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US ECONOMIC STRATEGY IN SHAPING MEXICO -LIVING HAPPILY EVER NAFTA

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US Economic Strategy in Shaping Mexico - Living Happily Ever NAFTA

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ABSTRACT

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The U.S. Shaping of the Mexican economy appears to be a viable strategy to reduce the likelihood of border conflicts and future crises. Nevertheless, even with overwhelming U.S. economic power, the opportunities for both Mexico and U.S. economic growth are constrained. Because the U.S. government does not completely control all instruments of its economic power, the roles of the private sector, the free enterprise system, and cooperation with other competing nation states threaten to make U.S. economic policy both unwieldy and even counterproductive. Given these potential threats, how can the U.S. government effectively shape Mexico's economy in pursuit of its own interests?

This paper discusses how the U.S. addresses this question in Mexico where several current and pending crises are subject to influences inimical to, or at least in competition with, United States security interests. Based on the economic underpinnings of U.S. national strategy, the focus of hemispheric relations is now on a "free trade" doctrine. This paper analyzes both U.S. and Mexico's interests and discusses how free trade theory both supports and inhibits pursuit of those competing interests. The dynamic of "shaping" Mexico's economy proves to be much more a political process than an economic one.

TABLE OF CONTENTS

LIST OF ILLUSTRATIONS

LIST OF TABLES

INTRODUCTION

The U.S. National Security Strategy is now based on a global economic vision. However, the vision is blurred not only by the political prism through which it is viewed, but also by the myopia which afflicts modern and more influential economic institutions. International corporations, banks and stock exchanges focus on their own agendas in competition with state goals such as regional stability and promoting democratic values. Other nations compete with the U.S. to promote their own economic prosperity, sovereignty and nationalism.

The purpose of this paper is to recommend process improvements in managing a part of this new national strategy. The analysis flows from the basic tenet that U.S. national interests, strategic objectives and policies are largely based on a doctrine of free trade.[1] U.S. actions taken or forsaken in pursuit of our national economic interests are often confusing and contradictory. The empirical basis to examine this phenomenon is the U.S. struggle to focus its economic strategy with Mexico, its third largest trading partner.[2]

Recent and current policy toward Mexico illustrates the political dilemmas and pseudo-economic[3] issues which will plague policy makers in pursuit of a worldwide "free trade" strategy and desired end state. To successfully shape the Mexican economy and to achieve its own economic objectives, the U.S. must improve its abilities to:

(1) articulate and negotiate its interests;

(2) establish supporting objectives; and

(3) manage a complete strategy to achieve its goals.

Such planning and execution must be coherent with (neither subordinate to nor superior to) collateral interests such as political stability, economic reforms and promotion of values.

Although the size of Mexico's economy is approximately that of Los Angeles, the Clinton Administration's political battles[4] to "pass the North American Free Trade Agreement" (NAFTA)[5] demonstrated its strategic importance. The predominant but uninspired view among Canada, Mexico and the U.S. was that NAFTA was a successful initiative for the promise of reciprocal and equitable economic benefits. More than three years after NAFTA passage, the jury is still out on the subsequent state of U.S.-Mexican relations.[6]

ARTICULATE AND NEGOTIATE INTERESTS

U.S. national interests in Mexico devolve from regional interests. On March 5, 1998, Secretary of State Madeleine Albright elaborated on U.S. interests in the Western Hemisphere:

> " – [Cuba excepted], every economy has liberalized its system for investment and trade. ... The greatest [challenge] is to bring the benefits of economic and political freedom to all our citizens. ... Too many remain cut off from the benefits of the new global economy. ... our leaders will seek to build on the vision of the true hemispheric community ... the world's first regional pact against corruption, ... improved cooperation on counter-narcotics; and new programs to combat disease, promote micro-enterprise, curb domestic violence, increase energy efficiency and assist in humanitarian relief. Education will be a principal focus ... for combating poverty and for narrowing the socially destructive divide between rich and poor. ... developing education standards and ... also seek to launch negotiations to create a Free Trade Area of the Americas, by the year 2005. Let me stress that the FTAA remains a keystone of President Clinton's policy of cooperation in this hemisphere."[7]

UNITED STATES' INTERESTS IN MEXICO

A distillation of U.S. national security interests in Mexico includes:

(1) freedom from transnational threats (e.g. illegal immigration, crime, corruption, and environmental hazards);

(2) politically stable democracy;

(3) a prosperous economy.

Mexico is still a democracy in transition. The transition to "free trade" links all three interests politically and economically. The quandry is that until there is both freedom from transnational threats and a thriving democracy, the

economy's ability to prosper is severely limited. And without the promise of real economic growth, there is little incentive for reforms and true democracy.

The U.S. Administration must also balance interests in Mexico with domestic interests. Issues such as American labor impacts, immigration pressures, and questions about Mexican instability and corruption undermine both U.S. and Mexico's policies. These factors also threaten the prospects of economic prosperity in both countries; and the debates of associated issues serve to polarize segments within the respective populations.[8]

Several NAFTA issues erupted when the U.S. underestimated collateral and secondary effects of its economic strategy. The debates, opinions and predictions varied domestically and internationally. In The Case Against "Free Trade," Ralph Nader warned: "Citizens beware ... Operating under the deceptive banner of 'free trade,' multinational corporations are working hard to expand their control over the international economy and to undo vital health, safety, and environmental protections." Nader's book, a compendium of anti-NAFTA essays, claims the "NAFTA agenda would make the air you breathe dirtier and the water you drink more polluted." It would also cost jobs, depress wages, destroy family farms, make work places less safe and undermine consumer protections.[9]

International critics directly linked concerns of job loss, law enforcement and sovereignty to U.S. economic policy. Jorge Castañeda succinctly worded the emotional issue that "many in Latin America believed that U.S. insistence on drug enforcement was simply a disguise for further domination of the nations of the hemisphere."[10] While the cited editorials are provocative and highly debatable, such indictments of U.S. policy reflect competing interests of influential constituencies which also seek to *shape* U.S. economic policy.

ACCOMMODATION OF MEXICO'S NATIONAL INTERESTS

Mexico's "Economic Policy Guidelines for 1998" lists two challenges: (1) to consolidate the basis for a sustainable economic growth process and (2) to translate economic growth into better living standards for the Mexican people.[11] The main challenge is to reconcile and negotiate U.S. interests not only with Mexico's interests but also with the respective domestic constituencies. Resulting dilemmas are exacerbated by vague or contradicting objectives toward which U.S. strategy is aimed. For example in Table 1, which aspects of the Mexican economy are most critical? If increasing unemployment increases illegal immigration,[12] what action can be taken by Mexico that will not threaten inflation? What action can be taken by the U.S. that does not adversely affect its other competing interests?

Table 1. Mexico - Key Economic Indicators[13]

(Billions of U.S. dollars unless otherwise indicated)

	1994	1995	1996 [1]
Nominal GDP [2]	431	280	328
Real GDP Growth (%) [3]/	4.5	-6.2	4.3
Per Capita GDP (US$)	4,813	3,072	3,531
Labor Force (millions)	34.6	34.9	36.3
Unemployment Rate (%)	3.6	6.3	5.7
Consumer Price Inflation	7.1	52.0	26.5
Exports to U.S. [5]	49.5	61.7	73.1
Imports from U.S. [5]	50.8	46.3	56.2
Trade Balance [4]	-18.5	7.3	9.4
Balance with U.S. [5]	-1.3	15.4	16.9
External Public Debt	85	101	98
Debt Service Payments/GDP (%)	4.8	8.1	6.4
Fiscal Deficit/GDP (%)	0.1	0.2	0.1
Current Account Deficit/GDP (%)	7.0	0.3	0.3

[1] 1996 figures are all estimates based on available monthly data in October 1996

[2] GDP at factor cost. Decline in dollar value of nominal GDP in 1995 is due in large part to devaluation of the peso.

[3] Percentage changes calculated in local currency

[4] Merchandise trade

[5] Source: U.S. Department of Commerce and U.S. Census Bureau; exports FAS, imports customs basis; 1996 figures are estimates based on data available through November 1996.

While assessing the quantitative aspects of interests, the U.S. must neither discount nor exaggerate qualitative equities with other countries. These matters concern all relationships, including trade agreements. For example, does an increase in trade with Mexico come at the cost of damaging U.S. economic ties with Europe or Japan?[14] An important aspect of prioritizing

interests in a bilateral relationship is to balance them in context with others. The U.S. failed to manage this with Chile and the mistake cost the U.S. valuable economic opportunities.[15]

Due to the conflicting interests from such a variety of powerful influences, it is virtually impossible to negotiate free trade agreements without political compromise and hemispheric security agreements. In essence, this explains why several bilateral agreements have to be separately negotiated for related issues such as the environment, labor practices, and law enforcement.[16]

Three observations about Mexico's interests are noteworthy. First, they share points of commonality with U.S. interests.[17] Second, promoting Mexico's interests is also in the U.S. interest.[18] Third, there are multiple levels of conflict resolution in negotiating these interests, i.e. among governments, non-government agencies, and private interest groups.

ESTABLISH SUPPORTING OBJECTIVES

For the U.S. Department of State, the national interests dilemma paradoxically begins with its affirmation: "We share a commitment to economic growth, which benefits the peoples of both nations; a belief that open, democratic governance provides for the most legitimate representation of the citizenry; and a common border and the stewardship of the shared border environment."[19] Although this statement appropriately and interdependently links key aspects of bilateral interests, the ability to develop substantive ends, ways and means is largely predicated on the answers to three questions:

(1) What is the theoretical basis for the U.S. free trade policy?

(2) How does the U.S. develop policy for "shared commitment to growth?"

(3) How does the U.S. define and measure progress toward those economic objectives?

FREE TRADE THEORY

The U.S. has a cognitive dissonance problem concerning the ideology of free trade. On the one hand, it now espouses economic liberalism. However, it has a long history of protectionism to overcome. The Pat Buchanan slogan, "America First," found resonance in the 1996 Presidential election campaign. Similarly, Mexico may prove ambivalent about free trade. "A national interest that transcends electoral campaigns,

political parties; federated states, and minority interests has never been embedded in the civic conscience despite the fact that nationalism has prevailed in the Mexican political discourse for more than one and one-half centuries."[20]

The theory behind U.S. economic policy appears relatively simple in the context of stated national interests. Being against free trade is like being against the weather.[21] Since free trade is virtually everywhere, the challenge is to live with it rather than to resist it. However, if U.S. National Strategy is based on free trade, and if policy toward Mexico is "shared commitment to growth," then "sharing" is potentially a two-edge sword. Can either Mexico or U.S. truly promote its own economic prosperity without inhibiting its trading partner's parallel pursuit? "Schizophrenia about national roles in a world economy is a common ailment from which the United States is not immune."[22] The question may not have a conclusive answer but free trade theory provides the basis for at least understanding the question.

Occasionally, free trade critics wield "jobs" statistics and catch phrases instead of applying theory.[23] Beyond rhetoric, informed debate depends on the ability to relate economic principles in policy development. The essential underlying principle of free trade theory is freedom to make individual choices:

"Inherent in this logic is the assumption that because all individuals are best equipped to make production decisions concerning their own skills and circumstances, they will naturally specialize in the production of the good in which they have a ***competitive advantage***. [Emphasis added.] Applying this same principle to international trade - barriers limit not just the private benefits but the public benefits of the gains from trade that accrue to the nation as a whole."[24]

Thus, the matter of individual choice transcends inalienable rights of citizens. The nation as a whole is economically dependent on individuals' freedom to trade.

Comparative advantage[25] is the basis for arguing that even in an asymmetrical trading relationship, both countries benefit from specialization and trade.[26] Since the benefits are greatest when there are little or no barriers to trade, the international debates are relatively academic. However, the distribution of benefits, especially in key sectors such as automobile industry or agriculture. Although this example seems simplistic, it serves to explain the underpinnings of trade policy. It is particularly useful for Mexico where translation of free trade economics into a practical international policy involves such wide debate. The White House, totally confident in free trade theory, must now address its practical consequences in a world full of environmental concerns, asymmetric economies, protective tariffs, labor issues, taxes and non-trade barriers (NTB).

U.S. SEES POLICY THROUGH THREE PRISMS

It is critical to appreciate the realm within which governments struggle with free trade policy issues. Lehigh University Professor, Bruce Moon cited three dilemmas which are relevant to understanding all U.S. trade relationships, especially those with Mexico: (1) Distribution; (2) Values; and (3) State Goals.

The Distribution Dilemma

Whatever trade policy the government chooses will harm someone.[27] The elimination of trade barriers under NAFTA, forces some U.S. manufacturing workers into direct competition with Mexican workers who earn a much lower wage. Unless U.S. wage rates decline, production may shift to Mexico and U.S. jobs will be lost However, if the competition drives U.S. wages down, the profits of U.S. business might be attained at the cost of U.S. workers' living standards. Bruce Moon pointed out "losses from such wage competition will be greatest in high wage countries that can move either their products or their production facilities most easily across national boundaries." Others, particularly more affluent professionals such as doctors, lawyers and university professors, gain from trade because it lowers prices on consumer goods.[28] This dilemma makes it very easy to understand the intensity and divisiveness of the NAFTA debates in the U.S.

The Values Dilemma

Whichever choice is made, some values will be compromised to achieve others.[29] Competitive pressures simultaneously drive firms to pressure governments to ease restrictions which limit their ability to compete. Societal values for living standards, fair labor practice and workplace health and safety are reflected in regulations which add to production costs. With NAFTA and FTAA, the values of environmental security and labor rights are prime examples of this dilemma.

Jan Gilbreath and John Benjamin Tonra observed: "Perhaps the most startling development in the North American Free Trade debate was the emergence of the environment as an issue on the negotiating agenda."[30] Even after negotiations were complete, unresolved environmental questions still threatened the accord's ratification by the U.S. Congress and "created deep divisions within the Democratic Party."[31]

While assessing the role of organized labor in promoting democracy, Jorge Dominguez wrote:

> "Popular democratic representation requires a well-organized and articulate labor movement, capable of functioning in a market economy and standing up for the rights of the workers. Democratic policies requires contestation [sic] between organized forces; democracy would be wounded if there were no appropriate counterparts to business power."[32]

The dynamics of such pseudo-economic issues suggests that shaping Mexico's economy not only must reflect good economic policy but

also must accommodate differences in values.

The State Goals Dilemma

Any trade policy will affect some aspect of the state's ability to achieve one or the other of its goals.[33] Conrad Weiler of Temple University cautioned that "the more we demand rules of fair and free trade, the more we will become subject to those rules."[34] The larger U.S. goals of Economic Prosperity, Defense of the Homeland, Regional Stability are not threatened by trade agreements with Mexico. However, to shape the Mexican economy and reduce what are perceived as transnational threats, the U.S. ought to see this dilemma through the eyes of an interdependent partner.

In this asymmetric relationship, some Mexicans not only fear economic domination but also perceive it as a threat to its sovereignty. "It is clear that Mexico - and its NAFTA partners - has embarked on a reformation on the meaning of sovereignty," a dramatic paradigm shift which will result in a situation "in which citizen and trade interests will maneuver in a domain that has nothing to do with traditional respect for sovereignty as a country's untouched sphere of autonomy."[35]

Mexico's state goals dilemma extends to the phenomenon of "monetary interdependence [which] is compromised by their reliance on the U.S. Capital market. Both Mexico and Canada would have preferred lower interest rates in 1994 to deal with their fiscal problems, but this was impossible in any practical

sense after U.S. interest rates started to rise." The United States felt more insulated from developments in its two neighbors because of its greater economic power. Nevertheless, it learned that sovereignty was no defense against a financial crisis in Mexico. U.S. exports to Mexico had to fall as Mexico went through economic restructuring. Thus, the United States learned that "when the Mexican currency is under attack the dollar can also come under attack."[36]

MANAGING A COMPLETE STRATEGY

INTERESTS, POLICIES AND OBJECTIVES

Progress measurement for the "free trade" strategy poses a conundrum. Are the economic policies of free trade supporting strategic objectives of stability in pursuit of prosperity as a national interest? Or are the special interests of free trade advocates driving political strategies such as General Agreement on Tariffs and Trade (GATT) and NAFTA in pursuit of a single economic goal - free trade? There is at least confusion, if not disagreement on what "free trade" policies are designed to accomplish in Mexico and the U.S. "From its inception, NAFTA has suffered an identity crisis: was it a foreign policy initiative, a domestic jobs program, a border rehabilitation project, a preemptive strike in coming global trade wars, an attempt to halt Mexican immigration?"[37]

Policy in Context of Interests

In December 1996, Charles R. Carlisle questioned: "Is the World Ready for Free Trade?" - "Whatever the appeal of free trade, the political support is not there."[38] Consequently, the U.S. ability to conduct foreign policy seemed to dwindle in a world preoccupied with economic stability. Jeffrey Garten opined "in mid 1997, it is not clear where either Washington or the American business community is headed." And "even though businesses have the money, the technology and the management to make the world spin," business needs the protection and support

of the U.S. government to avoid being overcome by issues such as human rights, labor practices, environmental pollution and corruption.[39]

To help resolve the free trade conundrum, consider an analogy to Maslow's hierarchy of needs."[40] Figure 1 illustrates a few possible models for relating policies to prioritized interests.

ECONOMIC PROSPERITY	**ECONOMIC PROSPERITY**	**DEMOCRATIC VALUES**
DEMOCRATIC VALUES	**DEMOCRATIC VALUES**	**ECONOMIC PROSPERITY**
ECONOMIC STABILITY	**POLITICAL STABILITY**	**POLITICAL STABILITY**
POLITICAL STABILITY	**ECONOMIC STABILITY**	**ECONOMIC STABILITY**

Figure 1. Sample Hierarchies of National Interests

The figure depicts different hierarchies of Mexico's interests in the development of national power. With the aid of such a model, the objectives of certain policies are not only more visible but also made more instructive for debate. The rank ordering appears fallacious because a single interest cannot be pursued to the exclusion of all others. However, the lower to higher order serves to indicate the order in which national interests mature in the developmental process. This paradigm is useful when governments and interest groups can identify their respective philosophies.

One illustrative example involves the U.S. counter-drug policy of "Certification." Mexico's perspective may be better understood by first asking whether the principal intent is to

impose democratic values or political stability; and then asking whether the net effects are detrimental to Mexico's economic or political stability. A similar rationale can be applied to understanding the motive for U.S. assistance during the Peso Crisis of 1994.

> "The main reason for the 1995 rescue package was to prevent disturbances in the international financial system... [A]n equally important motive was to limit instability in Mexico that would propel a wave of undocumented immigration."[41]

Thus, the intent was not to insure Mexican prosperity but rather to protect U.S. interests of Mexican economic and political stability.

Policy in Context of Objectives

While cognizant of the hierarchical objectives, the U.S. needs to more specifically identify objectives for policies such as monetary reform. For instance, Mexico's strategy of "tight monetary policy" was discussed in a 1996 Treasury Department Fact Sheet. "Base money grew by 17% in 1995 (yearly inflation was 52%)." Interest rates improved from 80% in 1995 to 37%. Yet, the Treasury Department assessment was that "outstanding problems are manageable,"[42] An obvious question arises: At what thresholds would the U.S. say that the problems were not manageable? (A review of several U.S. Government documents on Mexico's economic problems did not answer this question).[43]

Mexico set 1998 target goals to focus its economic policies. Table 2 is an example of Mexico's "renewed commitment toward sound public finances."[44]

Table 2. Mexico - Economic Targets for 1998[45]

Gross Domestic Product (GDP)	
Real Growth (%)	**5.20**
Inflation (%)	
Dec./dec.	**12.00**
Public Balance	
As % of GDP	**-1.25**
Current Account	**-**
US$ in billions	**-10.80**
As % of GDP	**-2.49**

As a minimum, the U.S. should comment on Mexico's targets and on assessments by others. In 1997, the Economic Commission for Latin America and the Caribbean (ECLAC) reported that Mexico had "a climate of increasing financial stability" but that "real wages remained depressed " and peso appreciation caused a slowdown in imports.[46] The levels did not appear alarming but the U.S. can only determine such if it has established tangible objectives.

IS THERE A DOCTRINE IN THE HOUSE?

In order to establish objectives and to develop policy, the White House needs a doctrine. To illustrate how doctrine can be useful with the three dilemmas, consider two potentially risky or destabilizing issues:

(1) How should the U.S. respond to a Mexican Peso Crisis?

(2) How should the U.S. promote Mexican Labor Reforms?

On another level, the governments needs to acknowledge doctrinally that it is not the only actor. The nominal interest rate of 24% (Figure 1) impacts not only governmental decisions but also those of the private sector. Specifically, the areas of borrowing, direct investment and portfolio investment are very sensitive to interest rate fluctuations and trends. Moreover, in a truly free market economy, Mexico will have considerably less influence than it does now. In this regard, free trade doctrine is also qualitative - an aspect which seems to invite even more actors to the realm. Precepts and rules of engagement should go beyond the rhetoric of diplomatic agreements and project exactly how the U.S. will influence, and/or be influenced by, institutional actors.

A U.S. Peso Crisis?

In the instance of a pending financial crisis, the Mexican government must address the immediate problems such as interest and exchange rates. And it must manage long term fixes as well,

e.g. banking and monetary reforms. However, because of "interdependency," U.S. leadership needs to play a role - one which is likely to be controversial. For example, during the Mexican peso bail-out, the Washington financial support package left no small political storm in its wake. Mexico was humbled because it was required to pass oil receipts through the U.S. Federal Reserve Bank. Mexico also resented the imposition of high interest rates, monetary restraints and fiscal cuts. On the domestic side, U.S. White House administration came under attack for the end run around Congress. Years after the fact, U.S. intervention may have seemed like decisive leadership but at the time of crisis response, there was a public perception that the U.S. was embroiled in a "financial Vietnam."[47] Furthermore, when the U.S. dollar weakened three months later, NAFTA doubters seriously questioned the idea of economic integration with Mexico.[48] Clearly, the woes of the peso were as much political as they were economic.

The Mexican Peso Crisis of 1994 presented both Distribution and Values Dilemmas. However, the White House seemed to lack specific guidelines or criteria with which to explain its purposeful involvement. Doctrine is one way to frame such issues and to examine the quantitative indicators to which response is suggested. In the mid 1970's, President Jimmy Carter conceived the "misery index"[49] as the sum of inflation, interest and unemployment rates. The "misery index" did not create the Peso

Crisis and such indicators may not satisfy economists or monetarists in evaluating effectiveness of U.S. policy in Mexico. However, a decision guide similar to Figure 2 can be used to develop objectives and thresholds for U.S. national policy making.

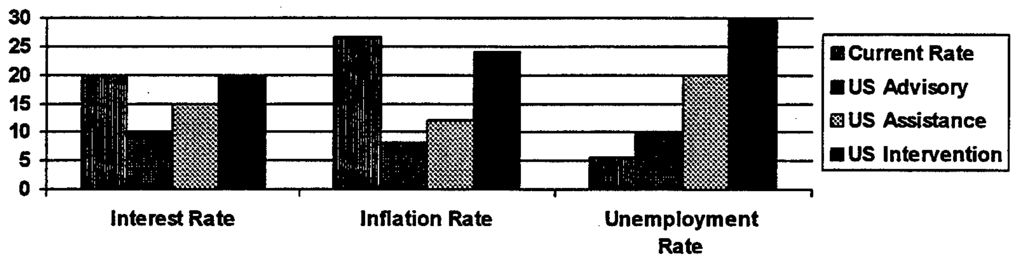

Figure 2. Doctrinal Template for Economic Policy (Notional)[50]

Suppose that one or more of the indicators in Figure 1 is considered "alarming." Mexico's inflation rate is 26% and the unemployment rate is 6%. By the numbers, immediate direct action might be suggested because doctrine (if based on study and proof) established guidelines for the measures of response needed as adverse conditions worsen. In this arbitrary illustration, when inflation passed through thresholds 8% and 12%, certain U.S. policies and/or actions would have been recommended to forestall and possibly reverse the trend. Inflation may be so damaging at 24%, ceteris parabus,[51] that protection of U.S. interests demands a response. Obviously, the relationships between inflation and other factors such as unemployment must be part of the assessment.

There is no need to enumerate all courses of action and response options. The point is not that Mexican inflation requires U.S. intervention. However, the U.S. should observe certain metrics and act, perhaps precipitously or routinely, to avoid crises and most importantly - to protect its own interests. When action is warranted, the U.S. should have both a quantitative reason and a doctrinal basis for decisions. The proposed device is suitable for quantitative decisions and doctrine development. (Table 1 suggests other relevant economic criteria, objectives and thresholds).

U.S. Promotion of Labor Reform

The World Trade Organization (WTO) is facing the hotly contested question to take up internationally recognized labor rights.[52] George McAlmon, a NAFTA critic, made a credible argument that American production enterprises create jobs at subsistence wages in Mexico. "If the misery [low wages] of Mexico workers were relieved, American investment would cease or be reduced until the misery level were [sic] reestablished." In December 1994, maquila wages increased twenty percent but the peso had just been devalued fifty percent.[53] This suggests the U.S. should recognize that its presumed allies (investors and corporations) have become competitors, if not adversaries in shaping the Mexican economy.

Given the range of competitive actors, how should the U.S. promote Mexican Labor Reform? This is an enigma involving the

Values and State Goals Dilemmas.[54] In addressing this type of conflict, neither the White House nor Mexico appeared to have a clear strategy to promote labor reforms.[55] While praising Mexico's "substantial recovery" in December 1996, Casper Weinberger ironically commented that "Mexican products are of good quality and are competitively priced because wages have not kept up with inflation."[56] A labor economist from Cornell University also observed that "NAFTA has created a climate that has emboldened employers to threaten workers" with moving U.S. jobs to Mexico. Although the U.S. Labor Department boasts over 2.2 million jobs created each year since NAFTA, "that doesn't help low-wage workers in nonunion plants where the NAFTA card is being played."[57] While job numbers can be an indicator, quality of life issues such as labor rights are not easily quantified.

It seems almost urgent that a doctrinal model guide U.S. policy on labor reform. Beyond the perennial plights of the maquiladora workers,[58] there are greater issues of labor reform. According to Jorge Dominguez, "Latin American new market-oriented economic policies require more flexible labor markets to improve efficiency and competitiveness of its economy."[59] Essentially, the "shared commitment to growth" cannot exist without commitment to labor reform. On the other hand, Jorge Castañeda enumerated several reasons why "U.S. bail outs postpone reform."[60] In addition to low per capita income, he explained how job

instability, the lack of unemployment insurance and income inequality contribute to Mexico's economic stagnation.

The greater significance of Castañeda's insight is that he characterized the following "silver bullet" solutions as only "minor steps:"

- free market policies;
- closer relationships with the U.S.;
- electoral and judicial reform;
- export growth;
- increased domestic savings through pension fund privatization.

It is disconcerting if not alarming to note that these "minor steps" represent substantially what Moisés Naím in 1995 called "the Washington consensus" - i.e. the policy goals of the U.S. Administration toward Mexico.[61] They also serve as the free trade doctrine

U.S. STRATEGY - LINKING ENDS, WAYS AND MEANS

Despite the rhetoric, meetings and press releases, the U.S. is unable to link the strategic end states to the ways and means because it cannot bring consensus to even the simplest of pseudo-economic problems. For example, on the issue of unsafe Mexican trucks entering the United States, the U.S. Transportation Secretary stated: "We won't compromise safety even at the expense of economic benefits."[62] However, under NAFTA, Mexican trucks were supposed to be granted free access to New Mexico, Arizona California, and Texas beginning December 18, 1995. In

March, 1997, a frustrated Senator McCain pointed out: "More than fourteen months have passed with silence from the administration on this trade issue, and progress on important safety issues remain unclear. We need to move forward so that the border region can reap the full economic gains of free trade." While truck inspections seem to be a minor concern, the issue reflects a sobering reality of American politics: "all economics [sic] is local."[63] What remains clear is that McCain sees this as a "trade issue." What is unclear is McCain's (and others') definition(s) of "the full economic gains of free trade."

In the Preface to "A National Security Strategy for a New Century" (May 1997), President Clinton states: "To bolster America's economic prosperity" is one of three core objectives. Therein, he further outlines "strategic priorities" to advance national security objectives. His supporting goals to prosper in the global economy are:

1) To "tear down trade barriers abroad in order to create jobs at home;" and

2) To open "foreign market[s] more widely to American products."[64]

These two goals are actually *ways* in which to achieve the *end* or objective of a free market economy.[65] The strategy statement concludes with a stated commitment "to sustaining our active engagement abroad ... in pursuit of ... a prosperous world where democracy and free markets know no limits."[66] However, the *end*

states of economic prosperity and democracy are neither guaranteed nor promised by the *means* of President Clinton's "free trade" policy.

The view of NAFTA as an economic agreement is too simplistic. There were numerous political aspects. For example, the NAFTA structure was essentially designed with a political process for eliminating tariffs and other trade barriers over a time-phased schedule. The timing and rates of reductions were politically constrained and had to be negotiated. The "constraining" issues such as the environment, labor reform and narcotics were handled as "side agreements."[67] As Sidney Weintraub recently concluded, "NAFTA is not like the European Union. There is no promise of economic and monetary union in North America. NAFTA is enveloping the two countries in more cooperative political relations than existed earlier."[68]

It is also a fact that seemingly unrelated political decisions had collateral economic consequences. For example, Mexico became an unintended victim of the Helms Burton Act.[69] In the April 1997 issue of Business Mexico, there were also charges that "the drug issue becomes the latest attack weapon for U.S. legislators determined to blame their southern neighbor for everything from U.S. job loss to the spread of corner crack houses."[70] Because U.S. economic policies are politically interdependent with issues such as the "Certification Process,"[71]

some Latin Americans see U.S. free trade advocacy as a strategy of hemispheric domination.[72]

CONCLUSION

After the surprising defeat of the ruling party in the 1997 Mexico elections, Susan Kaufman Purcell forecast that Mexican politics will be less predictable because President Zedillo would be dealing with two strong opposition parties who do not necessarily share Zedillo's views on NAFTA. The negative aspect of Mexico's democratization is that international debates, negotiations and agenda competition will be more intense. On the positive side, the U.S. can be confident that once policies are adopted, they will be more consistent and enduring.[73]

Free trade is a strategy from which there is no retreat but it is not a complete strategy without the enabling political strategy. In this regard, process improvements require the White House to acknowledge that if the Mexican political system collapses, U.S. economic interests are threatened not only bilaterally but also throughout the hemisphere. To guard against such a catastrophe, several recommendations are warranted.

Recommendation: Reduce the number of bureaucracies competing to shape Mexico's economy. Place all responsibility in one Department (State, Treasury, or Commerce). Eliminate the negotiating independence of other organizations such as the Drug Enforcement Agency, the Immigration and Naturalization Service, and Office of Drug Control Policy. The bilateral liaison activities are growing to the detriment of Unity of Effort. Bureaucracies, too numerous to count, spring into action on a

variety of issues. For the most part, each bureaucracy is running a type of reform school. Under the auspices of a large Binational Commission (BNC) and a host of "side agreements," the so-called liaisons are taking Mexico through reform school. There are judicial, social, political, monetary, market, environmental and education reform "schools," just to name a few. Despite the many initiatives, there is a growing sense that since NAFTA, many reforms have been neglected. Some constituencies such as those of Jorge Castañeda and Ralph Nader will continue to be impatient. Jonathan Heath lamented in 1996 that negligence in managing the trade liberalization process cost Mexico not only in the peso crash but also in the credibility of the economic reform process itself.[74] The U.S. must do more than liaison to shape Mexico's economy.

Recommendation: Increase U.S. Special Intelligence and Clandestine Activities in Mexico to fight corruption and crime - both with and without host nation knowledge. There will be a continuing clash of values, "consumerism" excepted. Espionage is a fair and legitimate means of supporting foreign policy, particularly where U.S. interests are threatened. It is quite clear that Mexico governmental and private institutions are too corrupt[75] for the U.S. to engage entirely by open dialogue. On the other hand, they are too important and influential to ignore. According to intelligence sources, 80% of foreign contracts are awarded with some type of bribery involved.[76] Free trade and

negotiations alone cannot overcome the corruption which appears to be endemic.[77] Without expert penetration of the Mexican infrastructures (both legal and illegal), the U.S. policy will be subject to Mexico's voluntary cooperation on indictments, extradition, immigration control and other issues which transgress the shared border.

Recommendation: The White House needs to develop a "doctrine" to address the criteria, thresholds and synchronization for "assistance" to Mexico. Clearly, questioning free trade policy is not attributable to bad faith, partisan politics or demagoguery. In fact, NAFTA initiatives were challenged and criticized by very astute economists. According to Peter Morici, much of the mainstream economic analysis supported joined the opponents of free trade.[78] However, there is no consensus on a performance measurement system with which to assess effectiveness of economic policy and strategy.[79] Thus, if this U.S. economic strategy is designed to achieve a desired end state, specific parameters and criteria are needed to define the desired economic end state in tangible terms.

Armed with a doctrinal approach to the factors that underlie Mexico's learning disabilities, the White House must use its most persuasive powers to overcome the political barriers to the "reform schools" in Mexico. As Moisés Naím astutely proclaimed "The margin for misguided economic policies has become exceedingly narrow, and the catastrophic consequences of policy

mistakes appear with an immediacy and intensity not seen before. This is Mexico's real lesson for the world."[80] It is also a lesson for the White House.

Wordcount = 5834 Words

ENDNOTES

[1] **free trade** is defined as "international trade unhindered by tariffs, other restrictions on imports and export subsidies. Today, it is recommended as a means of achieving international specialization of production and maximization of world economic welfare. In practice, completely free trade is rare. There are always particular interest groups and industries within a country demanding protection, with varying degrees of success." Donald Rutherford, Dictionary of Economics. (New York: Routledge, Chapman and Hall, 1992), 181.

[2] M. Delal Baer reported that "Mexico is about to overtake Japan for the number two slot, despite the fact that Mexico's economy is one twelfth the size of Japan's," M. Delal Baer, "Misreading Mexico," Foreign Policy, 108 (Fall 1997): 144.

[3] Author conceived this term to collectively describe economically relevant issues which themselves are not normally included in the study of economics. Labor practices, product safety standards and environmental regulation are examples of pseudo-economic issues.

[4] For an extensive discussion of the "political battles," see George Grayson, The North American Free Trade Agreement, (Lanham, MD: University Press of America, 1995), Chapters 8 and 9. Also, from the U.S. Labor perspective, see Ken Jennings and Jeffrey W. Steagall, "Unions and NAFTA's Legislative Passage: Confrontation and Cover," Labor Studies Journal, vol. 21 (Spring 1996): 61-79.

[5] President William J. Clinton, North American Free Trade Agreement. (Washington, D.C.: Government Printing Office, 1994). Also, Bureau of Inter-American Affairs, U.S. Department of State, "Fact Sheet: North American Free Trade Agreement (NAFTA)," 1 May 1996; available from <http://www.state.gov/www/regions/ara/unafta.html>; Internet; accessed 18 September 1997.

[6] Jorge G. Castañeda, "Mexico's Circle of Misery," Foreign Affairs, 75, no. 4 (July/August 1996): 92.

[7] Madeleine K. Albright, "Remarks at the 50th Anniversary of the Organization of American States," Conference on the Americas, Washington, D.C., 5 March 1998; available from <http:05/18/98/secretary.state.gov/www/statements/1998/980305.html>; Internet; accessed 7 Mar 98.

[8] Susan Liebeler, "The Politics of NAFTA," in Foreign Investment and NAFTA, ed. Alan M. Rugman, (Columbia, SC: University of South Carolina Press, 1994), 40-41.

[9] Political bias aside, the book articulates well, several underlying issues which U.S. economic policy must address:

Environmental Regulation; Fair Labor Practices, and Consumer Protection (Product Safety). Ralph Nader, et al., eds. The Case Against "Free Trade:" GATT, NAFTA, and the Globalization of Corporate Power, (San Francisco: Earth Island Press, 1993), 1-2.

[10] Jorge G. Castañeda, "Latin America and the End of the Cold War: An Essay in Frustration," in Latin America in a New World, ed. Abraham F. Lowenthal and Gregory F. Treverton, (Boulder: Westview Press, 1994), 34.

[11] Government of Mexico,"Mexico: Economic Policy Guidelines for 1998," November 1997; available from <http://www.shcp.gob.mx/english/docs/crit98/crit98e.html>; Internet; accessed March 7, 1998.

[12] There are considerable academic studies to support diverse political views on the Mexican immigration issue. The relationship of Mexican migration (legal and illegal) to free trade and the corresponding impact on U.S. labor market, is a continuing topic of research and debate. Two objective sources for authoritative opinion are: (1) Jorge A. Bustamamente, Clark W. Reynolds, and Raúl A. Hinojosa Ojeda, eds. U.S.-Mexico Relations: Labor Market Interdependence, (Stanford: Stanford University Press, 1992); (2) Philip L. Martin, Trade and Migration: NAFTA and Agriculture, (Washington, D.C.: Institute for International Economics, 1993).

[13] Department of State Report to Senate Committees on Foreign Relations and Finance and to House Committees on Foreign Affairs and Ways and Means, "1996 Country Reports On Economic Policy and Trade Practices," January 1997; available from <http://www.state.gov/www/issues/economic/trade_reports/latin_america96/mexico96.html>; Internet; accessed 6 March 1998.

[14] See Barbara Stallings and Kotaro Horisaka, "Japan and Latin America: New Patterns in the 1990's," in Latin America in a New World, ed. Abraham F. Lowenthal and Gregory F. Treverton, (Boulder: Westview Press, 1994), 126-149.

[15] Concerning Chile and lost opportunities: "Several major U.S. - based multinationals with joint ventures in Chile - including IBM, Southwestern Bell and McDonald's -- have announced plans to source millions of dollars in equipment in Canada and Mexico have bilateral free trade accords with Chile that permit their goods to enter the South American country tariff-free, while U.S. goods face prohibitive duties. According to the U.S. Chamber of Commerce, the loss of opportunity for U.S. exports to Chile is $480 million a year and climbing," Robert A. Mosbacher, Wall Street Journal, September 12, 1997; quoted in America Society / Council of the Americas "Published Articles and Op-

eds," available from < http://207.87.5.23/oped.html>; Internet; accessed 6 March 1998.

[16] Bureau of Inter-American Affairs, U.S. Department of State. "Fact Sheet: U.S.-Mexico Binational Commission." April 1997; available from <http://www.state.gov/www/regions/ara/bnc_factsheet_0497.html>; Internet; accessed 18 September 1997.

[17] Common U.S.-Mexico interests are thoroughly outlined in Bureau of Inter-American Affairs, U.S. Department of State, "Fact Sheet: Summit of the Americas--Advancing the Common Agenda," 27 May 1997; available from <http://www.state.gov/www/regions/ara/ufsamer.html>; Internet; accessed 18 September 1997.

[18] Bureau of Inter-American Affairs, U.S. Department of State, "Fact Sheet: Cooperation with Mexico: In Our National Interest," 1 May 1996; available from <http://www.state.gov/www/regions/ara/ufscoop.html>;also "Fact Sheet: North American Free Trade Agreement (NAFTA)," 1 May 1996; available from <http://www.state.gov/www/regions/ara/unafta.html>; also, "Fact Sheet: Working with Mexico, Building America's Future," 15 April 1997; available from <http://www.state.gov/www/regions/ara/ work_with_mexico_fs_0497.html>; Internet; accessed 18 September 1997.

[19] Bureau of Inter-American Affairs, U.S. Department of State, "Fact Sheet: Cooperation with Mexico: In Our National Interest," 1 May 1996; available from <http://www.state.gov/www/regions/ara/ufscoop.html>; Internet; accessed 18 September 1997.

[20] Heroles 73.

[21] William A. Orme, Continental Shift - Free Trade and the New North America, (Washington, D.C.: The Washington Post Company, 1993), 1.

[22] Sidney Weintraub, "NAFTA and U.S. Economic Sovereignty," in NAFTA and Sovereignty Trade-offs for Canada, Mexico, and the United States, ed. Joyce Hoebing, Sidney Weintraub, and M. Delal Baer, (Washington, D.C.: Center for Strategic and International Studies, 1996), 135.

[23] 1996 Presidential candidate Ross Perot often spoke of that "giant sucking sound" - onomatopoeia to exaggerate the claim that huge businesses and jobs would move to Mexico. See Paul Magnusson and Elizabeth Malkin, "NAFTA: Where's That 'Giant Sucking Sound'?" Business Week, 7 July 1997, 45. See also Ross Perot and Pat Choate, Save your Job, Save Our Country, (New York: Hyperion, 1993).

[24] Bruce Moon, Dilemmas of International Trade, (Boulder: Westview Press, 1996), 42.

[25] **comparative advantage** - "The principle justifying individuals specializing in those economic activities which they perform relatively better than others. From its first enunciation in 1815 by Torrens, this principle has been used to explain the pattern of international trade and specialization in terms of a coutry's relative efficiency in producing goods." It advances Smith's doctrine of **absolute advantage** - "an early theory of trade which states that a country enters into trade with another because it has greater productivity than the other country in certain industries. ... Adam Smith advanced this as the reason for trade, stating that a nation, like a household, should specialize," Rutherford, 1-2: 84. See also Bruce Moon, Dilemmas of International Trade, (Boulder: Westview Press, 1996).

[26] "Asymmetric economies is a term used by Senator Daniel Patrick Moynihan in "Free Trade with an Unfree Society," The National Interest, (Summer 1995): 28.

[27] Moon, 8.

[28] Ibid.

[29] Moon, 10.

[30] Jan Gilbreath and John Benjamin Tonra, "The Environment: Unwelcome Guest at the Free Trade Party," in The NAFTA Debate - Grappling with Unconventional Trade Issues, ed. M. Delal Baer and Sidney Weintraub, (Boulder: Lynne Rienner, 1994), 53.

[31] Ibid.

[32] Jorge I. Dominguez, "Latin America's Crisis of Representation," Foreign Affairs, vol. 76, no. 1 (January/February 1997): 106.

[33] Moon, 11.

[34] Sidney Weintraub, "NAFTA and U.S. Economic Sovereignty," 137.

[35] Frederico Reyes Heroles, "Sovereignty: Concepts, Facts, and Feelings," NAFTA and Sovereignty Trade-offs for Canada, Mexico, and the United States, ed. Joyce Hoebing, Sidney Weintraub, and M. Delal Baer, , (Washington, D.C.: Center for Strategic and International Studies, 1996), 82-83.

[36] Sidney Weintraub, "NAFTA and U.S. Economic Sovereignty," 141-142.

[37] William A. Orme, Continental Shift - Free Trade and the New North America, (Washington, D.C.: The Washington Post Company, 1993), 4.

[38] Charles R. Carlisle, 115.

[39] Jeffrey E. Garten, "Business and Foreign Policy," Foreign Affairs, 76, no. 3 (May/June 1997): 67-68.

[40] In his 1954 psychological study of motivation, Maslow conceptualized five levels of needs - ranging from basic survival needs to esteem needs and self actualization. In stressing the developmental nature of motivation, "lower" and "higher" merely indicated that certain needs occur earlier in the developmental process. Author's suggestion is that developing nations such as Mexico undergo a similar process in developing national interests. See David Krech, et al., Elements of Psychology (New York: Knopf, 1969), 498.

[41] Sidney Weintraub, "NAFTA and U.S. Economic Sovereignty," 144.

[42] U.S. Department of the Treasury, "Fact Sheet: Mexico--The U.S. Financial Support Program," 1 May 1996; available from <http://www.state.gov/www/regions/ara/mexfact.html>; Internet; accessed 18 September 1997.

[43] Documents typically included fact sheets from Commerce, State and Treasury Departments, such as: "Fact Sheet: Executive Summary--April Report to Congress," 1 May 1996; and "Fact Sheet: U.S. Financial Support Program--The Achievements One Year Later," 1 May 1996; available from <http://www.state.gov/www/regions/ara>; Internet; accessed 18 September 1997.

[44] Mexico Finance Secretariat's General Directorate of International Financial Affairs,"Mexico: Economic Policy Guidelines for 1998," November 1997; available from <http://www.shcp.gob.mx/ english/docs/crit98/crit98e.html>; Internet; accessed March 7, 1998.

[45] Ibid.

[46] Economic Commission for Latin America and the Caribbean (ECLAC), Preliminary Overview of the Economy of Latin America and the Caribbean - 1997. (Santiago, Chile: United Nations, 1997), 33-35.

[47] Daniel Patrick Moynihan, "Free Trade with an Unfree Society," The National Interest, (Summer 1995): 28.

[48] M. Delal Baer, "The New Order and Disorder in U.S.-Mexican Relations," in A New North America, ed. Charles F. Doran and Alvin Paul Drischler, (Westport, CT: Praeger Publishers, 1996), 19.

[49] The "misery index" was not an accepted economics term. However, it was a popular phrase used with some political effect. Ironically, the misery index may have cost President Jimmy Carter

the 1980 election, when Ronald Reagan used it to remind voters that it was 18%. In March 1998, the U.S. "misery index" was 6%.

[50] The threshold figures for this chart are the author's illustrative numbers, used only for rhetorical effect. Mexican inflation and unemployment rates for 1996 were 26.5% and 5.7% respectively (See Table 1). ECLAC reported that Mexico interest rates were approximately 24% at the end of 1996.

[51] From the Latin expression, meaning: "all other things being equal."

[52] Charles R. Carlisle, "Is the World Ready for Free Trade," Foreign Affairs, vol. 75, no. 6 (November/December 1996): 114).

[53] George McAlmon, "Is Free Trade Enslaving American Workers?" Business and Society Review, no. 95 (1995): 38.

[54] Moon, 10-11.

[55] Author acknowledges the institution known as the Binational Commission on Labor but would argue that it has not established anything but a forum for discussion. A "worker's bill of rights" would be a good start for doctrine on labor reform.

[56] Caspar W. Weinberger, "Mexico is Having a Substantial Recovery," Forbes, 30 December 1996, 35.

[57] Paul Magnusson and Elizabeth Malkin, "NAFTA: Where's That 'Giant Sucking Sound'?" Business Week, 7 July 1997, 45.

[58] Debbie Nathan, "Death Comes to the Maquillas: A Border Story," The Nation, 13/20 January 1997, 18-21.

[59] Dominguez, 106.

[60] Jorge G. Castañeda, "Mexico's Circle of Misery," Foreign Affairs, vol. 75, no. 4 (July/August 1996): 92-93.

[61] Moisés Naím, "Mexico's Larger Story," Foreign Policy, vol. 99 (Summer 1995): 112.

[62] David Barnes, "Southwest States Want Border Open," Traffic World, vol. 249 (March 24, 1997), 12.

[63] Author's juxtaposition of the popular phrase in U.S. domestic politics - "All politics is local."

[64] The White House, A National Security Strategy for a New Century, (Washington, D.C.: May 1997): i.

[65] **free market** is defined as "a market in which buyers and sellers are free to contract on whatever terms they wish, without governmental interference," Rutherford, 181.

[66] The White House, iii.

[67] NAFTA had two principal side agreements for Labor and Environmental Cooperation. Conventional wisdom is that President Clinton could not get timely agreement with Mexico if he insisted on making those issues part of NAFTA. At the same time, to get sufficient domestic support for NAFTA, he needed to add these "side deals." See Susan Liebeler, "The Politics of NAFTA," in Rugman, 34-39.

[68] Sidney Weintraub, NAFTA at Three - A Progress Report, (Washington, D.C.: Center for Strategic and International Studies, 1997), 85.

[69] Designed by U.S. Congress to isolate Castro's regime in Cuba - the Helms-Burton Act also "punished" Mexico and Canada. The two countries issued a press release in May 1996 stating that the act "violated International Law," Mexico also initiated appeals for redress with the NAFTA commission, the United Nations and Organization of American States (OAS). See Joaquin Roy's Article, "The Helms-Burton Law: Development, Consequences, and Legacy for Inter-American and European-US Relations," in Journal of Inter-American Studies & World Affairs, Fall 1997, 77-108.

[70] Stephanie Noecker, "From Bailout to Blowout: Have U.S. Mexican Relations Been Derailed by Decertification?" Business Mexico, vol. 7 (April 1997), 8.

[71] "Clinton Certifies Mexico as Cooperative in the Drug War," Foreign Policy Bulletin, vol. 8, no. 3 (May/June 1997): 112-116. Susan E. Reed, "Certifiable - Mexico's Corruption, Washington's Indifference," The New Republic, 17 March 1997, 14-16+.

[72] Author's personal notes from "non-attributable" academic briefings and discussions with senior military officers from six different Latin American countries. Army War College, Carlisle Barracks, PA, 1998.

[73]Susan Kaufman Purcell, "Mexico's Giant Step," Washington Post, 10 July 1997.

[74]Heath, 103.

[75]Heroles, 73.

[76]Robert S. Leiken, "Controlling the Global Corruption Epidemic," Foreign Policy, 105 (Winter 1996-97): 70.

[77] "The most serious threat to Mexican national security today is narcotrafficking. The reason is not hard to discern: The cartels have so penetrated the Mexican state and socioeconomic structure that they have effectively subverted the country's institutions." Donald E. Schulz, Between a Rock and a Hard Place: The United States, Mexico and the Agony of National

Security, (Carlisle Barracks: U.S. Army War College, Strategic Studies Institute, 24 June 1997), 2.

[78] Peter Morici, "Export Our Way to Prosperity," Foreign Policy, 101 (Winter 1995-96): 7.

[79] In addition to the analytical complexities, much of the contradictory opinions are based on a variety of models, none of which appear to be accepted as "standard." Consequently, politicians and economists alike are often accused of chosing the model which gives only the result which they want.

[80]Naím, 130.

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