
REVIEW ESSAYS

NAFTA AND THE POLITICAL ECONOMY OF MEXICO'S EXTERNAL RELATIONS*

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THE NAFTA DEBATE: GRAPPLING WITH UNCONVENTIONAL TRADE ISSUES.

Edited by M. Delal Baer and Sidney Weintraub. (Boulder, Colo.: Lynne Rienner, 1994. Pp. 211. \$35.00 cloth.)

LA INTEGRACION COMERCIAL DE MEXICO A ESTADOS UNIDOS Y CANADA: ¿ALTERNATIVA O DESTINO? By Víctor M. Bernal Sahagún et al. (Mexico City: Siglo Veintiuno, 1990. Pp. 280.)

ECONOMIC INTEGRATION IN THE WESTERN HEMISPHERE. Edited by Roberto Bouzas and Jaime Ros. (Notre Dame, Ind.: University of Notre Dame Press, 1994. Pp. 204. \$29.95 cloth, \$14.95 paper.)

MEXICO AND THE NORTH AMERICAN FREE TRADE AGREEMENT: WHO WILL BENEFIT? Edited by Victor Bulmer-Thomas, Nikki Craske, and Mónica Serrano. (New York: St. Martin's Press in association with the Institute of Latin American Studies, University of London, 1994. Pp. 257. \$49.95 cloth.)

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- THE MEXICO-U.S. FREE TRADE AGREEMENT. Edited by Peter M. Garber. (Cambridge, Mass.: MIT Press, 1993. Pp. 317. \$32.50 cloth.)
- WESTERN HEMISPHERE ECONOMIC INTEGRATION. Edited by Gary Clyde Hufbauer and Jeffrey J. Schott. (Washington, D.C.: Institute for International Economics, 1994. Pp. 279. \$25.00 paper.)
- ASSESSMENTS OF THE NORTH AMERICAN FREE TRADE AGREEMENT. Edited by Ambler H. Moss, Jr. (New Brunswick, N.J.: Transaction, 1993. Pp. 109. \$16.95 paper.)
- THE CASE AGAINST FREE TRADE: GATT, NAFTA, AND THE GLOBALIZATION OF CORPORATE POWER. By Ralph Nader et al. (San Francisco: Earth Island Press, 1993. Pp. 230. \$10.00 paper.)
- CONTINENTAL SHIFT: FREE TRADE AND THE NEW NORTH AMERICA. By William A. Orme, Jr. (Washington, D.C.: Washington Post, 1993. Pp. 235. \$9.95 paper.)
- MEXICO'S EXTERNAL RELATIONS IN THE 1990s. Edited by Riordan Roett. (Boulder, Colo.: Lynne Rienner, 1991. Pp. 279. \$30.00 cloth.)
- MEXICO IN THE GLOBAL ECONOMY: HIGH TECHNOLOGY AND WORK ORGANIZATION IN EXPORT INDUSTRIES. By Harley Shaiken. (La Jolla: Center for U.S.-Mexican Studies, University of California, San Diego, 1990. Pp. 138. \$14.95 paper.)
- U.S.-MEXICO TRADE: PULLING TOGETHER OR PULLING APART? Office of Technology Assessment, U.S. Congress. (Washington, D.C.: U.S. Government Printing Office, 1992. Pp. 225. \$12.00.)

By midterm in the *sexenio* of Carlos Salinas de Gortari (1988–1994), the dispute between neoliberals and national-populists appeared to have been resolved in Mexico.¹ Neoliberals were firmly in control of economic policy making, and national-populists had been “relegated to the proverbial dustbin,” as one prominent scholar noted.² This assessment may now require revision. Neoliberals continue to control economic policy making in Mexico, but if the dustbin is a synonym for obscurity, it now contains Salinas (who went into self-imposed exile in 1995) as well as many national-populists. Moreover, selling “free-trade” or “market-friendly” policies is becoming more difficult in light of dramatic economic, political, and social developments in Mexico since the January 1994 implementa-

1. The term *neoliberal* refers to an ideology calling for reliance on market forces, private initiative, and limited government intervention in the economy (see Grinspun and Cameron 1993, 21). In the Mexican context, nationalist policies (sometimes called “mercantilist”) are associated with populism. According to this ideology, the state has a developmental and redistributive role in promoting economic growth consistent with the interests of the nation-state. The cornerstone of this policy in the postwar period was import-substituting industrialization.

2. This quotation is taken from Centeno, “Still Disputing after All These Years” (1992, 167). Centeno’s title echoes Cordera Campos and Tello’s widely known *Disputa por la Nación* (1979).

tion of the North American Free Trade Agreement (NAFTA). These developments include insurrection in the countryside, growing tension and impoverishment in the cities, disarray in international financial markets, deterioration of the domestic economy, and ongoing internal division, corruption scandals, and assassinations within the ruling Partido Revolucionario Institucional (PRI) (see Paternostro 1995).

The premise of this review essay is that neoliberal policies have failed to provide the much-promised path of stable and shared economic growth for Mexico. Economic reforms have also failed to usher in domestic democratic reforms (despite the confident predictions of “experts”) or to create a hemispheric environment of mutually beneficial integration. It has become clear that so-called conventional wisdom about Mexican economic and political development was based more on myth and ideology than on objective analysis. This conventional wisdom, widely supported by mainstream scholarship, predicted stable growth of the Mexican economy and sustained capital inflows to fund that growth; slow but sure improvement in the standard of living of poor Mexicans as wages and working conditions improved; more encouraging social indicators as the benefits of growth trickled down; and lagged but steady liberalization of the political system. Academic analysts working within neoclassical and modernization traditions failed to comprehend the complexity of the economic and social transformations brought on Mexican society by neoliberal policies.³ The same analysts who failed to predict *ex ante* outcomes have been very reluctant to recognize the *ex post*, deeply disturbing nature of current social, political, and economic conditions in Mexico.⁴

This review will cover a representative sample of the recent torrent of publications on Mexico and NAFTA. The essay will approach Mexico’s external relations from a political-economy perspective that focuses on the interaction between political and economic factors (domestic and international). This perspective differs from mainstream approaches in stressing issues of power, equity, and sustainability. Inevitably, Mexican

3. Douglass North (1990) argued that neoclassical economics has been unable to explain the disparities in the performance of economics because of its behavioral assumptions and its failure to incorporate institutional analysis into economic theory. In a similar spirit, our criticisms are directed at the static, ahistorical, noninterdisciplinary uses of neoclassical theory rather than at neoclassical economics itself.

4. It could be argued that NAFTA did not cause Mexico’s economic and social crisis, that this crisis results from poor implementation of appropriate policies, and that the predictions of mainstream scholarship may still be vindicated. We are not asserting a monocausal relationship between NAFTA and Mexico’s economic problems. NAFTA simply consolidates an array of neoliberal policies that Mexico has implemented in adhering scrupulously to the “Washington consensus.” We argue that the failure to understand the social, political, environmental, and economic impact of these policies has contributed to the current crisis. The promise of future benefits depends on assumptions that have been exposed as unrealistic by the current crisis, such as the behavior of markets and the stability of the Mexican political system. And as John Maynard Keynes remarked, “In the long run, we’re all dead.”

external relations are defined by and revolve around relations with the United States. Indeed, Mexican ties with Latin America and the rest of the world can be understood only in that bilateral context. The substantive basis of U.S.-Mexico relations is economic investment and trade (of goods, services, capital, and labor), and NAFTA is the most important institutional mechanism shaping those relations. In fact, much of the literature to be reviewed here hinges on the debate over NAFTA and the impacts of NAFTA-led integration.

Our review is divided into six sections and a conclusion. The first part provides background for understanding Mexico's external relations. The second explores the implications of NAFTA for Mexico. The third and fourth parts consider issues pertaining to the environment and labor. The fifth part places Mexico within the larger process of hemispheric integration, and the sixth reviews alternative work on Mexico's external relations.⁵

Locating Mexico in the International Context

Useful background information on the Mexican external context, particularly in locating the U.S.-Mexico relationship in an international setting, is provided in *Mexico's External Relations in the 1990s*, edited by Riordan Roett. This collection focuses on political and economic issues as well as on possible scenarios for Mexico's future in the changed international context. In many ways, this volume is typical of the literature: it includes contributions by economists, political scientists, and specialists in foreign affairs but does not provide the basis for defining a political economy of U.S.-Mexico relations. Instead, the contributions tend to be descriptive and narrowly focused within a single discipline. As advertised, the book adequately covers some of the major economic and political themes and areas of concern for Mexico in the 1990s. It successfully points out the various forces at work in the international economic sphere of interest to Mexico and demonstrates the change in this context and the internal context as well. A common theme of the essays is that although integration within North America is important, Mexico must diversify its relationships to include other economic blocks, counterbalancing the weight of U.S. influence. This need is underscored by the difficulties facing the U.S. economy, such as mounting foreign debt and loss of global leadership.⁶ Consensus also seems to exist among those discussing the issue that Mexican relationships with other trading blocks are ironically

5. Due to space constraints, we will not discuss relations between Mexico and Canada. For an analysis on this topic, see Grinspun, Galleguillos, and Roman (1995, 211–34).

6. This point is made by Gabriel Székely and Roett in *Mexico's External Relations in the 1990s*. Furthermore, Székely acknowledges that his conclusions and options are premised on U.S. economic recovery, and he views further bilateral integration as a necessity in that process.

contingent on greater integration into the North American bloc.⁷ These analysts recognize that most other countries are interested in Mexico largely because of its proximity to and relationships with the United States.

The contributors to *Mexico's External Relations in the 1990s* appear to assume that Mexico has little choice but to seek closer relations with the United States. A number of them stress growing convergence between the economic interests of the United States and Mexico, with most of the change taking place on the Mexican side. Clark Reynolds examines the economics of closer relations between the two countries and determines that the benefits of economic integration for Mexico are substantial, "as long as provision is made for equitable sharing of the gains" (p. 50). None of the chapters, however, assess whether such sharing is likely.

In an intriguing historical analysis, Laurence Whitehead notes the growing harmony in U.S.-Mexican relations and suggests that the "persuasive force of the arguments and example of the United States" have as much weight as its "material power and advantages." At the same time, he comments that the "improving relationship" is based on an underlying dynamic that is "evidently economic, and it rests on an explicit decision made in Mexico City to meet the conditions of domestic economic policy reform desired by Washington" (p. 256). In sum, *Mexico's External Relations in the 1990s* provides some interesting arguments and analyses but a weak foundation for the interdisciplinary project sketched earlier.

Implications of NAFTA

Several of the books under review assess the implications of NAFTA for Mexico and the United States. An impressive and wide-ranging collection of essays is contained in the volume edited by Victor Bulmer-Thomas, Nikki Craske, and Mónica Serrano, entitled *Mexico and the North American Free Trade Agreement: Who Will Benefit?* The introduction is based on a talk given by Jesús Silva Herzog, former Mexican Minister of Finance. He supports the view that NAFTA is a positive development for Mexico, but he continues to voice the kind of tepid criticisms that earned him a golden exile as ambassador to Spain: the deal does not reflect the asymmetries within the region; NAFTA will hurt key sectors like maize producers; and depending on how other regions react, it may weaken multi-lateral trade. Silva Herzog's introduction reveals the limits of criticism tolerated within the current Mexican establishment.

The next essay is Jaime Ros's "Mexico and NAFTA: Economic Effects and the Bargaining Process." Whereas the proponents of freer

7. This point is made in the contributions by Jesús Silva Herzog, Roberta Lajous, Wolf Grabendorff, Jorge Alberto Lozoya, Cheryl Eschbach, and Gabriel Székely in the Roett volume.

trade between the United States and Mexico often make neoclassical arguments to demonstrate that reducing trade barriers mutually benefits all countries, Ros posits that in this case, neoclassical computational modeling has yielded disappointing results. For example, models based on specialization and comparative advantage have tended to show only small gains and often outright losses for Mexico. Economic modeling suggested that the benefits from NAFTA would be substantially greater if capital flows between the two countries were increased. But deregulation of capital movement conflicts with another key economic objective: the achievement of macroeconomic stability and a high degree of economic certainty. The conflict arises because a massive influx of capital is destabilizing, forcing such outcomes as appreciation of the currency. Moreover, relaxing balance-of-payment constraints may increase vulnerability to external shocks and reduce policy autonomy. Ros notes that analysis broadening the range of anticipated effects due to capital flows must incorporate the role of the state and other social institutions, and he therefore concludes that economic analysis alone is insufficient.

Ros's assessment provides a valuable antidote to the often excessive emphasis on trade by neoclassical economists dealing with economic integration. His discussion of U.S.-Mexico trade bargaining refutes the standard assertion that the benefits of trade liberalization between a large and a small country flow disproportionately to the small country due to gains in efficiency and market access. In addition, he suggests that labor, capital, and the state—not countries—should be placed at the center of analysis. For Ros, NAFTA entailed a series of concessions by the Mexican government to U.S. capital in an effort to increase foreign investment. But the nature of these concessions has given labor on both sides of the border legitimate cause to fear the effects of NAFTA.

Ros also draws attention to the “political-economy gap”: those adversely affected by trade and investment liberalization are less able to put forward their case for protection when business-state relations remain weakly institutionalized. Thus it would be easier for the government to impose neoliberal measures without much consideration of the impact on different groups in society. Such a gap explains why local Mexican industrialists complain that the government is often insensitive to their needs as the economy opens up to foreign competition. Ros develops this concept more fully in his book coauthored with Roberto Bouzas, *Economic Integration in the Western Hemisphere* (also under review here).

Ros's arguments are echoed in E. V. K. FitzGerald's excellent essay on NAFTA's impact on the rest of Latin America. FitzGerald believes that the diversion of trade caused by NAFTA is unlikely to affect the rest of Latin America significantly. The investment diversion, however, could be substantial. His disaggregation of capital flows into foreign direct investment, bank credit, and portfolio investment is particularly useful. Most

of the capital inflow to Mexico in recent years has been in portfolio investments—much of it into a single company, TELMEX. The possibility of substantial investment diversion could be averted with new institutions to support macroeconomic coordination throughout Latin America. Unfortunately, no joint regulatory institutions have been created by NAFTA, as FitzGerald observes, despite the demand for them, especially in the areas of monetary policy and the environment.

Of the remaining essays in *Mexico and the North American Free Trade Agreement*, two are particularly relevant to recent developments. Ignacio Trigueros traces the weak development of the Mexican banking system and the trend in recent years toward larger financial groups and high financial margins. His main concern is that firms may respond to NAFTA by seeking arbitrage opportunities caused by different regulatory systems rather than by increasing the degree of competition and variety of products in the market. His advice is to harmonize regulations quickly by further deregulating the Mexican markets and eliminating controls, even beyond the measures included in the financial chapter of NAFTA. But this prescription assumes that deregulated financial markets are fundamentally sound and stable, a doubtful assumption in view of recent events. The peso crisis confirmed the vulnerability of the Mexican banking system, amplified by tendencies toward financial speculation among market players. What is required is a more probing analysis of the sources of this weakness, beyond the narrow economic focus of Trigueros's work. Mexican banks have enormous problems with uncollectible loans, laundering of drug money, and fraud—all of them rooted in an ineffective regulatory (and political) system. A political-economy analysis of the Mexican financial crisis remains to be done.

Jorge Bustamante analyzes the links between job creation and migration, a salient issue in U.S.-Mexico relations. He sharply criticizes U.S. refusal to consider immigration as more than a police matter, arguing that for Mexico, undocumented immigration is an economic, labor-related issue. Bustamante surveys important research that is helping demystify migration across the border and better distinguish it as a socioeconomic phenomenon. He strongly believes that it would make sense for a comprehensive economic agreement such as NAFTA to cover labor migration, but he is willing to proceed with NAFTA, which does not include such coverage because of U.S. intransigence. Bustamante's contribution exemplifies persuasive but largely unproved arguments that served to promote NAFTA. For example, he is optimistic that NAFTA will reduce long-term immigration to the United States but presents little evidence to support his assertions.⁸ Moreover, Bustamante makes the common mistake of

8. A World Bank study by Santiago Levy and Sweder van Wijnbergen (1992) suggests that NAFTA will increase migration to the United States.

equating job creation with improvement in income distribution. This relationship is an empirical one that requires more complex treatment. Existing data point to a serious worsening of income distribution during the Salinas administration (Altimir 1994).

The concluding essay by the editors (Bulmer-Thomas, Craske, and Serrano) includes three parts that are not well integrated. The first section on economic change seems to have assimilated the lessons of the book only selectively, supporting a narrow neoclassical view. For example, it posits that stronger environmental side deals would have undermined Mexico's comparative advantage, contradicting the conclusions of Roberto Sánchez in an earlier essay. Furthermore, this section construes the "losers" as only those who will absorb the short-term adjustment costs and argues without sufficient evidence that "the potential benefits are likely to be substantial and . . . will outweigh the costs" (p. 208). In contrast, the other two sections of the conclusion on domestic political change and political relations between the United States and Mexico are more balanced in terms of encapsulating the diverse positions presented in the volume, especially the thoughtful discussion of political change in Mexico.

Assessments of the North American Free Trade Agreement, a shorter volume of five essays edited by Ambler Moss, Jr., was written prior to U.S. Congressional ratification of NAFTA and was clearly intended to influence the policy process. The first essay, "The Economic Effects of Not Passing the NAFTA" by Norman Bailey, advocates NAFTA most pointedly. He describes the growing economic integration between the United States and Mexico and argues that rejection of NAFTA would detrimentally impact both the U.S. and Mexican economies. According to Bailey, Mexico requires a continuing inflow of foreign capital to sustain its economic recovery: were NAFTA to be rejected by congress, "the peso is likely to be devalued to spur exports to close the balance of payments gap resulting from the drop in capital inflows" (p. 8). Such an outcome, Bailey contends, would have amounted to "a tariff, resulting in substantially reduced imports from the United States" (p. 8). What Bailey did not foresee is that such a drying up of capital inflows and devaluation could happen even under NAFTA—as recent events have demonstrated. This essay exemplifies the questionable value of many arguments raised during the negotiation and ratification of NAFTA.

William Perry's essay, "Mexico and NAFTA: The Politico-Security Dimension in Historical Perspective," argues that the United States faces a new and substantially transformed world in the wake of the cold war, one in which economic competition has displaced security issues from the center stage of the policy agenda. In this context, Perry argues in favor of NAFTA on the grounds that it will contribute to a more stable, prosperous, and democratic southern neighbor. He agrees that Mexican pro-

gress toward democracy has been limited, corruption remains a problem, environmental degradation is severe, and cooperation on immigration and drug trafficking has been difficult to achieve, but he suggests that these problems would be worse without NAFTA. Such a counterfactual argument is impossible to refute. More relevant is what will happen to immigration, drug trafficking, and political reform in Mexico under NAFTA. Perry, echoing a large body of neoliberal and modernization theory literature, presumes that these policy areas will benefit from a more stable bilateral framework such as NAFTA.

Recent events would support a more complex political-economy view of NAFTA. One of the most disturbing consequences of economic restructuring, which NAFTA consolidates in Mexico, is the inability of the new economic model to generate high levels of employment, thus adding to immigration pressures.⁹ The constitutional reform of the status of *ejido* land (clearly part of the NAFTA “package”) and the liberalization of basic-grain imports are contributing to peasants losing their land.¹⁰ Regarding authoritarian rule in Mexico, NAFTA may have mixed effects. It could reinforce authoritarian rule by insulating Salinas from international criticism for undemocratic practices (see Cameron 1996). Yet NAFTA could also undermine authoritarian rule due to the growing perception that centralized and arbitrary power was an obstacle to negotiating NAFTA and managing its implementation. NAFTA has been shown to be compatible with a major role for drug traffickers and an intimate relationship with state officials at the highest levels (Reding 1995). Increased trade promoted by NAFTA has undoubtedly facilitated drug traffic across the border.

Perry’s essay can be contrasted with Sergio Aguayo’s “Mexico’s Definition and Use of ‘National Security’” in the volume edited by Roett. Neither could have anticipated the particular uprising in Chiapas, but Aguayo argued that Salinas’s modernization program was destroying the foundation of the old corporatist system in Mexico and implementing policies leading to social discontent. His suggestion that Mexico might find itself in a “spiral of instability and violence” (p. 70) seemed extreme in 1991 but has since been amply vindicated. The rebellion in Chiapas suggests the need to rethink the definition of national security in the light of issues of poverty, land tenure, growing inequality, the persistence of authoritarianism at state and local levels, and the gap between the technocratic vision of Mexico and the everyday experience of marginalized classes and sectors.

In *The NAFTA Debate: Grappling with Unconventional Trade Issues*,

9. For example, during the second half of 1991, the rate of “informal employment” was 26.3 percent, in contrast to the “official” rate of 2.8 percent (OECD 1992, t. 10).

10. For an analysis of *ejido* reform and rural restructuring, see Hewitt de Alcántara (1994).

Delal Baer and Sidney Weintraub have assembled a sophisticated set of essays that go beyond the conventional focus on trade liberalization. This interdisciplinary volume addresses both domestic and international factors. It calls attention to the need for a broadly based discussion of issues like labor adjustment, the environment, democratization in Mexico, and new patterns of cooperation and conflict in U.S.-Mexican relations. Yet we disagree with much of the substance of the book. The first essay, "Assessing the Economic Impact of North American Free Trade" by Timothy Kehoe, presents an economic analysis of trade liberalization that arrives at the expected conclusion: "Mexico has more to gain from free trade than either Canada or the United States" (p. 27). Kehoe reviews the modeling literature and concludes that static effects of trade liberalization are likely to be small in comparison with the dynamic effects, which in turn depend on capital mobility and improvements in labor productivity. These dynamic effects, however, are based on fragile assumptions (like the parallel drawn between Spain and Mexico) and typical neo-classical abstracting away from a host of complicating factors: political instability, structural unemployment and other institutional characteristics of the labor market, eroding educational and health-care systems, societal tensions, rural impoverishment, financial speculation, environmental degradation, and a chronic lack of investment in research and technology, particularly by subsidiaries of transnational corporations. Thus a critical assessment of Kehoe's essay suggests the opposite of what he intended to demonstrate. The claim that NAFTA will provide substantial economic benefits to Mexico remains, despite all efforts, a questionable one.

Notwithstanding the feeble foundations of the claims about the economic benefits of NAFTA, the political analyses in the Baer and Weintraub volume tend to take them as a given. Howard Wiarda is puzzled by so much opposition to NAFTA: "Objectively, almost all economists and scholars without axes to grind agree that NAFTA is a positive development" (p. 139). While admitting that short-term job losses in the United States may occur, he suggests that the debate on NAFTA touched a variety of sensitivities in the U.S. body politic, from fear of economic competition to latent racism, and activated a host of political forces that opposed NAFTA to promote their various agendas. Yet Wiarda provides little sense of the political agenda behind the support for NAFTA in the U.S. business community or among Washington-based think tanks. The U.S. executive branch and congress are viewed by Wiarda as "channels, referees, filters, and ultimately, interpreters" of a wide variety of interest groups (p. 121), with no sense of the privileged role of capital.

Baer and Weintraub's "The Pressures for Political Reform in Mexico" asserts a causal link between the collapse of the earlier model of import-substituting industrialization and the rise of electoral pluralism

and discontent with the PRI. They believe that the forces unleashed by NAFTA may have the unintended consequence of promoting democratization in Mexico. Their analysis is detailed and the argument plausible, but their reading of trends in Mexican politics as a slow but sure movement toward democracy and “maturity” is selective and biased (p. 179). For example, they view Salinas and his coterie of technocrats who dominated economic policy as also “call[ing] the tune on gradual political opening” (p. 166). Yet recent events have cast the role of Salinas and his technocratic *camarilla* in a different light. The name of Raúl Salinas (the president’s brother) has persistently been linked by the media to the assassination of José Francisco Ruiz Massieu, Secretary General of the PRI; allegations were made of a cover-up by Salinas and members of the Procuraduría General de la República (the attorney general’s office); corruption and links between the Salinas family and drug traffickers have been claimed by the press (see Paternostro 1995); and questions linger about the assassination of presidential candidate Donaldo Colosio and its investigation. The public struggle for power between Salinas and incoming President Ernesto Zedillo after December 1994 seemed to suggest that Salinas wanted to remain a player in Mexican politics even after his mandate ended.

Opposing Perspectives on Jobs and Wages

Labor stands at the center of the debate over the implications of NAFTA for North America. Weintraub’s contribution to the volume edited by Moss attempts to summarize the arguments on both sides of the NAFTA debate. This is a perilous exercise for someone clearly identified with the camp favoring free trade, but Weintraub acquits himself respectably. Focusing on the debate between big business and organized labor in the United States, Weintraub believes that the anti-free trade position is the flip side of the pro-free trade position because of inherent symmetry in their views. Business leaders liked NAFTA because it would allow firms to invest offshore in Mexico, while labor leaders disliked NAFTA because of the job losses that would result from this process. Cast in this light, labor appears to take the more short-sighted perspective by opposing change that arguably would bring benefits in the longer run. Cast in another light, however, labor’s position is understandable: labor leaders realized that their interests would not be well served in a society where capital is more internationally mobile and labor unions are weak, regardless of the putative aggregate benefits.¹¹

The volume edited by Peter Garber, *The Mexico-U.S. Free Trade Agreement*, is more technical and mathematical and thus more likely to interest those with a neoclassical upbringing. It will be less interesting to

11. Labor positions are well represented in the collection of essays edited by Bognanno and Ready (1993).

social scientists seeking interdisciplinary analysis. We will focus on two contributions, the first one dealing with labor and the other with the environment (which will be discussed subsequently).¹²

Edward Leamer's essay in this volume concludes that unskilled wages in the United States will fall because of NAFTA. His results are drawn from traditional neoclassical theory, particularly the "factor price-equalization theorem" (FPET), which asserts that trade liberalization between two countries will promote harmonization of factor prices (under a given set of assumptions). In this discussion, Leamer contradicts the results of most computable general equilibrium models (CGEs) in which explicit assumptions (such as productivity gains) are introduced in an attempt to nullify the harmonization of factor prices resulting from FPET.¹³ Not surprisingly, Leamer's piece has been downplayed by some neoclassical commentators.¹⁴

This essay raises larger questions about the relationship between neoclassical analysis and the neoliberal trade-policy programs that mainstream economists usually support. Leamer's piece shows that a methodologically sound and independent neoclassical analysis can fail to provide support for neoliberal prescriptions. This outcome suggests that there may be other reasons why economists have almost universally aligned with neoliberal reforms, such as professional pressures to conform.

Harley Shaiken's *Mexico in the Global Economy: High Technology and Work Organization in Export Industries* is serious scholarship that challenges key economic assumptions of neoliberalism. The monograph originated from fieldwork he undertook in five *maquiladora* plants owned by transnational corporations, where he gathered data and interviewed plant managers, workers, and union representatives. Shaiken's purpose was to alert policymakers, labor activists, and interested academics to the emerging high levels of efficiency, technology, training, productivity, adaptability, and quality achieved in the most advanced *maquiladora* sectors (such as those that manufacture or assemble automobiles and parts, computers, and consumer electronics).

Shaiken's work potently forewarns that the lure of low wages in newly industrializing countries (NICs) is a real threat to workers and industries in the more developed ones.¹⁵ *Mexico in the Global Economy*

12. Peter Garber writes in the introduction to the volume that the papers were originally presented at a conference funded by SECOFI (Secretaría de Comercio y Fomento a la Industria).

13. For a survey of CGE models applied to NAFTA, see Brown (1992) and Hinojosa-Ojeda and Robinson (1992). For a critical examination, see Stanford (1993).

14. For example, Hufbauer and Schott (1992) allocate only one paragraph to Leamer's work in their detailed assessment of NAFTA and relevant economic analyses (1992, 112).

15. Given that wages averaged ten to fifteen times lower in these Mexican plants than in similar U.S. plants, such low wages combined with high levels of productivity translated into significantly lower production costs per unit.

provides a significant counterexample to the neoliberal claim that low wages in Mexico (and elsewhere in developing countries) simply reflect lower technological capacity and productivity. Although published in 1990 and drawing on fieldwork done in 1988, Shaiken's book expresses concerns that remain relevant, perhaps even more so given the greater integration of the Mexican economy with those of the United States and Canada through NAFTA. The major devaluation of the peso beginning in late 1994 dramatically cheapened Mexican wages in terms of U.S. dollars, thus multiplying the economic pressures resulting from these wage differentials.

Shaiken's piece—an exposé of high productivity, skill, and organization of work in combination with low wages in select maquiladora plants—is sobering and troublesome because it meshes well with more recent work on NAFTA and on what has become known as “social dumping.”¹⁶ Shaiken also assesses critically the lack of backward linkages in the Mexican maquiladora sector, except in those sectors where the Mexican government has historically imposed and enforced regulations requiring local content. This finding buttresses the key role of government in promoting broadly based industrialization and suggests that without it, NIC export-led development remains “enclave development.” Shaiken pays little attention, however, to the gendered division of labor in maquiladora industries and fails to explore adequately the less-promising situation of maquiladoras that are more labor-intensive and have been unable to take full advantage of liberalization. The broader social and political context of technological change is also touched on too briefly by Shaiken. His fascination with this “second wave” of investment in maquiladoras unfortunately begs some larger questions: should Mexico and other NICs emulate a Western, capital-intensive, export-oriented mode of industrial development? Is such a mode appropriate for a labor-surplus economy such as Mexico? What would its effects be on rural-urban sectors and their lack of symbiosis?

The Office of Technology Assessment (OTA) report entitled *U.S.-Mexico Trade: Pulling Together or Pulling Apart?* is a sophisticated and useful document, presenting strong micro- and meso-level policy analyses of various economic and social aspects of the bilateral relationship. The report nevertheless exhibits some of the limitations of a government document. Its strength is forecasting the open-ended nature of NAFTA at a time when most official government departments and mainstream scholars foresaw only a single optimistic path. OTA officials posit that NAFTA

16. “Social dumping” refers to policies that enhance international competitiveness by lowering social and environmental costs of production. Examples include policies that lower occupational safety costs below reasonable international standards and policies that diminish firms' responsibility for the pollution they create (see Stanford, Elwell, and Sinclair 1993).

could lead to two possible scenarios for Mexico and the United States: one that is regressive in fostering low wages, low productivity, social and political tension, and polarization; or a second option that is more progressive in promoting high wages, high productivity, and upward harmonization of labor and social standards. The key variable is how integration is managed: the labor and industrial relations policy choices that governments in both countries make (over the short and medium term) will strategically modify market logic in positive or negative directions. The report clearly articulates which policy choices should be pursued to promote progressive adjustment and worker training; to protect labor, environmental, and social standards; and to coordinate industrial policy to promote flexible production and cooperative industrial districts.¹⁷

Less persuasive is the OTA's presentation of NAFTA as a critical "juncture" between the two future scenarios previously mentioned. This argument is a rhetorical device intended to influence the policy debate during the 1992 U.S. presidential election. A "progressive vision" of integration was articulated by supporters of the Clinton administration,¹⁸ but they were ultimately marginalized in the policy process because they confronted powerful social forces pushing for NAFTA.¹⁹ The report's other major weakness is that it assumes that the second (progressive) option can be implemented within NAFTA without considering how, by design or effect, trade agreements like NAFTA foreclose alternative visions of economy and society or relations between the state and civil society.²⁰

William Orme's *Continental Shift: Free Trade and the New North America* is written from a journalist's perspective in engaging and lively prose. Although the book lacks the appurtenances of an academic work, it stands out among journalistic analyses for its sophistication and high quality of argumentation. The book was chosen for review because it illuminates the substance and form of debate over NAFTA in the United States. Orme seeks to demonstrate that "the United States has little to fear and much to gain from Mexico industrializing in an intelligent fashion . . . NAFTA would speed that process" (p. viii). Published in 1993 during the NAFTA ratification debate in the United States, the text was clearly intended to

17. OTA officials envisage their creation much like Piore and Sabel (1984).

18. The OTA report was intended to influence the position of Democratic candidate Bill Clinton during the campaign in fall 1992. Parallels can be found between the report and Clinton's first major speech on NAFTA.

19. Harley Shaiken, in testimony before the U.S. Congress, sought to place industrial relations on the negotiation agenda in the supplemental agreement on North American labor standards. Shaiken stressed the broken link between wages and productivity in Mexico. This effort encountered opposition from Republican representatives, business, and the Mexican government. Telephone interview with Steve Herzenberg, Office of Technology Assessment, U.S. Congress, 19 Sept. 1995.

20. On the role of trade agreements as "conditioning frameworks," see Grinspun and Kreklewich (1994).

counter presidential candidate Ross Perot's opposition to NAFTA. Orme believes that by "strip[ping] away the myths and half-truths that now clutter the NAFTA debate," his argument will be more compelling than those advocated by either moderate Republicans or mainstream Democrats (p. viii).

Orme makes several good points, one being that "the real action after NAFTA would take place in the service sector" (p. 8).²¹ This argument counters Perot's fear of a loss in manufacturing and rural jobs. Orme underscores NAFTA's far-ranging impacts in nontraditional areas like services, intellectual property, reforms of government procurement, and investment guarantees (p. 8). He concludes that the benefits and costs of NAFTA cannot be measured by trade data alone (pp. 10–11) and recognizes that from a U.S. perspective, the real value is to "lock in" the economic reforms made by Salinas (p. 17). Orme also contends that NAFTA's basic problem is that its benefits are long-term but its dislocations short-term (pp. 2–3). Other points are frank and engaging but obviously debatable: for example, NAFTA in the short term will consolidate authoritarianism (meaning the PRI) in Mexico, but over the long term, it will inevitably lead to political liberalization (p. 12). Orme recognizes regional asymmetries of power in North America and is not afraid to make unpalatable points. He argues that critics like Perot should not be worried if NAFTA is disadvantageous to the United States. In such a case, the United States can simply give six months' notice and walk away. Although Canada and Mexico theoretically could do the same, they "are so acutely dependent on American capital and markets that an abrupt unilateral withdrawal would be unthinkable. In the U.S., the immediate economic impact would be minimal" (p. 16).

Orme sometimes lapses into the same charges of hyperbole and false dichotomies that he levels against supporters and critics of NAFTA: to oppose growth "is tantamount to a Luddite withdrawal from the modern industrial world" (p. 18); he then equates "NAFTA's rejection" with "New Age defeatism" and "a new sort of 21st-century isolationism" (p. 18). Most unfortunate is the fact that Orme shares widely held positions that are inherently contradictory. A crucial contradiction arises in insisting on the need for long-term political liberalization and meaningful democracy in Mexico²² while supporting a locking-in mechanism such as NAFTA that disallows the will of the Mexican people in the future. The

21. Perot and Choate pay lip service to this notion, but their analysis of the implications of liberalizing financial and general services woefully understates U.S. interests (1993, 85). This assessment completely ignores the fact that it was the United States, not Mexico, that pushed for liberalization in these areas, particularly in establishing a new intellectual property rights regime in NAFTA (based more or less on U.S. standards).

22. Orme assumes that meaningful democracy in Mexico can come about only "from insistent pressure from below, not enlightened Lockean reforms bestowed graciously from above" (p. 12).

latter stance becomes evident when Orme notes that “by itself, Mexico could never allay fears [of foreign investors] that its present policies might be reversed by some future government” (p. 17). Hence arises Mexico’s need for NAFTA.

Orme could also improve on his hasty dichotomy of “Left” and “Right” by incorporating into his critique more sophisticated and critical perspectives on NAFTA, rather than focusing his attack only on Perot’s crude protectionism and narrow nationalism. Certainly, the alternative vision presented by Perot and Pat Choate (1993) is extremely simplistic. They claim that no trade agreement should ever diminish U.S. sovereignty. Yet such a stance rules out almost any form of international agreement. Perot and Choate (1993) also argue that any future agreement should require Mexico to have minimum wages and health care equivalent to that of the United States, a patently unrealistic idea given Mexico’s relative underdevelopment. Perot and Choate support the notion of a “social tariff” but define it crudely as the “difference between the wage paid in the developing nation and the wage paid in the United States for comparable work” (p. 106). Such a definition would effectively prevent the United States from engaging in commerce with any less-developed country. Would Perot care to see this sort of tariff crudely applied by, say, European countries against right-to-work states in the U.S. South? Thus the shortcomings of Orme’s *Continental Shift* should be weighed in the context of his U.S. competitors in the mainstream media and the nature of the NAFTA debate, in which power, images, and emotions have predominated over informed analysis.

Environmental Impact

Each of the books assessing NAFTA contains a chapter on the environment. The persistent tension between two views of Mexico and its relation with the United States—one espousing market reforms and free trade, the other promoting a social perspective—arises as well in the analysis of environmental impacts.

The contribution of Gene Grossman and Alan Krueger to the Garber collection merits special attention because it has been widely cited by neoclassical analysts to support the argument that NAFTA is unlikely to inflict environmental harm on Mexico. The analysis itself is noteworthy in asking extremely narrow questions and giving empirical answers based on controversial assumptions. To begin with, Grossman and Krueger limit the environmental impact of NAFTA to issues of pollution. Transformations in agriculture, the regime of exploitation of natural resources, the role of the state in enforcing environmental standards, the power relations that affect those standards—all crucial elements of an interdisciplinary environmental perspective—are not considered.

A key part of the analysis deals with concentrations of pollutants in the air of major cities, using as one explanatory variable the gross domestic product (GDP) per capita in the country where the city is located. For example, with regard to sulfur dioxide, pollution levels peak at about five thousand dollars per capita of GDP and then fall. Because Mexican GDP per capita is close to that figure, what Grossman and Krueger call the "scale effect" (the economic growth effect of NAFTA) should lead to a decline in pollutants as the Mexican economy expands. This analysis begs many problematic assumptions, among them the dangers embodied in forecasting time-series effects for a single country (or city, in this case) based on cross-sectional data, an approach that assumes a linear view of historical development.

Jan Gilbreath and John Benjamin Tonra's "The Environment: Unwelcome Guest at the Free Trade Party" in the Baer and Weintraub volume summarizes problems of environmental management, regulation, and enforcement in North America. They compellingly refute Grossman and Krueger, pointing out that Mexico was not included in the database of the air pollution study that supports their conclusions. Moreover, Grossman and Krueger ignored factors unique to Mexico, including "the adverse effects of too-rapid development on [Mexican] political institutions and those institutions' ability to deal with polluting industries" (p. 85). Grossman and Krueger also ignored the fact that consumption of natural resources increases as per capita income rises.

In "NAFTA and the Environment" (in the Bulmer-Thomas, Craske, and Serrano volume), Roberto Sánchez notes the weakness of environmental enforcement provisions in NAFTA, the limits of independent investigative powers of the Secretariat of the North American Commission on the Environment, and the failure to incorporate key demands of environmental groups such as strong and effective public participation. The essays by Gilbreath and Tonra and by Sánchez both identify linkages among political institutions, economic processes, and social forces. The two analyses stress the need for stronger regulatory and enforcement institutions to ensure that environmental costs do not jeopardize the potential benefits of economic integration.

Robert Pastor's "NAFTA's Green Opportunity" (in the Moss collection) presents a case for NAFTA on environmental grounds. Pastor's analysis is guided by a legitimate concern for better cooperation between the United States and Mexico. But the essay is more polemical than scholarly: many assertions are made without proper references, making it impossible for the reader to pursue the issue further. Pastor quotes approvingly the study by Grossman and Krueger and adopts an excessively optimistic view of the Mexican government's commitment to environmental reform and to the creation of stronger mechanisms for environmental enforcement.

Hemispheric Integration

President George Bush's acceptance of Mexico's proposal for NAFTA negotiations and his Enterprise for the Americas Initiative in 1990 sketched a new framework for hemispheric relations. Its logical extension was the call for a Free Trade Agreement of the Americas enunciated at the 1994 Miami Summit of the Americas. Mexico has played a pivotal role in creating such a new inter-hemispheric agenda by willingly undergoing a radical neoliberal metamorphosis and forcefully pursuing negotiations over NAFTA. Thus a section on hemispheric integration is not at odds with a review examining Mexico's external relations. It has been included here because the literature under discussion draws largely on Mexican experiences as the basis for a much more ambitious integration project, which is to include first Chile and then other Latin American countries in due course.

Gary Hufbauer and Jeffrey Schott played a prominent role in the NAFTA debate. Their book entitled *Western Hemisphere Economic Integration* is a natural follow-up to their earlier one on NAFTA (Hufbauer and Schott 1992), which has been widely cited. As the title indicates, the focus of this new book is not Mexico but the Western Hemisphere as a whole. Like the earlier tract, this book is highly ambitious, trying to identify the agenda (and in many ways trying to set it) for the path of commercial negotiations in the next fifteen years or so. Hufbauer and Schott perceive NAFTA as a small step in a longer journey that will ultimately bring the hemisphere closer together. The integration process is envisioned mainly as an economic program that will pass through several stages. In the first stage (largely achieved already), countries are meeting certain preconditions for closer economic ties (mostly in terms of macroeconomic stability and "market-friendly" structural adjustment). In the second stage (currently under way via a barrage of bilateral and multilateral trade agreements), barriers to trade and investment are being dismantled. In the third stage (yet to be achieved), a hemispheric free-trade area will be created with its own institutional mechanisms and structures.

Hufbauer and Schott's analysis reflects the strengths and weaknesses associated with the Institute for International Economics in Washington, D.C. In fact, their analysis represents the "Washington consensus" par excellence: it is authoritative, carefully researched, clearly written, and comprehensive and presents first-rate analysis. Its weaknesses are consistent with its strengths: the analysis is mainly a U.S. viewpoint that responds to narrowly defined U.S. strategic interests (and those of Latin American technocratic elites closely associated with the United States). Moreover, it presents a rosy picture of economic integration, based mainly on mainstream economic analysis, and systematically disregards the complexity of interdisciplinary issues of regional integration alluded to earlier.

Hufbauer and Schott's discussion of labor issues in *Western Hemisphere Economic Integration* reveals an inadequate understanding of the complexity of social reality in countries like Mexico. Dismissing U.S. critics who feared the impact of low Mexican wages on U.S. job losses, they repeat the neoclassical argument that those low wages are associated with low productivity and thus present no risk of deindustrialization in the areas with higher wages. Here Hufbauer and Schott ignore the growing body of evidence (inside and outside the confines of neoclassical economics) highlighting structural elements that distort Mexican labor markets, particularly the complex nexus of wages and productivity (see Shaiken's *Mexico in the Global Economy*, under review here). Claims such as "the argument that enlarged trade with Mexico will drive down U.S. wages cannot be supported with data" (p. 154) demonstrate how the main framework of reference for Hufbauer and Schott continues to consist of computable general equilibrium models. These models systematically disregard political-economy considerations that point to a widening gap in wages in the United States. One of these considerations is the weakening impact of increased capital mobility on labor unions, who perceive the balance of power between capital and labor tilting decidedly against them. Hufbauer and Schott understate even neoclassical analysis (like that of Leamer) pointing to a worsening distributional profile in the United States.

Hufbauer and Schott's discussion is U.S.-centered (like most neoclassical analyses of hemispheric integration), and except for a few sporadic references to documents of the Economic Commission on Latin America and the Caribbean, it makes no mention of indigenous Latin American approaches to economic development. If one were to judge from a book like this one, discussion of regional integration in Latin America and the Caribbean is a very recent phenomenon related to current events like NAFTA. Such a formulation fits perfectly with the neoliberal "story" that economic analysis in the region accomplished under the "old regime" of import substitution is incorrect and easily discarded.

The book edited by Robert Bouzas and Jaime Ros, *Economic Integration in the Western Hemisphere*, contains an excellent introduction on the "new vintage" of regional economic integration efforts, an essay on Mexico by Nora Lustig, and a series of chapters on MERCOSUR, Chile, the Andean Pact, the Central American Common Market, and the Caribbean Common Market (CARICOM). All these contributions will interest specialists on trade policy, but the first two have special relevance for this review. Bouzas and Ros ask why discriminatory trade agreements are back in vogue in Latin America, and their answer includes domestic and international changes in both the United States and Latin America. The decline of U.S. competitiveness, the search for new markets and factor mixes (of capital, labor, and natural resources) to improve competitive-

ness, and the desire to set a precedent for future trade negotiations have all spurred U.S. interest in regional agreements. Latin America, for its part, has shifted away from import substitution toward increasingly intense competition for foreign investment.²³ Several of the analyses reinforce this argument. For example, Andrea Butelmann argues that Chile is more interested in NAFTA than in MERCOSUR because NAFTA is perceived as imposing greater discipline on policies and thus making Chile more attractive to foreign investment.

Nora Lustig reviews the economic arguments regarding NAFTA's impact on Mexico in an analysis complementing that of Ros. She evaluates the available economic models and estimates that the direct impact of NAFTA on real income in Mexico is small but positive (p. 59). The larger impact comes indirectly through capital flows. Without such flows, the distributive impact could be negative. Lustig notes that economic models are unreliable predictors of economic performance and goes on to identify factors not captured by the models that could affect Mexico's performance. These include "confidence-enhancing measures" and growth in productivity. Lustig also observes that the short-term adjustment costs may be greater than anticipated by economic modeling. She does not consider, however, the wide range of factors that could mitigate the predictions of economic models. For example, confidence is hard to win and easily lost. As Zedillo discovered, it is sometimes hard to distinguish between well-founded optimism based on sound fundamentals and a speculative bubble.

Alternative Scholarship

Any review of the literature on Mexico's external relations that ignored the role of scholarship outside traditional channels would be incomplete. A burgeoning electronic network is now transmitting information about the latest events in Mexico to an increasingly attentive and "wired" audience throughout North America and beyond, opening new arenas of unregulated and vibrant discussion and intellectual exchange. More and more, North American researchers are depending on the Internet as a basic research tool. The development of grassroots scholarship—affiliated with nongovernmental organizations, secondary academic institutions, and small alternative "think tanks" and making extensive use of communications technology—supports an increasingly transnational civil society. These sources of information have not been given sufficient attention and may in fact generate some of the most interesting new contributions to the NAFTA debate. In fact, the diminished relevance of

23. Import substitution supported previous South-South efforts at integration. These were viewed as vehicles for expanding markets for ISI industries and faltered, among other reasons, from lack of intraregional trade.

conventional texts makes book reviews less salient because the real debate may be going on in cyberspace.²⁴

A key contribution of grassroots scholarship has been the development of critical analysis of economic integration outside university and policy networks. A useful compendium of these ideas by prominent expositors is the compact volume entitled *The Case against Free Trade: GATT, NAFTA, and the Globalization of Corporate Power*, edited by Ralph Nader and his team. The quality of scholarship in this volume is uneven, footnoting is sporadic to preserve its popular reach, and the arguments raised by these skeptics are by now well known. Nevertheless, the work's relevance has been accentuated by the economic and social developments unfolding in Mexico since early 1994. Three intriguing and strong contributions are those by Vandana Shiva, by Herman Daly, and by Jorge Castañeda and Carlos Heredia.

Shiva's "Diversity and Intellectual Property Rights" shows how the Dunkel Draft Text of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) will lead to the harmonization of intellectual property rights (IPR) regimes in less developed countries and thus stifle creativity and knowledge development related to biodiversity. Shiva's experience is drawn from agricultural practices in India. But her criticisms of IPR regimes and the social forces that benefit from their promotion in the new economy are equally relevant for Mexico in the aftermath of both the newly created World Trade Organization (WTO) and NAFTA, given that both entail changes in IPR protection and agricultural liberalization.

Shiva advances three general propositions that merit serious research regarding Mexico. First, she asserts that patent protection "displaces the farmer as a competitor [with TNCs], transforms him into a supplier of free raw material, and makes him totally dependent on industrial supplies for vital inputs like seed" (p. 115). Second, both the formal and informal sectors are negatively affected by the "intellectual enclosures engendered by patents" (p. 116), the informal sector most seriously given that local cooperatives, traditional agricultural practitioners (such as herbalists), and peasant farmers generally lack a conception of private property and freely share their knowledge without compensation to those who patent it for exploitation of profit. Shiva's third proposition is that patents "block a free flow of knowledge from the formal sector of the North to the formal sector of the South while maintaining a free flow from the informal sector of the South to the formal sector of the North" (p. 116). To the extent that this phenomenon is global, the implications for

24. One example is the discussion on the Internet following the posting of "Mexico-Political Update," written for Chase Manhattan's Emerging Markets Group by Riordan Roett. The memo thus demonstrated linkages between academic analysis and the world of policy.

Mexico and other less-developed countries are enormous. If research and development combined with innovation remain the cornerstone of the new economy, Shiva's research forecasts that the new IPR regimes of GATT and (by extension) NAFTA will only worsen existing disparities between North and South.

At the minimum, Shiva's research demonstrates the need for an interdisciplinary approach to IPR regimes and biodiversity. Such an approach must question who has the power to define what is "knowledge" or "innovation" and appropriate the benefits of that definition; what types of "properties" are being protected and by whom; what alternatives are being foreclosed by existing IPR regimes and at what costs to local communities; what role government can play to mediate between the TNC and the local community; and how these communities with no conception of "profit" or "private appropriation" can be protected from exploitation in the new economy.

Herman Daly's strength in "From Adjustment to Sustainable Development: The Obstacle of Free Trade" lies in blending the disciplines of economics and environmental studies uniquely to demystify issues of adjustment and sustainable development. He argues persuasively against adjustment defined in neoclassical terms that downplay ecological considerations as "externalities" (likely correctable by substitution or technology). Daly creatively links economy and ecology through the concept of scale, which "refers to the physical size of the economy relative to the ecosystem" (p. 123). The main point here is recasting the economy via this concept as a subsystem of a broader and more important entity—the environment. Scale measures the total resource use by which the ecosystem sustains the economic subsystem on the basis of population multiplied by per capita use of resources.

The second half of Daly's analysis shows how international free trade could contribute to the exertion of ecological limits, generally because neoliberal ideology assumes "that the whole world and all future generations can consume resources at the levels current in today's high-wage countries without inducing ecological collapse" (p. 129). One may wish to quarrel with the extent of ecological collapse that Daly implicitly forecasts, but the interdisciplinary scope of his research and his ability to view the economy in a broader ecological context is powerful in its logic and simplicity. Daly's insights are most relevant for Mexico, whose largest urban centers, export-processing zones, and arable lands present formidable ecological challenges.

Castañeda and Heredia's "Another NAFTA: What a Good Trade Agreement Should Offer" sketches an alternative vision of integration for North America. Such attempts are infrequently made in the critical literature and should be encouraged. Many of the authors' elements of a "good trade agreement" are intriguing but need further development. For ex-

ample, Casteñeda and Heredia propose renegotiating Mexico's external debt (an idea that most critics would endorse), with one option being debt-for-investment swap to finance social development funds (pp. 84–85). Such swaps raise complex issues, however, one of which could be more direct foreign control of Mexican social policy. To take another example, Casteñeda and Heredia propose that all three countries create an "economic commission to plan which industries should be developed and where, how each stage will be reached, where the money will come from . . . and what regulations will be established" (p. 85). This solution implies a "greater transfer of sovereignty" than NAFTA currently entails, as the authors recognize (p. 89). Given the existing asymmetries of power in North America, one may question whether this proposal is feasible, progressive, or simply naive.

In the same vein, Casteñeda and Heredia believe strongly in a dispute-resolution process that is "autonomous" and "open to all," "with citizen participation . . . a key element" (p. 89). Prima facie, this concept seems progressive, but one must always bear in mind that the extent of citizen participation depends on the prior degree of democratization of civil society. This issue is a much more complex question than the institutional framework of dispute resolution in NAFTA.

Another example of alternative scholarship arising out of research nongovernmental organizations not associated with traditional academic outfits is *Mexico: A Country Guide*, edited by Tom Barry, which includes contributions by ten other authors. Neither a typical tourist guide nor a dry academic tract, the book is oriented toward well-informed individuals with an interest in the Mexican social landscape. For such readers, the book is readable and succinct in comprehensively examining socio-political issues in contemporary Mexico. The detailed coverage is impressive, including issues such as government and politics, the economy, social forces, social sectors and institutions, and foreign influence along with less common issues such as feminism, the environment, and indigenous organizing. The book's overall purpose is to understand the nature of the crises and challenges facing Mexicans and their society on the eve of NAFTA, as Mexican policy makers deepen their commitment to a neoliberal strategy of growth while attempting to respond to multiple social, economic, and environmental problems. *Mexico: A Country Guide* represents the growth of a new kind of "international relations" between the civil societies in Mexico and the United States, one that is neither governmental nor business-oriented. One danger is that a work of this type may quickly become outdated. Major developments such as the Chiapas conflict, economic and financial crisis, and political assassinations are already altering the 1992 social space captured so adeptly in this book.

The growing difficulties of neoliberal experiments and the crisis that has engulfed Mexico since 1994 indicate the need for scholarship on

equity, external conditionality, vulnerability to external shocks, and marginalization. *La integración comercial de México a Estados Unidos y Canadá: ¿Alternativa o destino?* represents one effort to come to grips with the new face of Mexico while maintaining an eclectic intellectual perspective. This work by Víctor Bernal Sahagún and his colleagues appeared in 1990 and is already in its third edition in Mexico. UNAM researchers captured at an early stage many dimensions of the process of “*integración salvaje*” that Mexico underwent with the countries to the north. These essays emphasize the deep asymmetry characterizing the U.S.-Mexican relationship and its implications for bilateral trade and investment and the NAFTA negotiations. Although the essays vary in quality, they represent a significant effort to bring up the political-economy implications of this integration— aspects missing from much of the mainstream literature.

An especially meritorious essay focuses on how the proposed free-trade agreement responds to U.S. geostrategic interests. John Saxe-Fernández argues that economic decision-making in the United States is closely interlinked with political and strategic considerations. He insists that “partial” and “atomistic” economic analysis of trade issues in isolation from political and military considerations or those surrounding national sovereignty or human rights is not only wrong but deliberately promoted by those who want to obscure these links. For Saxe-Fernández, the current drive for North American integration is deeply rooted in the U.S. strategic need to secure reliable energy resources. The energy crisis in the early 1970s, which revealed the extent of U.S. vulnerability, catalyzed this strategic agenda. Saxe-Fernández quotes a striking 1979 report from a Wall Street firm arguing that the United States should rely on Canada and Mexico, not the Middle East, and calling for a “sort of Common Market that will integrate the vast energetic resources in North America, through an efficient system of distribution, at the same time that it allows for the will of these countries to engage in free trade amongst themselves.”²⁵ Saxe-Fernández also delineates a consistent pattern of International Monetary Fund and World Bank predominance over Mexican economic and social policies and industrial restructuring during the debt crisis in the early 1980s, which heightened Mexico’s vulnerability to external actors. This path began with Mexico signing a letter of intent with the IMF in 1982 and the privatization and growing foreign control over Mexican mineral reserves, banks, and large chunks of the petrochemical and petroleum industry. It concluded with NAFTA.

25. He cites Kenneth E. Hill, “North American Energy: A Proposal for a Common Market between Canada, Mexico, and the U.S.,” 1979 internal report for Blyth, Eastman, Dillon Investment Research, New York, p. 1. Cited in John Saxe-Fernández, “Aspectos estratégico-militares inmersos en el proyecto de integración de América del Norte,” in the work by Bernal Sahagún et al. (p. 84). Because we do not have a copy of this report, we translated the quoted material from the Spanish translation made by Saxe-Fernández.

Conclusion

The portrait of Mexico presented in many of the books reviewed here is radically at odds with the conventional understanding of the Latin American political economy. Mexico is viewed as poised to join the so-called First World after implementing policies that embrace markets and embody the "Washington consensus." According to this perspective, underlying social cleavages were either deemed irrelevant or destined to diminish in the rapid modernization of the country, and U.S.-Mexico relations were finally on a more "mature" (meaning cooperative) footing. In contrast, the real face of Mexico (especially since January 1994) remains a depressingly familiar one. Still ahead loom the tasks of addressing social as well as economic inequality, building democratic institutions, securing human rights, configuring a stable and sustainable economic model, and forging fair and thus more enduring hemispheric relations.

Rural poverty and indebtedness, the Chiapas insurrection, and a major financial crisis created major hurdles in U.S.-Mexican relations following the ratification and implementation of NAFTA.²⁶ These hurdles are calling attention to serious deficiencies in the literature on U.S.-Mexico relations, which has been framed within a narrow neoclassical approach to economic integration. Given the extent to which events and decisions in one country affect the security and prosperity of the other, and often in unexpected ways, it is no longer possible to ignore the social, political, economic, and environmental costs and uncertainties of economic integration. Many neoclassical analysts understated these costs and missed a key lesson: how these costs as well as the benefits of integration are managed and distributed will contribute decisively to the sustainability of the process (Pastor and Wise 1994).

It is now clear that sound and sustainable management of bilateral integration requires a sophisticated body of knowledge on the political economy of U.S.-Mexican relations. This knowledge cannot be exclusively economic, nor can it be monopolized by elites and their intellectual representatives. The debate on North American economic integration must involve a broader spectrum of opinions, one that transcends the consensus supporting neoliberal policy in a tightly knit network of academic researchers, policy makers, think tanks, and the private sector. If the current crisis forebodes the weakening of Mexican (and perhaps Latin American) neoliberalism, which alternative policy perspective is likely to

26. A notable gap exists in the literature on economic integration, namely its effects on rural and agricultural areas. For example, the effort to integrate further the Mexican and U.S. economies is based on prospects of increased investment and new jobs. Such jobs are required in part to absorb rural unemployment and to prevent migration to nearby cities or across borders. The idea that economic integration will more or less directly generate employment in rural areas and in small and medium-sized cities is often an unstated assumption underlying the supposed benefits of such integration. The recent Mexican experience casts doubt on the validity of these assumptions.

become more influential? A return to full-fledged national populism is neither likely nor desirable. We need alternatives that transcend the dichotomy between these ideologies. One such alternative should be an interdisciplinary political-economy approach that can encompass an array of elements: the global forces of capitalism as they affect local forms of linkages to international markets; the enhanced role of transnational actors in the new economy, particularly transnational corporations; the regulatory and institutional framework of both markets and governments; the transformation of relations between the state and civil society; the asymmetric nature of power relations within and between societies, including divisions across ethnic, gender, and class lines; the nature of production regimes and "social contracts" that sustain societies; the location and sustainability of human society within the earth's ecosystem; rural-urban relations and migration; and debt and its impact on social infrastructure.

Although eclectic seeds of alternative thinking exist, a major challenge for future scholarship on Mexican and Latin American society is to flesh out and synthesize an integrated alternative approach. Our previous work has been motivated by the belief that intellectuals can provide the theoretical background for the development of policy alternatives that will contribute to more just, open, and sustainable societies in the Americas (see Grinspun and Cameron 1993).

Future research should take an integrative and interdisciplinary approach to the political economy of Mexico and its external relations. Narrow scholarship that maintains a single disciplinary focus, even with the technical rigor of neoclassical economic analysis, has been of little use in predicting and explaining recent transformations. Thus we need a sober assessment of the risks and uncertainties of a strategy of development hinged on attracting massive inflows of capital. The redistributive (and the associated social and political) impacts of economic integration urgently require analysis, particularly in view of accelerating integrationist efforts in the hemisphere. These research directions will require more attention to the institutional setting of markets and the power relations among participants in them.²⁷ Computable economic models must be radically redesigned to become relevant policy tools based on realistic assumptions, such as allowing for the existence of unemployment and other "imperfections" in labor markets, transnational corporations, speculative financial markets, external disequilibrium, and macroeconomic instability (Cypher 1993; Stanford 1993).

Regional and hemispheric integration will remain a focus of scholarly attention in the years to come. But so-called free trade agreements

27. Borrowing from Hewitt de Alcántara (1993), economists need to go beyond abstractions in our analysis of markets toward a political economy of real markets.

should be analyzed for what they are—broad institutional mechanisms that reshape the relationship between state and civil society, and not just experiments in commodity trade liberalization. Difficulties in U.S.-Mexico relations have arisen recently in nontrade areas like finance and the environment, where the weak regulatory framework of NAFTA could affect its sustainability. More and more, attention will shift to the institutional settings that shape market activity, both national and international. For example, the potential impact of new provisions on intellectual property rights (such as those implemented in Mexico in recent years) on areas as diverse as technological innovation, education, and health remains almost completely unexplored. The NAFTA side agreements on labor and the environment are only feeble forms of new institutional arrangements required at the transnational level to avoid social dumping. Recognizing the risks of extreme deregulation of capital flows suggests the need for controls of some type. Ultimately, the impact of economic integration on Mexican, Canadian, and U.S. citizens depends on such institutional and societal arrangements and the power relations underlying them.

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