Summit of the Americas in Miami December 9-11, 1994, at which 34 countries were represented. (Cuba, the hemisphere's sole dictatorship, was not invited.) At the meeting, Clinton announced plans to bring Chile into NAFTA (effective in 1996). He also agreed to establish a Free Trade Agreement of the Americas (FTAA) but put off the date to the year 2005.[26] Under the terms of the FTAA, when fully implemented, NAFTA cars and computers could be shipped to South America and NAFTA consumers could purchase duty-free commodities such as Chilean grapes, Argentine wine and beef, and Colombian flowers. An indication of Latin America's interest in freer trade is the fact that Latin American countries have reduced tariffs on outside goods from an average of 56 percent in 1985 to 15 percent at the end of 1993.[27]

Because of the delay in structuring the FTAA, Mexico's strategy to negotiate with MERCOSUR (as well as individual countries) to in effect create the basis for Western Hemispheric free trade becomes all the more important. Mexico, however, has encountered Brazil's desire to establish SAFTA under its leadership. Rather than adopting the Mexican model for establishing free trade agreements, Brazil argues that FTAs should be developed under the umbrella of ALADI.[28]

Although according to ALADI rules Mexico should be expelled because it belongs to an FTA such as NAFTA (thus giving Mexico benefits denied to co-members of ALADI), Argentina and other ALADI countries won a special protocol from ALADI to prevent Mexico's expulsion. As part of the deal to permit Mexico to negotiate with MERCOSUR, Mexico must agree to lower tariffs in order to compensate ALADI countries which found themselves in a disadvantaged position relative to Mexico and the benefits it enjoyed as a member of NAFTA.

Brazil's view, strengthened by the October 1994 presidential election victory of Fernando Henrique Cardoso, is that SAFTA has the potential to grow much faster than NAFTA. Furthermore, Brazil argues that unless SAFTA is established before any negotiations with NAFTA take place, South American countries that sign bilateral agreements with Mexico or the United States will lose the South American region's bargaining chips, thus precluding SAFTA from establishing equal footing in the negotiations toward creating hemispheric free trade.

MERCOSUR, signed on March 26, 1991, became effective on January 1, 1995. The accord ends tariffs on 95 percent of goods traded among its four member countries. (Tariffs had been gradually eliminated within MERCOSUR; 82 percent of goods would be free from customs duties by 1994.)[29] As a potential counterweight to NAFTA, MERCOSUR is contemplating making Chile a member, but Chile wants to join as an associate member under its own scheme to use ALADI rules for its benefit.[30] For Chile to join MERCOSUR, it needs to make decisions about import surges, trade preferences, and export subsidies and needs to protect its trade with other FTAs such as Mexico and NAFTA. To join MERCOSUR unconditionally, Chile would have to raise tariffs to non-MERCOSUR countries.

Chile, which dropped out of the Andean Pact in 1976 over a disagreement with the pact's policy to limit repatriation of foreign investment profits,[31] has signed an FTA with Argentina while flirting with MERCOSUR. A leading promoter of free trade, after Mexico, Chile has also signed

25"Peligra la extensión del TLC a países de AL: Roy McLaren," *Excélsior*, September 24, 1994. See also *Excélsior's* accompanying front-page article, Juan Castaingts Teillery, "TLC, la economía y poder mundial."

26On the schedule for Chile, see Table A1. On FTTA negotiations, see Kleinberg, "After Americas Summit." The Clinton administration favored the name "AFTA," but that would be confused with "Asian Free Trade Agreement," on the one hand, and "Aftosa" (Spanish for "hoof-and-mouth disease"), on the other hand. "FTAA" is an unfortunate choice because it cannot be pronounced as though it were a word.

27James Brooke, "With a View of One Hemisphere, Latin America Is Freeing Its Own Trade," *New York Times*, December 29, 1993.

28"Poles Apart: Mexico and Brazil," *Mexico and NAFTA Report*, RM-94-09, September 29, 1994.

29William R. Long, "Trade Winds Are Blowing Across America," *Los Angeles Times*, January 1, 1994; Wilson, "The Next Step."

30"Decision Time for the MERCOSUR."

31For the history of memberships in Western Hemispheric organizations, see James W. Wilkie and Carlos Alberto Contreras, eds., *Statistical Abstract of Latin America*, vol. 30, part 1 (Los Angeles: UCLA Latin American Center Publications, 1993), pp. x-xix.

agreements with Bolivia, Colombia, and Venezuela.[32] Chile is actively seeking NAFTA membership which means, if logic were to prevail, that "NAFTA" would become "NACFTA"—the North America and Chile Free Trade Area.[33]

Aware of potential intraregional economic imbalances resulting from implementation of MERCOSUR and expansion of the bloc, Argentine President Carlos Saúl Menem fears that Argentina's industry will be too heavily substituted by Brazilian products, and is therefore interested in a NAFTA connection to counter Brazil's influence. Brazil, in the meantime, has demonstrated little inclination to join NAFTA but as part of the path toward SAFTA has spoken of a possible Mercado del Norte (MERCONORTE) which would include its Amazon neighbors—Venezuela, Colombia, Ecuador, Peru, Bolivia, Guyana, and Suriname.[34]

At the time of MERCOSUR's inauguration in 1995, the United States finds its international economic leadership under attack by its own Congress. Even as many countries in South America seek admission to MERCOSUR, the European Union has made overtures to develop a special MERCOSUR relationship. Speaking about negotiations with the EU, the Argentine Minister of Economy Domingo Carvallo noted in September 1994 that talks are much more advanced with the EU than with NAFTA.[35] Carvallo stated that since the U.S. Congress had not granted "fast-track" negotiating authority to President Clinton (if indeed Clinton had seriously sought it in light of his concern that the request would reinvigorate the anti-NAFTA forces to oppose extension of NAFTA), the U.S. government is unable to negotiate on firm ground. Clinton's negotiating position to create the FTAA has deteriorated since then owing to the U.S. electorate's repudiation of the Clinton leadership in the November 1994 election. Political power in the United States has shifted from the presidency to the Congress, which is now dominated by isolationists (both Republican and Democrat) who do not understand globalization of markets and are suspicious of international "entanglements."[36]

With NAFTA expansion and the FTAA in trouble in the United States, Mexico's role as de facto leader of the FTAA movement was only momentarily upstaged by the U.S. role at the Summit of the Americas. In proposing a long-range strategy to counter Brazil's intention to create SAFTA, Mexico announced on September 26, 1994, suspension of its negotiations with MERCOSUR.[37] This strategy, if only temporary, encourages Mexico's allies such as Argentina, Bolivia, Chile, Colombia, and Venezuela to mobilize against Brazil's "SAFTA First" plan. In the meantime, while threatening to wait for MERCOSUR to decide on its future direction and how and when to open relations with outsiders, Mexico has proceeded on two bilateral fronts, a move that can not only bring further pressure on Brazil but also immediately benefit Mexico.[38]

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[32]Brooke, "With a View of One Hemisphere."

[33]The possible name "Western Hemisphere Free Trade Area (WHFTA)" is discussed, for example, by Richard G. Lipsey, "Getting There: The Path to a Western Hemispheric Free Trade Area," in Sylvia Saborio, ed., *The Premise and the Promise: Free Trade in the Americas* (New Brunswick, N.J.: Transaction Publishers, 1992), pp. 95-116. Lipsey argues, however, that the WHFTA idea is a pipe dream.

[34]Steven Greenhouse, "U.S. Plans Expanded Trade Zone," *New York Times*, December 29, 1993.

[35]"Interesa a la UE un TLC con el MERCOSUR y Chile," and "Posible tratado [UE] con el Pacto Andino," *Excélsior*, September 29, 1994. The EU has offered aid and technical assistance to the Andean Pact but must overcome resentment there about its limitation on banana imports from Latin America. Ecuador had hoped to lead a united front against the EU's policy to favor countries formerly colonized by Europe, but Colombia, Costa Rica, Nicaragua, and Venezuela struck their own agreement. These four countries gained higher quotas in return for dropping their complaints against the EU system of apportionment of banana imports. See "Banana Producers Fail to Heal Split," *Latin America Weekly Report*, WR-94-38, October 6, 1994.

[36]When, for example, the new isolationists in Congress refused to support Clinton's plan to assist Mexico and calm fears among developing markets worldwide of the expanding liquidity crisis of December 19, 1994-January 31, 1995, Clinton had to pursue the aid package on his own initiative. He used the U.S. Exchange Stabilization Fund (US$20 billion), and mobilized the IMF (US$17.8 billion), the Bank of International Settlements (US$10 billion), as well as Canada and Latin American countries (US$2 billion) to provide the nearly US$50 billion in loans and loan guarantees necessary to maintain international investor confidence that local currencies can be converted into dollars. See *New York Times*, February 1, 1995.

[37]See "Sorprende la posición de México en la ALADI [de suspender negociaciones comerciales con el MERCOSUR]," *Excélsior*, September 27, 1994.

[38]For information on these two fronts, respectively, see Mike Zellner, "MERCOSUR: Can Rivals Become Partners?" *El Financiero Internacional* (Mexico City), July 22, 1991, p. 5; and "En marcha, el Tratado de Libre Comercio México-Bolivia," *Epoca* (Mexico City), September 19, 1994, pp. 46-47.

First, Mexico has been expanding its trade with Argentina. Under a Mexico-Argentina agreement, which bypassed the required open bidding procedure, a Mexican private-public joint venture has contracted with an Argentine consortium, led by Techint, to build a natural gas pipeline from Bahía Blanca to Patagonia. In exchange, Mexico has agreed to import from Argentina high value added goods and services equal to the value of the pipeline.[39]

Second, Mexico is touting its September 1994 FTA with Bolivia.[40] This Mexico-Bolivia venture specifically permits entry of other countries or groups of countries. Under the agreement 97 percent of Mexico's exports may enter Bolivia duty free and 99 percent of Bolivia's exports may enter Mexico duty free immediately. The pact discourages triangulation by eliminating trade taxes on goods produced entirely within the FTA, except that textiles are allowed without duties to buy imports outside the region during a four-year adjustment period.

Mexico is investing heavily in Bolivia and is providing technical assistance to help increase Bolivia's natural gas sales to Argentina (6.1 million cubic feet daily since 1971) and to open new markets in Brazil, Chile, and Paraguay.[41] In its geographical position as the "cockpit of South America," Bolivia sees itself as the supplier of natural gas to its neighbors. Bolivia signed an agreement with Brazil in February 1993 to build a 2,228-kilometer pipeline from Santa Cruz to São Paulo, beginning twenty years of sales in 1997. Brazil will purchase 8 million cubic meters of natural gas daily from Bolivia and after seven years will double its purchases.

Bolivia's National Gas Company, which is to be reorganized with Mexican help,[42] projects diplomatic as well as monetary gains from sales to Chile and Paraguay. The agreement will help overcome problems of international tension that date back to the War of the Pacific (1886-1888) and the Chaco War (1932-1935). Bolivia and Chile have agreed to build a 1,000-kilometer pipeline from Tupiza to Antofagasta to begin natural gas sales as early as February 1995.

Meanwhile, to energize its maquila assembly plants and meet the demands of industrial expansion, Mexico has increased imports of U.S. natural gas to the northern border region. Since NAFTA, maquilas[43] (before NAFTA defined as foreign-owned or leased assembly plants established in Mexico for processing of U.S. inputs which were held in-bond until export, with taxes paid only on the value added by labor to the goods)[44] have undergone a fundamental change in operation. These plants, which in 1993 had 550,000 workers, or 17 percent of Mexico's manufacturing employees, are no longer required to register with the Mexican government to receive a tax exemption on imported inputs because most U.S. (and Canadian) goods may now enter duty free, without being held in-bond.[45] (All final tariffs will be eliminated within 10 to 15 years.) Furthermore, all maquila goods can now be sold in Mexico. Hence, the term maquila now refers to a "NAFTA-based assembly plant located in Mexico, the United States, or Canada."

NAFTA has affected Japan's ability to use Mexico as an export platform to the United States. Whereas previously Japan could import its inputs from Asia and ship them to the United States and pay minimal duties, it must now pay duties on inputs not purchased within the NAFTA area. This

[39] Zellner, "MERCOSUR: Can Rivals Become Partners?," p. 5.

[40] "En marcha, el Tratado de Libre Comercio México-Bolivia," pp. 46- 47.

[41] "Será Bolivia exportador de gas [a Paraguay, Argentina y Chile]," *Excélsior*, October 4, 1994.

[42] According to Antonio Cisneros, PROFMEX La Paz, speaking at the PROFMEX International Policy Analysis Symposium titled "Mexico and Its Development Process Seen from the World," Mexico City, July 29, 1994.

[43] An alternate term is "maquiladora," which we prefer to use to apply to individual plants that fall under the generic term of maquila. The word "maquila" comes from Spain where it referred to the toll charged by the miller or lord of the manor for processing another's grain, flower, or oil. On the history and statistical growth of Mexico's maquila industry, see James W. Wilkie, "From Economic Growth to Economic Stagnation in Mexico: Statistical Series for Understanding Pre- and Post-1982 Change," in James W. Wilkie, David E. Lorey, and Enrique Ochoa, eds., *Statistical Abstract of Latin America*, vol. 26 (Los Angeles: UCLA Latin American Center Publications, 1988), ch. 35, especially pp. 930-935.

[44] On the maquila in the historical context of Mexico's economy, see James W. Wilkie, "The Six Ideological Phases of Mexico's 'Permanent Revolution' Since 1910," in James W. Wilkie, ed., *Society and Economy in Mexico* (Los Angeles: UCLA Latin American Center Publications, 1991), ch. 1.

[45] For required reading on the maquila industry pre- and post-NAFTA, see Héctor Vázquez Tercero, "El TLC y las maquiladoras," *El Financiero*, September 26, 1994, p. 32.

situation will change in 2001 when, according to Article 303 of NAFTA, inputs from outside the region which are incorporated into export products of the region will be charged duties at the lowest rate established by the importing and exporting countries.[46]

Establishment of NAFTA has resolved two major problems in U.S.-Mexican relations and has begun to resolve a third, at the expense of Japan and other Asian countries. *Mexico Policy News* notes:[47]

> First, [because] Japan's policy exploited northern Mexico as a platform for assembling Asian component input systems for shipment as finished goods into the U.S. market, . . . there was less demand for U.S.-manufactured components and less job creation for the United States as well as Mexico. At the same time, the finished goods imported into the United States from Japanese-owned assembly plants in Mexico counted as Mexican exports in spite of the fact that up to 90 percent of inputs came from Asia; and the imports paid duty only on the value added to the goods by assembly jobs.

That the pre-NAFTA maquila industry represented a back door into the U.S. market is illustrated by the case of Korean television manufacturers which could import picture tubes into the United States through Mexico and pay only 5 percent U.S. tariff under U.S.-Mexican border arrangements instead of the 15 percent they will now have to pay under NAFTA.[48]

Second, maquilas were limited in the amount of production they could sell in Mexico. Foreign-owned auto manufacturing plants enjoyed some flexibility in that the number of cars they could sell in Mexico was only limited by the number exported, but these plants had to buy 36 percent of their spare parts from Mexican suppliers.[49] In addition, there were import license requirements and Mexican tariffs as well as restrictions on access of U.S. trucks to Mexico. For Mexico, the maquila operations were hampered by the fact that young Mexican workers spent time and energy assembling products but did not participate in the marketing of those products.

Third, inadequate Mexican infrastructure in such areas as public health, education, housing, transportation, water supply, sewage treatment, and environmental controls has hindered maquila operations and caused environmental and social problems on both sides of the border. NAFTA addresses the problem of infrastructure underfunding; a North American Development Bank has been established to help in worker adjustment problems and to improve the infrastructure in critical areas.

With NAFTA Mexico will lose some of its pre-NAFTA benefits but stands to win big in other ways. It may initially import more autos from the United States, but, given the new rules of origin for product inputs, may experience substantial gains as Mexican suppliers come on line to meet the NAFTA content rules: autos, minimum 62.5 percent; auto parts, 60 percent; televisions, 33 percent; television picture tubes, 100 percent.[50]

Mexico's role as linchpin for FTA development in the Western Hemisphere enhances its position in the global economy. Because the United States is determined to reduce its trade deficit with Japan (US$50-60 billion),[51] Japan must consider expanding operations in Mexico by investing in local suppliers (as well as purchasing components from the United States and Canada), thus allowing it to maintain U.S. market share and offset its openings to foreigners in the Japanese market. Japan could close its maquila plants in Tijuana and move the operations to China where the hourly wage is but one-tenth the wage (US$2.25) paid to Mexican maquila workers. These low wages, however, are offset by higher transportation costs, higher tariffs, and the loss of the U.S. market and possible access to Mexico's FTA partners in the Americas. Such considerations are especially important to Japan and other Asian countries in light of the U.S. reluctance to expand NAFTA to include

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[46]Ibid. See also "In-Bond 2001," *El Financiero*, October 17, 1994; and Herb Vest, "NAFTA Provides Tax Shelters for Maquiladoras," *El Financiero Internacional*, December 14, 1992.

[47]Adapted from George Baker, Paul Ganster, Stephen Jenner, and James W. Wilkie, "Why Japan Wins if Perot's Anti-NAFTA Policies Prevail," *Mexico Policy News* 9 (1993), p. 52.

[48]See Bob Davis, "Pending Trade Pact with Mexico, Canada Has a Protectionist Air," *Wall Street Journal*, July 22, 1992.

[49]Ibid.

[50]Baker, Ganster, Jenner, Wilkie, "Why Japan Wins."

[51]Jim Impoco, "Smashing Trade Barriers," *U.S. News and World Report*, October 11, 1993, p. 71.

APEC (Asia Pacific Economic Cooperation), which is a forum for discussion of policy, not an economic bloc. Mexico, meanwhile, joined APEC in 1993.[52]

Mexico's vision in developing FTAs has not been fully recognized, even in Mexico. Thus, Eugenio Anguiano wrote in 1994 that Mexico lacks any integrated commercial policy for its foreign commerce.[53] Other observers wonder if the idea of hemispheric integration will fail, whether led by a single country such as Mexico or by many countries as discussed above. Yet after reviewing past achievements, one study finds that pessimism unwarranted.[54]

The success of the EU in not only increasing its intraregional share of trade from 35 percent to over 60 percent in 1990, but also in capturing 41 percent of world trade (Table A4, Part II) shows why trade blocs are so popular now. Such blocs are organized in order to expand their share in world trade, thus changing the proportions that existed in 1992 when the Asia-Pacific region accounted for 26 percent of world trade compared to the Western Hemisphere's 20 percent (Table A14).

The diversity of the Western Hemisphere countries, illustrated by population size and trading capacity, is shown in Table A16. Although the United States dominates trade in the hemisphere, projections show that by 2010 its biggest export market will be Asia (Table A15).

The MERCOSUR challenge to Mexico for leadership is a healthy one, in that it has attracted the attention of the EU, which is concerned about how to interact with the developing FTAs in the Americas. Because 32 percent of MERCOSUR's exports go to Western Europe and exports to NAFTA are only 21 percent (Table A13), MERCOSUR seems more interested in Europe than NAFTA.

The EU, however, exports less than 2 percent of its total exports to MERCOSUR while more than 9 percent go to NAFTA (Table A12). Recog-

[52]"No pretende EU expandir el TLC dentro de la APEC," *Excélsior*, September 29, 1994.

[53]Eugenio Anguiano, "Hace falta un enfoque integrado de política comercial para México," *Excélsior*, October 23, 1994.

[54]See C.A. Primo Braga, Raed Safadi, and Alexander Yeats, "Regional Integration in the Americas: Déja Vu All Over Again?" *The World Economy* 17:4 (1994), pp. 577-601.

Table A13

MERCOSUR EXPORTS, 1992

Area	M US	Percent
World	50,786	100.0[a]
Canada, United States, Mexico	10,516	20.7
Western Europe	16,120	31.8
Japan	2,814	5.5
Andean Group	2,201	4.3
SICA	254	.5
CARICOM	104	.2
MERCOSUR	7,007	13.8
Argentina	3,365	6.6
Brazil	2,050	4.0
Paraguay	762	1.5
Uruguay	840	1.7
Other Latin America	4,681	9.2

a. Detail excludes 13.1 percent "Other World" not listed.

SOURCE: Adapted from Gary Clyde Hufbauer and Jeffrey J. Schott, *Western Hemisphere Economic Integration* (Washington, D.C.: Institute for International Economics, 1994), pp. 36–37.

Table A14

WORLD EXPORTS, 1992

Area	B US	Percent
World	3,687	100.0[a]
Western Hemisphere	731	19.8
Canada, United States, Mexico	624	16.9
Latin America (excluding Mexico)	107	2.9
Western Europe (EU, EFTA, Turkey)	1,699	46.1
Asia-Pacific	965	26.1
Developing Asia[1]	573	15.5
Japan, Australia, New Zealand	392	10.6
Africa	90	2.4
Middle East	144	3.9

1. Afghanistan, American Samoa, Bangladesh, Bhutan, Brunei, Cambodia, China, Fiji, French Polynesia, Guam, Hong Kong, India, Indonesia, Kiribati, Korea, Lao, Macao, Malaysia, Maldives, Mongolia, Myanmar, Nauru, Nepal, New Caledonia, Pakistan, Papua New Guinea, Philippines, Singapore, Solomon Islands, Sri Lanka, Thailand, Tonga, Tuvalu, Vanuatu, Vietnam, Western Samoa, and Asia not specified (including Taiwan).

a. Detail excludes 1.7 percent "Other World" not listed.

SOURCE: Adapted from Hufbauer and Schott, *Western Hemisphere Economic Integration*, p. 29.

Table A15

U.S. EXPORTS TO EMERGING ECONOMIES (US of 1994)

Market	Exports 1994[a]	Exports 2010[b]
East Asia[c]	94	248
Latin America[d]	88	232
Canada	109	147
European Union	95	128
Japan	52	88
Rest of world	53	72

a. Annualized.
b. Projections.
c. Excludes Japan.
d. Includes Mexico.

SOURCE: *New York Times*, November 4, 1994, p. C2, based on data from the Office of the United States Trade Representative.

Table A16

SUMMARY OF WESTERN HEMISPHERE TRADE BLOCS

Agreement and Population (M)	Member Countries	GDP (B US)
NAFTA (380.3)[a]	United States	5,905.0
	Canada	566.0
	Mexico	295.0
	Total	6,766.0
G3 (Group of Three)[b] (148.3)	Mexico	295.0
	Venezuela	59.0
	Colombia	45.0
	Total	399.0
CARICOM (6.5)[c]	Trinidad & Tobago	5.0
	Jamaica	3.2
	Suriname	1.7
	Others	3.3
	Total	13.2
Andean Pact (98.2)[d]	Venezuela	59.0
	Colombia	45.0
	Peru	21.3
	Ecuador	11.8
	Bolivia	5.1
	Total	142.2
MERCOSUR (211)[e]	Brazil	425.4
	Argentina	200.3
	Uruguay	10.4
	Paraguay	6.0
	Total	642.1
CACM (29.2)[f]	Guatemala	9.5
	Costa Rica	6.3
	El Salvador	6.3
	Honduras	3.1
	Nicaragua	1.3
	Total	26.5

a. Effective 1994. Aims to eliminate trade barriers.
b. Effective 1995. Aims to phase out trade barriers in a decade.
c. Effective 1975. Aims to remove external tariffs on imports.
d. Starting in 1995, this duty-free zone will become a customs union, with uniform tariffs for imports.
e. Effective 1995. Aims to establish duty-free trade for 90 percent of goods and to phase out tariffs for the remaining 10 percent over the next decade.
f. Effective 1960. Aims to eliminate regional tariffs and to establish a common external tariff.

SOURCE: *New York Times*, December 9, 1994. Calculated from data from U.S. Department of Commerce, United Nations Economic Commission for Latin America and the Caribbean, Central Intelligence Agency, and World Bank.

nizing NAFTA's pivotal role in the long run, the EU officially announced in February 1995 that it would seek to establish FTA relations with Mexico.[55]

Mexico, then, as FTA leader for NAFTA is destined to play a crucial part in the development of hemispheric trade.

4. Free Trade Expansion and Open Markets

A final question remains for us to answer: Do FTAs represent the democratic will of the people? Critics of free trade areas reject the argument that FTAs not only permit countries to modernize as they enter the global economic market but also benefit consumers and producers. Critics claim that FTAs are foisted upon the masses by technocrats intent on exploiting workers in the name of ruthless international productivity levels.

Both sides of this debate are examined here. First, let us hear from the critics, who claim that FTAs are imposed from the top down.

The conventional intellectual view of free trade agreements has been eloquently summarized by Sergio Zermeño, who offers a post-modernist view of the costs of FTAs.[56] Zermeño argues that NAFTA will contribute to the loss of self-identity and societal disorder resulting from the lost decade of the 1980s in Latin America. Zermeño contends that the region lives in "an epoch in which economic health seems to be the inverse of that of the health of society at large."[57]

[55] "Aprueba la Comisión Europea un Proyecto de Acuerdo de Libre Comercio con México," *Excélsior*, February 9, 1995; William Kail, "EU Proposes Mexico Free Trade," *Mexico City News*, February 9, 1995. See also William Kail, "Europe Union Wants Free Trade with Mexico, Ambassadors Say," *Mexico City News*, December 17, 1994, and Martha Trigo, "Temen a bloques cerrados: Negociarán con la EU," *Reforma*, December 19, 1994.

[56] This discussion follows that in James W. Wilkie, "Free Trade for Mexico: Imposition from the Top or Demand from Below?" *Mexico Policy News* 7 (Winter 1992), p. 15.

[57] See Sergio Zermeño, "Desidentidad y desorden: México en la economía global y en el libre comercio," *Revista Mexicana de Sociología* 3/91 (1991), pp. 15-64 (Spanish version of Wilkie's works cited in notes 56 and 60, below.)

According to the Zermeño post-modernist school, the future of Latin America and Mexico (typified by the case of Peru) is bleak, as countries incorporate themselves without protection into the world economy. The results of mindless industrialization (including extraction of raw materials for export) include massive urbanization, monumental traffic jams, widespread pollution, and government paralysis. These conditions lead to the deterioration of social services, the increase of disease (AIDS and cholera, for example), uncontrolled growth of grim slums, gridlock in social mobility, desperate poverty among the masses, the breakdown of social institutions such as the family and religion, and collapse of morality, culminating in civil war between "terrorists" and "armed forces of the state."

With NAFTA, Zermeño sees Mexico's northern border coming under the sway of the so-called industrial boom based on the maquila plants, operations he believes exploit Mexico's poor economy and plunder what little social well-being the country enjoys. Moreover, Zermeño thinks Mexico has proceeded capriciously toward NAFTA, compared to the decades-long evolution of the European Union. In any case, he contends, FTAs are not in the people's interest.

Although Zermeño writes persuasively, election results and public opinion support another perspective, suggesting that FTAs are not a cause of the apparent hopelessnees Zermeño describes. Instead, one can argue that FTAs offer an escape from a system where individual opportunity is lacking, a system which mistakenly adopted statism as the means of dealing with problems of development evident by mid-twentieth century.

The proponents of FTAs are equally eloquent. The view that the demand for free trade has grown from the bottom up is reflected in Mexican elections results and voting patterns, as well as in opinions expressed during interviews conducted throughout the republic and in Eastern Europe.

The Mexican national elections of August 1994, the most honest and participatory in the country's history,[58] served as a referendum on NAFTA. The voters rejected the conventional intellectual wisdom in Mexico and the United States that NAFTA was imposed on Mexico by President Salinas de Gortari and his small clique of U.S.-trained government advisors who disregarded majority opposition. That the PRI (Partido Revolucionario Institucional), the official party since 1929, not only carried every state in congressional elections but also won with surprising ease the much-disputed presidency left PRI critics speechless. They had thought that Mexicans would repudiate the PRI and turn the party out of office.[59] The anti-NAFTA group believed the voters would agree with their position that NAFTA would exploit Mexico and would lead the republic into a new world economic order based on sweatshop production.

The fact that at least two-thirds of Mexican voters favor NAFTA (based on totals for 1994 presidential votes for parties backing NAFTA) suggests that criticism of NAFTA often comes from intellectuals who are out of touch with "the people," for whom they claim to speak.

Field interviews conducted by Wilkie in Mexico and Eastern Europe reveal the depth of conviction among those who favor FTAs. They see free trade as the only way to end the economic power of the traditional local bosses, thereby laying the basis for political democracy at the local level. Without local democracy, political reform cannot prevail at the national level. Clearly, Eastern Europe and Mexico are engaged in similar debates about how to open politics and economics to market forces.[60]

In interviews conducted over 18 months during visits to locales in the Mexican states of Chiapas, Chihuahua, Colima, Jalisco, Morelos, Oaxaca, Puebla, Sinaloa, Tabasco, and Yucatán, and the Federal District, individuals expressed frus-

[58]The 1994 national elections in Mexico are seen as a model for other countries to emulate. Officials sought to verify credentials, register lawful voters, and count the votes with domestic and foreign observers present at polling places throughout the country.

[59]For example, in *El tiempo de la legitimidad: Elecciones, autoritarismo y democracia en México* (México, D.F.: Cal y Arena, 1991), an otherwise important book on the history of Mexican elections from 1946 to 1991, Juan Molinar Horcasitas mistakenly claimed that the PRI had reached its final crisis and, indeed, could not survive an honest count of the vote.

[60]The account of these field interviews in Mexico and Eastern Europe is adapted from James W. Wilkie, "The Political Agenda in Opening Mexico's Economy: Salinas Versus the Caciques," *Mexico Policy News* 6 (Spring 1991), pp. 11-13; and Wilkie, "Free Trade for Mexico," pp. 15-16.

tration and outrage at the caciques (local bosses), who restrict economic opportunity through political power imposed by violence.

At the local level in Mexico (as in Eastern Europe) these traditional local bosses dominate politics because they control important aspects of the economy. Salinas's attempts to modernize Mexico encountered caciques in positions of economic power in the 125,000 urban and rural places into which Mexico is organized.

Local-level caciques, the leaders who have traditionally exercised control as brokers of power between national/state leaders and the people, determine, or at least influence, the distribution of land, agricultural credit, government employment, access to subsidized housing and food, licenses and permissions, and even the allocation of space in public markets. Caciques are the middlemen who, in return for permitting economic activities, demand a percentage of the gross, regardless of net profits, in addition to buying products outright at an artificially low price. Typically, the cacique and his family also control transportation, operate the largest, and perhaps only, store, run the bars, and maintain close relations with the policeman, the priest, and the doctor. Caciques may start out as *coyotes* (extra-official facilitators) who "move" paperwork through the government bureaucracy or find ways to avoid the law. An able, successful cacique who gains control over key functions throughout a broad area such as a state often moves on to become a national cacique.

At the national level, the cacique may be a powerful investor who, through privileged access to subsidized government credit and special government concessions, becomes the arbiter of a sector of the economy or of a region. Or, for example, he may represent an interest group, such as unionized teachers, regardless of geographic region. (One of the few women who have reached this level is Elba Esther Gordillo, head of the national teachers' union.)

At the national level, the Salinas administration challenged caciquismo. Some public- and private-sector caciques were seriously hurt by the fact that Salinas not only abolished protection for noncompetitive and inefficient industries (thus requiring the government to sell, merge, or close nationalized or partially nationalized firms) but also deregulated transportation (trucking, air freight, and air charter) and ended governmental granting of most special licenses, permissions, and import permits. Salinas abolished the government's telephone monopoly through privatization of TELMEX and the opening of cellular opportunities to bypass the fixed-line system, which is years away from full modernization. He privatized the construction of toll roads and sold nationalized banks to stimulate real competition and regional diversity. He also ended government monopoly of mining and fishing. Apparently he tried to open television and radio transmission to competing interests.

The abolition of such restrictions, which allowed a few national-level caciques to control access to opportunity in highly visible areas, has eliminated many opportunities for caciques to make "sweetheart deals" and arrange "kickbacks," as well as the need for society at large to bribe these public/private dispensers of privilege.

Although the battle against caciques has been joined at the national level, it has hardly begun at the subnational level where the economic caciques in the private and public sectors have retained much power. Like the "dinosaurs" who continue to hold power in some national labor unions, they resist political change that might challenge their economic hegemony. As Alejandro Junco, publisher of *El Norte,* points out, the private sector generally remains under monopolistic or duopolistic control. He notes, for example, that it costs more to ship goods over the 200 miles from Monterrey to Tampico than it does from Tampico to Amsterdam, a distance of 4,000 miles.[61]

Junco argues, quite rightly, that the Napoleonic Code which guides Mexico's legal system fosters monopoly and prevents competition. Furthermore, the Mexican monopoly law of 1934, still in effect, specifically encourages price fixing and government intervention in the economy on the grounds that the government can not leave the market to the free play of individuals. The 1934 law exempts a company from accusations of monopoly practices if the government is part owner; and it considers any non-governmentally owned company unpatriotic if it imports "disloyal" products. Junco goes on to note that one Mexican media group in Monterrey operates "two local television stations, 18 AM and FM radio stations,

[61]Alejandro Junco, "The Case for an Internal Mexican Free-Trade Agreement," *Wall Street Journal*, March 22, 1991.

two daily newspapers, the cable television system, 22 cinemas, and it controls 80 percent of the market for video rentals."

Producers throughout Mexico complain about the economic restrictions placed upon them by the network of caciques. A sampling of opinions heard during field interviews conducted in 1991 and 1992 (before NAFTA) follows:[62]

Oaxaca, Oaxaca: "We palm hat-makers from the Sierra Mixteca [Indians who barely speak Spanish] can not gain access to the markets here in Oaxaca City let alone [negotiate] reasonable transport prices for our goods; we must gain access to U.S. markets. How can we do this?"

Huixtla, Chiapas: "Since the July 1989 collapse of the International Coffee Agreement (which limited our export to the United States but which at least provided a means to market coffee at relatively high prices), we small coffee producers have gone from bad to worse. Not only do we lack access to credit on reasonable terms, but 100,000 hectares of coffee land are plagued with disease. We must gain direct access to the U.S. market in order to solve our financial and technical problems and to end the monopoly practices of the middlemen here who have hurt our region gravely—300,000 families are in virtual bankruptcy; the achievement of fair transportation costs here, direct information about U.S. prices, and unrestricted access to U.S. markets would resolve many of our problems."

Tijuana, B.C.: "I am tired of producing men's suits to smuggle into California, five at a time, hanging openly as if I am a businessman crossing for a meeting. Why do we have to smuggle the goods we produce across the border for sale there? Why can't we export honestly? Why are caciques nervous about free trade? Perhaps they realize that will help us and harm them?"

Villahermosa, Tabasco: "The nationalized banking monopoly [denationalized in June 1991] has been a disaster. For us small businessmen, banks have had little, if any, short-term bank credit, let alone any reasonable service. (The banks seem to have taken most of our deposits to pay the national debt.) We must now wait for denationalization and the possibility that operating credit will once again be available to the private sector."[63]

It is not only producers who have criticized the caciques. Consumers are frustrated too, as illustrated in the following sample of opinions from 1991 and 1992:

Ciudad Juárez, Chihuahua: "Two families (and one more than the other) control the high cost [lucrative] butane gas distribution industry here and have blocked the extension of low-cost natural gas being piped into our homes. PEMEX has refused to even tell our city government how long the butane gas concessions last for those two families, let alone tell us the conditions of the concessions. Perhaps true free trade could defeat those powerful caciques."

Mazatlán, Sinaloa: "The 'milk' we get here at the supermarket is basically foul-tasting powdered water. Why can't the milk monopolists give us real milk like I was able to drink when I worked in the United States?"

Puebla, Puebla: "Even though the city grew tremendously, PEMEX franchised no new gas stations for years. Then when we finally did get six, the governor, as strongest cacique, took three for himself. Citizens boycotted the stations concessioned to the governor, so now he claims that the profits will go to 'charity'—at least until he leaves political office."

Puerto Escondido, Colima: "This PEMEX 'service station' (if this shabby operation can be called one) has been out of gas for three days, leaving travelers like us stranded. Not only is there none of the new hi-test gas, there is no gas of any kind (even the watered down kind they like to give us) and this is the only 'real' station between Pochutla and Pinotepa Nacional—a distance of 130 miles. The senators and high-level politicians who hold PEMEX franchises have blocked the franchising of the new stations. Thus, the driver's rule here is, fill up the tank when you can, there may not be a chance again for hundreds of miles."

Concern is also evident about the locus of power in the hands of government and a few private investors who have failed to develop "Mexico for the Mexicans":

Mérida, Yucatán: "Mexico's infrastructure is in a state of near collapse. To modernize the tele-

[62]The extracts from the interviews and the discussion of bossism follow Wilkie, "The Political Agenda in Opening Mexico's Economy."

[63]The Mexican banking system was privatized in mid-1991; Mexico will open to foreign banks in 1995.

phone system for the digitalization needed, e.g., to meet new demands for basic service and to send volume computer and fax messages, US$20 billion are needed, US$3 billion right now. But the other investment priorities are tremendous: US$150 billion for water/sewerage; US$100 billion for roads; US$70 billion for railroads; US$80 billion for PEMEX; US$35 billion for electricity. For example, Mexico City is near a complete short-circuiting that will shut down power in 'brownouts.' Without foreign capital to help the infrastructure investment here in Mexico, how can such need for funds be met?"

Colima, Colima: "Is it true what I have read that Exxon produces more petroleum daily (3 million barrels) with 30,000 workers than PEMEX produces (2.4 million barrels) with 190,000 workers? If that is so, then PEMEX's 'featherbedding' and inefficiency mean that 'our' industry is eight times less efficient than Exxon. Then we people of Mexico have been defrauded by corrupt PEMEX union leaders who are exploiting us, all in the name of 'nationalism.'"

Zacatepec, Morelos: "In Mexico the term 'potable water' is mistakenly used for 'piped water.' Government programs have reinforced this serious mistake, which lulls people into thinking that the water does not have to be boiled, thus contributing to a grave public health problem."

In addition to concerns like these, another common problem relates to commerce and transport. E. Miguel Székely, an agrarian sociologist at the Instituto de Investigaciones Sociales, UNAM, describes it this way (letter to PROFMEX President Wilkie, February 27, 1991):

> Let me tell you about the type of marketing problems we are trying to overcome on both sides of the border. On the Mexican side, the National Union of Fruit and Vegetable Producers keeps tight control on official permits for transport/export in a way that frequently does not correspond to its legal prerogatives. [On the U.S. side], there are many reports about the way in which American border officers, FDA inspectors, etc., collude in illegal actions in order to deter any attempt to go around the broker's network. . . .
>
> Our attempts to overcome this kind of problem run through the paths of negotiating with established power groups, rather than confronting them, or attempting to go around them by the establishment of alternative circuits of commercialization (which has so often proved in practice to be futile). But a "negotiatory" approach can only be attempted when one has "something" to negotiate with. Information, as well as dependable contacts in every part of the commercialization process, are key resources for this purpose.
>
> A harvest of some 4-5 thousand tons of melon will be ready to be picked in a few weeks, in grounds bordering the Laguna de Chacahua. [We need to develop] contacts who could serve as expert advisers/supporters for our current effort to help producers to successfully complete their export operations. . . . [The American "broker" has all too often exploited producers here] by constituting himself as the sales agent for the commercialization on the American side of the border, [but] it is much too common to find that [our producers] are left with the crumbs of an otherwise profitable operation, when not simply outwardly robbed; there are cases when the "broker" disappears from sight, once having picked up a large portion of the harvest, without paying one penny for the product.
>
> There is not one single case that I have heard of in which the peasant organization has succeeded in recovering even a small part of what they should have received.

The answers to these problems, says Székely, involve not only access to U.S. contacts/supporters for Mexican producers but also to daily information about volatile U.S. prices and markets. The object is to help Mexican producers negotiate out of strength in the open and competitive international markets, thus avoiding the monopolized Mexican market.

In the view of Salinas and others, the international market is the most viable and efficient means to defeat the caciques who prey on so many Mexicans. The fact that an isolated Indian group has reached the same conclusion—that the free market outside Mexico offers a solution to the country's domestic problems—tells us that most observers of the Mexican scene are not keeping up with the changes taking place in Mexico today.

Salinas had the perspicacity to realize that if he took on Mexico's caciques one by one, he would never win the battle to open either the economy or the political system. In his travels through Mexico, he listened to the people and witnessed their anger at the system of monopoly and oligopoly which dominates local and regional life. Salinas heard that without massive local economic change, full political democracy would not be possible.

If we view the pressure in Mexico for the opening of the economy as coming from new interests who want new opportunity throughout the republic, it is clear the old interest represented by the caciques will resist. They have resisted successfully in most of the political arena, where the PRI continues to dominate elections.

Ironically, then, political democracy will not prevail in local and regional Mexico unless the center requires that electoral losses be recognized, as in the state of Baja California, where the PRI claimed victory in the 1989 gubernatorial elections, only to see PRI President Luis Donaldo Colosio in Mexico City give the victory to the opposition PAN party, an outrage to many state and national PRIistas.[64]

For Eastern Europeans, the free market is a means to end statist power and remove local bosses. While traveling by automobile in September 1991 through Eastern Europe (Hungary, Romania, Poland, the former East Germany, Czechia, and today's Slovakia), Wilkie recorded the views of people speaking from "below" as well as those who represent the view from the "top" of society.[65]

In contrast to Mexico, where so many intellectuals consider the movement toward free trade an imposition from above, every Eastern European intellectual interviewed described the demand for free trade as coming both from above and below, that is, from all sectors—except from the old-line statist bureaucratic group which is losing its power.

The issue in Eastern Europe is not where the demand comes from but how to accelerate the process of integration into the world economy. Persons everywhere are nearly unanimous in their demand for an end to the so-called protectionism that left the economy and society so far from the world standards for industry and welfare. Let us listen to those expressing views from the bottom:

Cîmpulung Moldovenesc, Romania: "We must integrate immediately into the world economy or lose the race against other countries which seek to attract the world's scarce capital, capital needed to build modern industry in Latin America and Africa as well as Eastern Europe."

Miskolc, Hungary: "If foreign capital means 'exploitation,' let us have that kind of exploitation. We have been exploited too long by lack of capital and that is the worst kind of exploitation."

Zakopane, Poland: "The issue is not 'exploitation,' it is incentives. There is no way for the government to give incentives without corruption; incentives can only come from the free market."

Kraków, Poland: "The fall of the Iron Curtain represents the demand of the masses against so-called political thinkers who once believed here that they could 'protect' us from the 'evils of capitalistic incentives.' Such statists gave us this communist monstrosity of a steel mill, Newa Huta, which is an ecological disaster as well as an economic one."

[East] Berlin, Germany: "Look at that Trabant automobile. It is the symbol of failure in central planning. The state is the problem, not the solution. Ironically, the billions of Western marks being invested now to put into place a new infrastructure (telephones, roads, rail systems, etc.) here need to be invested more quickly and efficiently. 'Time is of the essence,' as you say in the West, because the solution to our problems must come from private investment and ideas, both from inside West Germany and from abroad."

Although sentiment clearly favors moving Eastern Europe more rapidly toward integration into the world economy, issues remain that have relevance for Mexico:

Kromeriche, Czechia: "This problem of exploitation is not here and now an international one. It is the national problem of Czechia.[66] The Czech industrial north is exploiting the raw material of the south. Prague is profiting from the processing of primary materials for resale at high prices in the south."

Sighetul-Marmației, Romania: "Theoretically we are free from the communist bosses who ran our towns; however, in practical terms the same bosses, who now call themselves 'democrats,' control government investment, credit, jobs, scholarships, and the permissions upon which life is based. They are still watching to see who might oppose

[64]Some of this rage within the PRI appears to have led to the 1994 assassination of Colosio in Tijuana.

[65]These interview excerpts and the discussion of Eastern Europe follow Wilkie, "Free Trade for Mexico."

[66]The issue of "internal exploitation" was partially resolved for some in 1993 when the Czechoslovak Republic dissolved, with Slovakia "escaping from domination" by Czechia after 74 years of union.

them. Until the bossism is eliminated, neither democracy nor a free market is possible."

Lest readers think that the process of economic and political opening will be either easy or completely successful, let us recall observations of the Salinas program of investment, which have produced concerns (summarized below) about investment, agricultural subsidies, monopolies, the role of Salinas, and caciquismo.

Investment: Complaints heard throughout Mexico may be exaggerated. For example, who really knows, even within the government, the extent of Mexico's infrastructural investment needs? Some of the figures quoted here may be too high, others too low.

NAFTA and agricultural subsidies: On the one hand, NAFTA hurts economically that part of Mexico's rural sector which cannot successfully compete with new technology, improved fertilizers, and modern agricultural methods introduced by foreign companies, as foreseen by analysts such as Felipe Calderón Hinojosa,[67] PAN's head of national studies. Thus, Mexico will import massive amounts of U.S. wheat, sorghum, soybeans, beans, and rice as well as milk and dairy products, potentially dislocating up to 15 million Mexican agricultural workers. On the other hand, Mexico has acquired a huge export market in the United States for cattle, tomatoes, bell peppers, cucumbers, onions, garlic, asparagus, zucchini, melons, orange juice, mangoes, strawberries, avocados, grapes, and coffee. Mexican coffee is free from any new international agreement that favors the traditional producers such as Brazil and Colombia. Nevertheless, even with NAFTA, trade will not be "free" all at once, but will be phased in product by product over the next ten years. In addition, trading countries will face restrictions that limit imports because of 'quality' and health reasons, regardless of duty.

Monopoly: Without the government's Popular Subsistence Agency (CONASUPO) which subsidizes the purchase and sale of foodstuffs, much of rural Mexico would remain outside the market economy. In spite of local caciques, CONASUPO serves the most isolated and poorest rural areas by purchasing grains and operating government stores that sell basic supplies. The private trucker or merchant earns no profit in those areas, which rely almost solely on CONASUPO for connection to the nation.

Middlemen exist in international markets as well as in Mexico and they will seek high profits.

The PRI's corporatist system seeks, ironically, to challenge caciquismo by establishing a new quasi-central bureaucracy called Procampo which works with state governments and private producers in several ways. Procampo not only provides funds for hectares planted but, at the request of peasant and producer cooperatives, is also helping to develop price information, contract assistance, and export information.

The government's National Solidarity Program (PRONASOL) is attempting effective regional development.[68]

The role of Salinas: Salinas may have created new monopolies in the private sector to replace those that existed in the public sector, e.g., television and copper mining.

He may have built a private power base of which he will be the center long after his presidency.

His agenda may not have been to fully democratize the country but rather to monopolize political power in the PRI under the guise of opening the economy.

Caciquismo: Samuel Schmidt argues that caciques have existed in Mexico since before the Conquest, and that they have enforced political stability (too often by means of violence) while transmitting demands back and forth from the people to the centers of power and looking out for the welfare of their followers.[69] Schmidt suggests that Salinas's goal of abolishing caciquismo could not succeed without shocking the political culture that accepts the cacique. Schmidt asks: Can democracy readily replace the cacique system?

Much of the violence in rural Mexico can be traced to the rage of the caciques against peasants who seek to change the economic and political equation. As Aquiles Córdova Morán has written, "the omnipotent power of the caciques . . . , the absolute control they hold over the population, quite naturally converts them into 'representatives of the community' before the public authorities: It is with the cacique that the candidate for the cham-

[67] *La Jornada*, April 12, 1991.

[68] See the PROFMEX interview with Miguel Sandoval Lara in *Mexico Policy News* 6 (1991), pp. 18-19.

[69] *Examen*, August 1990.

ber of deputies meets, it is the home of the cacique to which the governor goes if by a miracle he visits the community, it is the cacique whom the governor consults to resolve municipal problems, and it is the cacique who has the last word on who will occupy the local public posts, including, not infrequently, the representation in the chamber of deputies."[70]

Taking these concerns into account, it is important to realize that the self-censorship of many Mexican commentators and the blindness of foreign observers has led them to overlook the anger and frustration felt by much of Mexico's population about the closed nature of the country's economic system.

In Eastern Europe, as in Mexico, what much of the population seeks is the economic right to openly compete without favoritism and to sell their goods at fair prices. New economic powers may well replace the old, and, it is hoped, political cronyism and local bossism will not influence national well-being to the same degree as in the past. Without such economic change, however, caciques will continue to dominate local life, and political democracy will be stillborn.

The demand to open the economy in Mexico and in Eastern Europe comes from the bottom of the society, where the people know that free trade offers an immediate opportunity to break the age-old power of local bosses.

[70] *Uno Más Uno*, January 28, 1990.

Conclusion

Mexico's innovative commitment to expansion of free trade, then, forms the basis for hemispheric trade integration. In the scheme of global trade blocs, Mexico is the Western Hemisphere hub, from which its FTAs extend, like the spokes of a wheel, to create strategic outreach for Mexico's economic development based upon a network of partnerships that can lead to hemispheric integration. Mexico's role as a link between Latin America and NAFTA places it in a unique position, and South American business has already undertaken investment in Mexico to gain access to NAFTA. Likewise, U.S. business may soon find that Mexico is the fastest and most convenient route to FTAs south of the border—down Latin America's way.

Beyond this hemisphere,[71] Mexican policy implicitly (if not explicitly) offers Japan and other Asian countries not only a base to maintain market share in the NAFTA region but also to gain access to the larger market of FTAs in the Americas as Mexico expands its role as a leader of integration.

[71] For further reading, see Robert P. O'Quinn and James P. Sweeney, "Putting Trade with Asia and Latin America on a Fast Track," *The Heritage Foundation Backgrounder*, no. 1027 (March 23, 1995); Susan Kaufman Purcell and Françoise Simon, eds., *Europe and Latin America in the World Economy* (Boulder, London: Lynne Rienner Publishers, 1995); Sidney Weintraub, *NAFTA: What Comes Next?* The Washington Papers/166 (Westport, Conn.: Praeger, 1994).