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THE POLITICAL ECONOMY OF NAFTA, THE GLOBAL CRISIS AND MEXICO*

by Melvin Burke

There is as much injustice in the equal treatment of unequal cases as there is in the unequal treatment of equal cases.
Aristotle, Ethica Nicomachaea

The proposed North American Free Trade Agreement (NAFTA)[1] between Canada, the United States of America and Mexico is a logical and perhaps inevitable extension of the 1989 Free Trade Agreement (FTA) between Canada and the U.S.A.. Both agreements are controversial and massive public opposition to them exists in all three countries[2] for good reasons, as we shall see. The citizens of these three democracies have never been provided with a credible explanation of the need for the agreement.

Contrary to the proclamations of the proponents and governments responsible for these accords, there are no guarantees that the expected net benefits of NAFTA will be realized, nor is it clear who will benefit and who will lose. The potential long run economic benefits for the three countries are merely assumed to exceed the short run adjustment costs and that everybody will eventually gain ("win-win"). How this will occur is a mystery since there are no provisions in the agreement for the potential winners to compensate the potential losers. Once again, the "trickle down" mechanism of benefit dispersal is expected to do the job. Suddenly, tri-lateral free trade has become the new panacea (cure all) for all our economic problems; recession, stagnation, unemployment, low productivity, decreasing profit rates, and the decline of global competitiveness. Beyond all this, it is debatable whether NAFTA is an instrument which will further free trade at all. A strict interpretation of the economic theory of free trade, classical or neoclassical, would indicate otherwise.

NAFTA can be viewed as yet another official reaction to a deepening global crisis and part of the emerging "new world order". Free trade joins deregulation (laissez-faire), privatization, stabilization and structural adjustment applied to the monumental task of creating a new world order. Despite the uneasiness on the part of the citizens and widespread democratic opposition, strategies like NAFTA are hurriedly ("fast track") implemented with support from numerous officially sanctioned and subsidized reports but with no open discussion or debate and little time for scholarly analysis or critique. Official domination of information appears to be an essential part of the brave new world order that is unfolding.

The task which I have set for myself in this paper is to help correct this unsatisfactory state of affairs with a critical analysis of NAFTA from an alternative political economic perspective. The questions I address are: Why is there a need for

NAFTA at this time? Is NAFTA a free trade accord? What are the true objectives of NAFTA? What can realistically be expected from NAFTA? Who will benefit and who will lose? What impact will NAFTA have on the global crisis and Mexican economic development? One very important aspect of NAFTA that is not dealt with here is its potential negative impact upon the environment. I leave this task to experts in the field, much better qualified than I, to investigate and analyze.

To either the dismay or delight of the reader, let me state at the outset that my general conclusion is that NAFTA free trade like privatization, deregulation and structural adjustment are pivotal new world agenda designed to perfect the economic order of yesteryear. That is to say that NAFTA is designed to restore the global status quo ante with all that this implies for Mexico and other countries. One might therefore ask whether NAFTA will be the solution or whether it will become part of the problem. I leave this critical question for each reader to decide.

GLOBAL ECONOMIC CRISIS AND NAFTA

> And how does the Bourgeois get over these crises? On the one hand by enforced destruction of a mass of productive forces; on the other, by the conquest of new markets, and by the more thorough exploitation of the old ones.
>
> Karl Marx, Manifesto of the Communist Party

Statistics from international organizations confirm that the global economy has been in a crisis since the mid 1970s. Post-World War II average annual global growth rates of approximately five percent have been reduced to less than half that amount in the last two decades.[3] Zero growth has been recorded for the last couple of years and more of the same is predicted for the near future. No country and no region in the center or in the periphery of the world has been exempt from this phenomena -- not the U.S.A., not Europe, not Japan, not the Soviet Union, and certainly not Mexico or the rest of Latin America.

Paradoxically, while everyone admits to an interdependent global economy, each country or regional crisis is conveniently regarded as unique and independent. In this way, the impact that the policies of the industrialized countries have upon the economics of the periphery are either ignored or denied. Events and facts do not support such a position, nor is this failure to accept responsibility justifiable. The Latin American debt crisis is a prime example. In 1979, Argentina's foreign debt was only $8 billion, Mexico's a manageable $29 billion, and Brazil's was $36 billion.[4] In October of 1979, the U.S. Federal Reserve Board immoderately raised the real rate of interest -- adjusted for inflation -- from an average of less than one percent since 1973 to more than 10 percent in 1981, and 16 percent in the first half of 1982.[5] Compound these high interest rates over time, factor in the global recession, and the rest is history.

Mexico's foreign debt today is over $100 billion despite the Brady Plan,[6] "debt equity swaps", rescheduling, buy-backs and other measures to reduce it.

In the U.S.A., this monetarist policy had the intended effect of reducing inflation. In the remainder of the decade a debt financed recovery from the 1981-1982 recession was achieved with the help of capital flight and depressed commodity imports from Latin America. The cost to the U.S.A. of the 1980s "prosperity" was, however, high and has yet to be paid for. Government deficits increased, a $500 billion Savings and Loan financial crisis resulted, and the enormous balance of trade and payments' deficits changed the nation from a global creditor to the world's largest debtor. Budget and trade deficits averaging more than $200 billion annually quadrupled the nation's debt to $2 trillion. Family incomes stagnated in the U.S.A., income inequality worsened, and unemployment and poverty increased.[7]

In Mexico and other countries of the Latin America periphery, these very same factors -- high interest rates, capital flight, recession, and low commodity prices -- combined to form a vicious cycle of debt, deficits, devaluations, and negative growth rates from which they have yet to escape. By 1982 an estimated $93 billion of capital, much of it money of the multinational corporations operating in the region, had fled the region; $36 billion from Mexico alone.[8] Since then total capital flight from the region has risen to more than $400 billion, $50 billion from Mexico. Between 1981 and 1988, per capita gross domestic product (GDP) for the region as a whole decreased by 6.6 percent. Total debt outstanding increased by about 40 percent, and the net transfer of capital (interest payments) reached a level of 4.1 percent of GDP per annum.[9]

During the 1980s Mexico fared no better than her Latin American neighbors to the south. Net capital outflows continued and real economic activity stagnated. Characteristic of the economy during this period were budget and current account trade deficits, devaluations, and high inflation. High interest rates and capital flight, not failed development policies or public enterprises, were responsible for the Mexican crisis of the 1980s.[10] History will also record that the stabilization and structural adjustment programs were not solutions to either the depression, the debt crisis or Latin American development.[11] The social legacies of the debt, and of the IMF stabilization and structural adjustment programs that followed, were a more unequal distribution of income, increased unemployment and greater absolute poverty.[12] According to a United Nations (FAO) report, an estimated 40 percent of the Mexican population was suffering from malnutrition in 1983.[13]

The contemporary global crisis, and the failed economic policies that have contributed to it, are the requisite

background for a comprehension of NAFTA. This tri-lateral free trade initiative is but the latest attempt to restore United States hegemony in the global economy and stability in the hemisphere. The overall strategy, crafted by orthodox economists and implemented by conservative administrations, has been to first test policies in the U.S.A. and then impose them abroad as conditions for foreign loans. They have been able to do this by taking advantage of the new "window of opportunity" presented by the deepening global crisis and the desperate economic situation prevailing in Mexico, Latin America, and elsewhere in the periphery.

These economists loudly and repeatedly proclaim that all economic problems everywhere in the world have a common cause; they are said to be the consequences of having deviated from the private, free market system which alone guarantees efficiency, stability, and growth.[14] It is imperative, they argue, to replace existing institutions and policies with those found in their model. Private enterprise, deregulation, and free trade comprise the ideological foundation of this structure. This neoclassical theory, although never admitted, is riddled with rhetoric and disguised politics and is not easily adapted to the complexities of the contemporary global economy or any of its component parts. Consequently, these theories and policies have credibility only when they are vulgarized, as is the case with NAFTA. In practice, this theory and the policies which it prescribes often result in paradoxical, unexpected results.

THE "NEW INTERNATIONAL ECONOMICS"

> Under assumptions of more than two commodities and countries this [international trade] theory proves a clumsy tool.[15]

Many of us who have studied the economic theory of international trade theory -- classical and neoclassical -- come away impressed with its logical elegance but skeptical of its practical application. In the most orthodox trade models, there is no acknowledgement of colonialism or imperialism, developed and underdeveloped countries, technological differences, multinational corporations, or an International Monetary Fund. In the classical Ricardian model of trade, there are numerous heroic assumptions which defy credibility. Among these are: perfect competition, perfect knowledge, factor homogeneity, constant returns to scale, full employment, and the absence of factor (capital and labor) mobility in the two commodity, two-country model. This abstract and exquisitely refined model logically proves that increased specialization and trade based upon comparative advantage will potentially benefit both nations (the world) with increased efficiency, production, and income.[16] The free movement of goods across borders compensates for the immobility of capital and labor to achieve these ends and only a

situation of tariff-free trade is needed. Because it is assumed that nation states enter free trade voluntarily, they will either benefit or not trade. Employment and income distribution in this paradigm are completely ignored. In the later Heckscher-Ohlin neoclassical model of trade, it was initially argued that welfare would be maximized only if those who benefited compensated the losers for all loses incurred. This problem of income redistribution was later surmounted with the introduction of community indifference curves -- a most dubious welfare concept. Implicit to this neoclassical trade model is the free international movement of capital, but not of labor. The irony of including capital mobility in a trade model is that it alone is potentially capable of achieving the same benefits as free commodity trade.

Serious theoretical problems arise when a more modern trade model uses realistic assumptions, such as imperfect competition, external economies, and increasing returns to scale in production. This contemporary, dynamic oligopolistic model of trade made its appearance in the late 1970s and is called the "new international economics".[17] The theory demonstrates that, under the right circumstances, export subsidies and import restrictions can both increase trade and raise the welfare of a nation -- albeit, often at the expense of other countries. In such scenarios, a "first best" solution of complete specialization and maximum welfare are sacrificed for "second best" solutions. This, however, presents economists with a dilemma; namely, that if some parts of the economies involved are not fulfilling the necessary conditions of optimality, such as perfect competition, there is no reason to expect that economic efficiency or social welfare will be enhanced.[18] The "strategic trade policy" stemming from this fashionable model requires that the government actively intervene in the international markets by creating, subsidizing and protecting those national industries which have specific attributes; namely, increasing returns to scale, external economies, advanced technology, and a high income elasticity of demand. Multinational corporate products, such as electronics, automobiles, and petrochemicals, all have these particular characteristics. In this model, increasing returns to scale, externalities, and comparative advantage constitute the basis for trade. Protection is utilized to create comparative advantage and is not assumed to be given or "endowed" as it is in the orthodox version. Free trade and comparative advantage have not been discarded by these trade theorists but remain the ideals, supplemented by sophisticated interventionism with all its limitations and dangers.

This "new international economics" came into vogue with the onset of the contemporary crisis and the phenomenal rise of Japan in the global economy. The die for this paradigm switch was cast much earlier, however, when orthodox neoclassical economists abandoned their defense of unrealistic assumptions in favor of predictability, and when empirical results were found to

contradict theoretical expectations. The evolutionary thinking of these economists begins with the doctrine of so-called "positive economics" laid down in the 1930s by Nobel laureate economist Milton Friedman, one of the most conservative economists in the profession ". . . theory is to be judged by its predictive power. . . Such a theory cannot be tested by comparing its assumptions directly with reality. . ."[19]

There are two problems with this assertion; not only are all neoclassical predictions based upon these "unattainable assumptions", but economists, in general, have a dislike for empirical investigation.[20] When orthodox trade theory was empirically tested, it often produced contradictory results. The most famous example of this is the "Paradox" encountered by another Nobel laureate Wassily Leontief. Leontief's empirical input-output study of the U. S. economy in the 1950s found that the production of exports was labor-intensive relative to import-competing production which was capital-intensive. These findings are precisely contrary to what the factor-proportions theory of international trade would lead us to expect of a nation with a relative abundance of capital as compared to labor.[21]

Orthodox trade theory, as outlined above, is a static concept, which is unrelated to economic development. It is preoccupied with maximizing global efficiency or welfare and has no regard for the income redistribution effects of free trade. This abstract, logical reasoning, based upon unrealistic assumptions not verifiable by empirical studies, was used by the dominant economic powers of the time (England and the U.S.A.) to further their global economic and political interests.[22]

In contrast, countries which industrialized later adopted export promotion strategies. Germany and Japan rejected orthodox neoclassical free trade policy because they recognized that following this course would forever destine them to be second class world powers. To be in accord with the dictates of free trade policy, Japan, with its relative abundance of labor, should have specialized in such labor intensive industries as textiles (silk). The Japanese governments were likewise encouraged to pursue an internal laissez-faire policy, promote perfect competition and open their economy to foreign investments.

Instead, Japan chose to develop its economy with national conglomerates (zaibatsu) which the governments created, subsidized, and protected through the Ministry of International Trade and Industry. After her disastrous attempt to become an imperialistic colonial power prior to 1945, Japan pursued strategic industrial and trade policies through which she created comparative advantages in steel, petrochemicals, automobiles and electronics.[23] These industries are all characterized by rapid technological progress, economies of scale, positive externalities, and high income elasticities of demand. Thus Japan

demonstrated to the world the merits of doing precisely the opposite of what the Western world's leading neoclassical economists advocated. The Japanese model so resembles the "new international economics" that there can be little doubt that these revisionist economists learned from the Japanese experience. In essence, the "new international economics" is an attempt to inject this realism into trade theory. It is a pragmatic response to the Japanese challenge to United States hegemony in the global economy.

NAFTA, FREE TRADE OR PROTECTIONISM?

What does this lengthy discussion of trade theory have to do with NAFTA? The answer is just about everything. The dominant neoclassical paradigm provided the intellectual rationale and justification for the NAFTA trade accord just as it had for all other economic policies of the conservative governments of Canada, the United States and Mexico. Decision makers and technocrats in the three countries,[24] because they are educated and versed in this school of economics, all agree that free trade is always preferable to protectionism, that NAFTA is a free trade tool, and that the agreement will enhance specialization, efficiency, and income for the benefit of everyone. They further claim that competition will be improved, employment will increase, and growth rates will rise in all three countries.[25]

These assertions are truly incredible when we are mindful of the nature of the limitations of neoclassical trade theory, economists' aversion to empirical investigations, and about the paradoxical findings referred to above. Only with a great deal of theoretical vulgarization can NAFTA lay claim to such potential benefits. Technical terms, such as competition, efficiency, increasing returns to scale, and comparative advantage are not rigorously defined by NAFTA advocates and are often grossly distorted in order to make these promising predictions. In reality, neoclassical economic rhetoric serves as a smoke screen to mystify and justify NAFTA. No other paradigm can do the job half as well. Who, after all, can be opposed to an economic policy of freedom which, at least theoretically and a priori, guarantees such results? The hidden agenda behind NAFTA is not revealed in orthodox trade theory, or in the official documents and proclamations, but rather in the revisionist theory and policy objectives of "the new international economics".

For example, when one looks at the actual situation, it is difficult to argue that free trade can be the primary objective of NAFTA, since trade between the three signatory nations has already been virtually freed of protection. Mexico, the U.S.A. and Canada are all members of GATT. Canada and Mexico are respectively the U.S.A.'s first and third largest trading partners. Mexico's average tariff is only 10 percent while Canadian and U.S.A. tariffs average about 4 percent. Moreover,

these averages do not include the free trade which exists between Mexico and the U.S.A. in maquiladore production and between Canada and the U.S.A. in automobiles. No significant barriers to foreign investment or plant transfers have existed between the three countries since Mexico entered the GATT in 1986 and President Salinas reformed his country's investment laws shortly after assuming office in 1988. Should these "reforms" continue and special agreements between the three countries remove the few remaining barriers to trade and capital movements, then we will have a defacto NAFTA in the absence of one of dejure. One, therefore, questions the need for a legal agreement at all.

Likewise, competitive markets are not an authentic goal of NAFTA. The theoretical model of price competition engaged in by a large number of small firms who do not advertise or restrict output is not the type of rivalry practiced by multinational corporations. Oligopolistic multinational corporations today dominate the economies of all three NAFTA countries.[26] If NAFTA accomplishes anything, it will be to increase the mobility, market share, and profitability of these large firms at the expense of smaller, national and more competitive firms. The expansion and strengthening of North American corporations and oligopolistic rivalry is one of the major objectives of NAFTA. Increased transfer pricing and inter-corporate trade is what NAFTA will most likely give rise to. As such, the agreement is designed to achieve the "new international economic" policy goals, not those of neoclassical free trade.

HIDDEN POLITICAL AND ECONOMIC OBJECTIVES OF NAFTA

NAFTA is, therefore, actually a retreat from global free trade. It creates an American trade bloc designed to accomplish two objectives; (1) to protect North American continental markets from further European and Asian encroachment in the short run and (2) to enhance the global competitiveness and power of American multinational corporations in the long run. NAFTA is but the latest measure taken to restore the international order of yesteryear, the status quo ante, and United States global hegemony. NAFTA joins a number of similar maneuvers in the recent past designed to further this strategy. Included among these are: the elimination of international commodity agreements; the termination of the Generalized System of Tariffs; and the eradication of the third world development model, which was founded upon import substitution, infant industry protection and public enterprises.

Politically, NAFTA is "fast track" and designed to consolidate the "neo-liberal" economic achievements of the 1980s in the three countries in a single international treaty before their conservative governments exit from power. Including Mexico in this trilateral extension of the earlier Free Trade Agreement between Canada and the United States can be viewed as a reward

for Mexico's support of the Brady Plan, for compliance with the IMF conditional loan programs, and for the implementation of so-called "economic reforms". Beyond this, NAFTA reflects the extraordinary power of multinational corporations (predominately from the U.S.A.) to set national and international policy for their private interests in all three countries. The sudden collapse of the Communist threat and the break-up of the Soviet Union make it no longer necessary for the U.S.A. to patronize her European and Asian allies as it has done since World War II. Having survived the political cold war, the time has come for the United States to win the economic peace by enhancing the global competitiveness of its largest corporations. NAFTA is designed for precisely this purpose. NAFTA also has the hidden objectives of stemming the flow of illegal migration from Mexico to the U.S.A. and the perpetuation of Mexico's one party democracy.

Economically, the short run hidden objective of NAFTA is to enhance and protect American multinational corporate domination and exploitation of old and new markets on the continent. The end purpose, the bottom line, is increased profits and profit rates for these corporations, which can be accomplished only by reducing costs, increasing revenues, or a combination of both. NAFTA's regional free trade and investment provisions and the 60 percent component requirement for free continental trade is designed to achieve these ends. They will initially permit the American corporations to reduce costs and excess capacity and to increase market share. While there is a great deal of talk about increased economies of scale, there is no evidence NAFTA will induce the multinational large corporations to enlarge the size of their plants to lower average costs. This is yet another example of distorting technical terms and a failure to provide rigorous definitions. Because the U.S.A. corporations are the largest and most powerful, they will undoubtedly increase their domination over this expanded market and gain the most from the agreement. Their franchises can be expected to expand into Canada, as well as Mexico, and more manufacturing plants will be shifted from the North to the South. Export platform plants in Asia and in Central and South America will also be moved into this free trade zone to take advantage of, among other things, lower costs of transportation.

POTENTIAL COSTS AND BENEFITS OF NAFTA

These trends are already evident, even before the ratification of the treaty, and they are but the vanguard of the structural changes which will be induced by NAFTA. In 1990, for example, there were only 10 franchises operating in Mexico. With changes in the country's investment laws, the number of these franchises increased to 125 by 1992 with 950 outlets throughout the country.[27] Over the last five years, U.S.A. automobile manufacturers invested $11.6 billion in Mexican plants. More than 250,000 of these automobiles, or about 85 percent of those

assembled in Mexico, have been exported back to the United States.[28] The number of Mexican small businesses and U.S. workers replaced by these capital movements are among the social costs of these changes which have been conveniently ignored.

In the process, Mexico will also pay at least part of her foreign debt through the sale of public assets and "debt equity swaps". Such was the case with the privatization of TELMEX, and most certainly will be the fate of PEMEX. Already, the retail gas stations have been privatized and 50,000 workers, about 25 percent of PEMEX's labor force, were laid-off over the last three years. For Mexico, NAFTA is an opportunity to attract back to her economy the private capital which fled the country in the 1980s, to compensate for the reduced public loans which have been diverted to Eastern European countries by the IMF, and to join an exclusive powerful trade bloc on the continent. Already, the NAFTA-like promarket reforms of the Salinas administration have attracted billions of dollars back to Mexico. Since 1989, the Mexican stock exchange has increased seven fold. This expansion was fueled by the privatization of public enterprises such as TELMEX that the government sold for $3.7 billion dollars. These billions were then exchanged for $7.2 billion of discounted Mexican debt. Privatized TELMEX now has a stock value of $28 billion. The phones in the country, however, do not operate more efficiently, and neither real investment nor employment has been increased by this speculative activity.

Because of the marked wage disparity between Mexico and the U.S.A./Canada, corporations can realize significant cost reductions from the movement of their capital and plants to the South. Hourly manufacturing wages in the U.S.A. and Canada average about $15 as compared with $2 in Mexico. GNP per person in Canada and the U.S.A. is over $20,000 while that of Mexico is less than $2,500. The multinational corporate strategy, therefore, is to increase profits through lower wage costs, fixed prices and increased market shares -- not from product innovation, technological advances or economies of scale in production. To be profitable, labor productivity must not be sacrificed in these transfers, and aggregate demand must not be adversely affected. While there is every indication that Mexican labor productivity is up to standards in the automobile plants which have already moved there from the U.S.A., these workers have yet to receive wages sufficient to enable them to purchase the products which they assemble. Like-wise, the displaced auto workers in the U.S.A. and Canada are, for the most part, no longer capable of purchasing these same imported, high priced vehicles. Lack of aggregate demand, therefore, may be the weak link of the NAFTA strategy.

Those who claim that wages will be equalized or that the prices of commodities traded in the region will be reduced any time soon will themselves be disappointed. Such scenarios,

derived from abstract neoclassical trade models, defy credibility in the oligopolistic world in which we live and would void the coveted corporate profits and benefits of NAFTA.

It is not likely that the anticipated movement of capital and jobs to Mexico will significantly increase Mexican wages due to the country's huge numbers of unemployed and underemployed laborers. The border maquiladores, which employ about 500,000 Mexican laborers, pay less than the average manufacturing wage in Mexico and less then the prevailing wage in Asia. These multinational corporate assembly plants in Mexico currently pay money wages as low as 57¢ an hour and total wages -- including benefits -- of about $1.15.[29] If these maquiladores are the vanguard of what NAFTA will bring to Mexico, they do not portend well for the workers of Mexico, Canada or the U.S.A. This transfer of manufacturing and other production facilities to Mexico from Canada and the U.S.A. will weaken labor unions in these two industrialized countries and have a depressing effect upon real wages -- not depressing enough to discourage illegal immigration from Mexico to the U.S.A., but enough to increase the profits of American corporations. The mere threat of transferring plant to low-wage Mexico, in collective bargaining between unions and management, has already obtained wage concessions from workers in the U.S.A. and Canada. Since the Mexican promarket reforms took effect, the number of Mexican workers employed by U.S. corporations has increased, but not their wages because of the country's high unemployment. Employment by these very same firms in Canada and the U.S.A. has decreased and so have real wages in these countries. Canada, for example, lost more than 300,000 jobs, 13 percent of its total manufacturing employment, since the Free Trade Agreement was signed.[30] This occurred despite the fact that the U.S. corporations doubled their investments in Canada between 1986 and 1990 from about $50 billion to over $100 billion. The recently released International Trade Commission's report on the potential impact of NAFTA summarize economic studies showing job displacement in the U.S.A. as low as 145,000 by 1995 and as high as 490,000 by the year 2000. Net increase in U.S.A. employment after NAFTA, based upon rather optimistic growth, investment, and trade assumptions, are estimated to be as low as 0.03 percent of the labor force or only 35,000 jobs by 1995.[31]

What does all this tell us about free trade agreements, NAFTA and investment? First, that speculative investment may be attracted giving rise to no increase in production or employment as in the example of Mexico and its recent stock market boom. Second, real investment may be attracted and give rise to increased employment but not increased real wages, again without a trade agreement as has occurred in Mexico. Third, free trade agreements may give rise to increased investment, but also to decreased employment and wages as in Canada. Finally, both free trade and investment reforms may contribute to a decrease in

investment, employment and wages as in the United States of America.

It is abundantly clear that NAFTA will give rise to a redistribution of income and wealth -- not so much from country to country, but more significantly from one social economic class to another. More specifically, NAFTA will undoubtedly redistribute income from wage and salaried workers to property owners in Mexico, Canada, and the U.S.A. We know this from the recent experience of Mexico with its corporate maquiladores, investment "reforms", and from the effect of the Canada/U.S.A. Free Trade Agreement. There is every reason to expect that NAFTA will yield more of the same. Because NAFTA will increase the income and wealth of the property owners in all three countries. it will cement the relationship between the center of the center (the wealthy property owners of the U.S.A. and Canada) and the center of the periphery (their Mexican counterparts). If all else fails, this alone would constitute a success for the architects of NAFTA. In the final analysis, it is not country, not corporate, but rather the propertied classes who are the driving force behind this agreement --those who will be NAFTA's ultimate and perhaps only beneficiaries.

The long run economic objective of NAFTA, also obscured, is to increase the bargaining position and strength of American multinational corporations vis-a-vis Europe (Germany) and Asia (Japan); i.e., to enhance their global competitiveness. Failures in the bilateral trade talks with Japan over the last couple of years, and the more recent collapse of GATT negotiations with the European Community in Brussels, left the U.S.A. and the American multinational corporations with few other trade options. The trade-diverting effects of NAFTA will be profound and will impact not only upon Japan and the European Community, but also upon the developing countries of Asia and Latin America. The net effect of the trade creating and trade diverting effects of NAFTA will be extremely difficult to measure. In the absence of retaliation from Europe and Asia, NAFTA does have the potential for improving the profitability and global market share of the North American corporations. NAFTA, however, could also give rise to a trade war between the world's three emerging blocs; North America, the European Economic Community and the Asian bloc centered on Japan. According to Paul Krugman, one of the founders of the "new international economics", such an event would not be the disaster orthodox trade theorists claim it would be:

> And let's suppose that each of these trading blocs becomes highly protectionist, imposing a tariff against goods from outside the block of 100 percent, which we suppose leads to a fall in imports of 50 percent. . . . A trade war that cut international trade in half, and which caused an average cost of wasted resources for the displaced production of, say 50 percent, would

> therefore cost the world economy only 2.5 percent of its income. . . . (It is roughly the cost of a 1 percent increase in the unemployment rate.[32]

To avoid this unpleasant scenario which would have negative political as well as economic repercussions and perhaps lead to a global conflict, NAFTA could be first expanded to include all nations in the hemisphere; i.e., a Pan-American Free Trade Agreement. NAFTA provisions differ from those of the European Economic Community and GATT in a number of significant ways and it could serve as a new model for global free trade. However these outcomes are not immediately obtainable and are not objectives of the "new strategic trade" policy being pursued by the chief executive officers of the American multinational corporations.

CONCLUSION

In conclusion, it is extremely difficult to quantitatively estimate the impact of NAFTA upon the three national economies involved should it be ratified and implemented. A priori calculations of increased trade, employment, and income are little more than educated guesses founded upon questionable assumptions. The potential net effect of NAFTA upon global trade, regional income, or employment is impossible to measure because of the numerous trade diversions and costs involved in the region and throughout the world. These negative aspects of NAFTA are grossly underestimated and often ignored. Many zero-sum games will be played out. To disregard them gives a biased and exaggerated appraisal of NAFTA's potential benefits. The unintended outcome could be less for everyone (lose-lose) if aggregate demand decreases, if the global crises worsens, if a trade war erupts, or if Mexico does not develop.

Unless Mexico is granted special concessions to protect and develop its economy, another paradoxical result of NAFTA will be the "development of underdevelopment".[33] Both the radical economic paradigm, the "new international economics", and the historic example of Japan, argue against Mexico pursuing a NAFTA type industrial/trade strategy. According to these theories and the Japanese experience, foreign investment, derregulation, and free trade are not policies appropriate to the development of Mexico. By international treaty, NAFTA will preclude Mexico from undertaking industrial planning, infant industry protection, land reform,[34] and income redistribution. Appropriate technology, sustainable agriculture, and cultural preservation will cease to be Mexican options after the agreement. Greater dependency, specialization, and domination of the Mexican economy by foreign multinational corporations will be heightened by NAFTA. The orthodox trade theory concept of comparative advantage ignores stages of development and directs the nations of the periphery to specialize in the production of primary commodities and raw

materials for export. As such, Mexico's peripheral status in the new world order will be set in concrete by NAFTA. The U.S.A./Mexican border will continue to divide an underdeveloped country from a developed one. For the poor Mexican laborers this border will still bar them from a better life, and illegal immigration to the U.S.A. will continue. For American multinational corporations and those who own them, however, this obstruction to income and wealth accumulation will be eliminated. Continued "free market reforms", it must be said again, will constitute a defacto NAFTA without the need for a formal international agreement.

Neither NAFTA, nor neo-liberal "market reforms", nor success in future GATT negotiations will be the panacea for the global economic crisis that proponents claim. If success at GATT raises global income by the estimated $100 billion annually, and NAFTA just a fraction of that amount, about $20 billion -- distributed unequally among nations and socio-economic classes -- the suspicion arises that NAFTA is not really concerned with furthering free trade, efficiency or growth. NAFTA is, in fact, little more than the latest strategy of orthodox economists and conservative politicians to redistribute income and wealth from the many to the few and from the poorest to the richest countries and classes. The rhetoric and disguised politics of orthodox neoclassical economics, a vulgarization of the theory, and an unsatisfactory, somewhat dishonest fabrication of statistics have been combined to convince the public that everyone will benefit ("win-win"). If the past is any guide to the future, some will win, some will lose, and the winners will not compensate the losers--ergo, redistribution of income and wealth is what NAfTA is really all about. This is the legacy of monetarist high interest rates, privatization, deregulation, stabilization and structural adjustment. We can expect more of the same from NAFTA, the latest of these "new world order" policies and programs designed by orthodox economists and imposed upon the people by conservative politicians to benefit themselves and their patron/constituents by restoring the global status quo ante.

NOTES

1. For a summary of the agreement, see The NAFTA Manual: Highlights of the Proposed North American Free Trade Agreement, prepared by the Governments of Canada, the United Mexican States and the United States of America (Washington, D.C.: August, 1992)

2. Among the few NAFTA citizen documents are included NAFTA Threatens the Environment: Greenpeace Proposals for a New Agreement, Fiends of the Earth, Greenpeace (Washington, D.C.: December, 1992) and U.S. Citizens Analysis of the North American Free Trade Agreement, Sierra Club, United Auto Workers, Institute for Policy Studies, et. al., The Development Gap (Washington, D.C.: December, 1992)

3. United Nations, Global Outlook 2000 (New York: United Nations Publications, 1990); International Monetary Fund, World Economic Outlook (Washington, D.C.: IMF Publications, 1991); World Bank, World Development Report 1992 (New York: Oxford Press, 1992); "The Global Gloom: The Slowdown in the U.S., Europe and Japan Has a Ripple Effect", The Washington Post National Weekly Edition, Sept. 28-Oct. 4, 1992, pp. 6-8.

4. World Bank, External Public Debt of Developing Countries, Vol. 1 (New York: Oxford Press, August, 1984).

5. "Worry at the World's Banks", Business Week, September 6, 1982, p. 81.

6. This plan, proposed by Nicholas Brady, U.S. Secretary of the Treasury, asked the creditor banks to choose between three deals, concerning $48.5 billion of Mexico's external debt. They (1) swapped old debt for new debt, (2) cut the face value of loans, and (3) cut the rate of interest on loans. Thanks to this plan, Mexico's debt principal was reduced by $6.9 billion and annual net payments to creditors was reduced by $4 billion a year between 1989 and 1994. Christophe Gevisier, "Towards a North American Free-Trade Area", Masters Thesis, University of Fribourg, Switzerland, July, 1992, pp. 71-72.

7. Harrison and Barry Bluestone, The Great U-Turn (New York: Basic Books, 1988); Kevin Phillips, Politics of Rich and Poor (New York: Basic Books, 1991); Paul Krugman, The Age of Diminished Expectations (Cambridge: MIT Press, 1992); and David Obey and Paul Sarbanes (eds.), The Changing American Economy (Oxford: Basil Blackwell, Inc., 1986).

8. World Financial Markets (New York: Morgan Guaranty Trust Company, 1982).

9. By way of comparison, the net transfer of capital from Germany after WWII, forced upon her by the 1919 Versailles Treaty was only 2.5 percent of GDP. Akio Hosno, "Latin America's Development Strategies and Issues in Structural Adjustment Policies", EXIM Review, Vol. 10, No. 1, October, 1989.

10. For a brief explanation of these relationships, see "The Mexican Debt Crisis: A Case Study", The ABCs of International Finance by John C. Pool and Steve Stamos, D.H. Heath and Co. (Lexington, Mass.: 1987) and Melvin Burke, "The Beginning of the End of the IMF Game Plan: The Case of Mexico" in Administración Pública Economía y Finances, Edgar Ortiz (ed.), CIDE and NAEFA (Mexico, D.F.: 1988-1989)

11. Melvin Burke, "Structural Adjustment and Stabilization: The New World Order in Latin America", Latin American and Caribbean Contemporary Record (New York: Holmes and Meir Publishers, Inc., Vol. IX, 1991-1992.)

12. Alan Riding, Distant Neighbors (New York: Alfred A. Knoph, 1984); Nora Hamilton and Timothy F. Harding, Modern Mexico (Beverly Hills, CA: SAGE Publications, 1986); Nora Lustig, Mexico: The Remaking of an Economy (Washington, D.C.: The Brookings Institute, 1992).

13. "El 40% de los méxicanos padece desnutrición, Sociedad, May 13, 1983, p.30.

14. Among the reasons for the global crisis which are ignored by these economists are the long wave Kondratieff business cycle and the limits to growth. Donella Meadows, et.al., The Limits to Growth (Cambridge: MIT Press, 1980); J. J. Van Dirijon, The Long Wave in Economic Life (Boston: George, Allen & Unwin, 1983).

15. Bertil Ohlin, Interregional and International Trade (Cambridge: Harvard University Press, 1933), p. 586.

16. Neoclassical trade theory is summarized in Howard S. Ellis and Lloyd A. Metzler, Readings in the Theory of International Trade (Philadelphia: The Blakeston Co., 1950) and Richard E. Caves and Harry G. Johnson (eds.), Readings in International Economics (Homewood, IL: Richard D. Irwin, Inc., 1968).

17. For a summary of "new international economics" see, Paul Krugman (ed.), Strategic Trade Policy and the New International Economics (Cambridge: MIT Press, 1986) and Rethinking International Trade (Cambridge: MIT Press, 1990).

18. R. G. Lipsey and Kelvin Lancaster, "The General Theory of Second Best", Review of Economic Studies, Vol. 24, No. 1 (1956-57).

19. Milton Friedman, "The Methodology of Positive Economics", from Essays in Positive Economics (The University of Chicago Press, 1935) reprinted in Readings in Microeconomics, William Brect and Harold M. Hachman (New York: Holt, Rinehart and Winston, Inc., 1971) pp. 27, 46.

20. "Nothing reveals the aversion of the great majority of the present-day academic economist for systematic empirical inquiry than the methodological devices they employ to avoid or cut short the use of concrete factual information.n Wassily Leontief, "letter", Science, Vol. 217, p. 104.

21. Wassily Leontif, "Domestic Production and Foreign Trade: The American Capital Position Re-Examined", Proceedings of the American Philosophical Society, 97 (September, 1953).

22. John Gallagher and Ronald Robinson, "The imperialism of Free Trade" reprinted in International Political Economy, Jeffry A Frieden and David A. Lake (New York: St. Martin's Press, 1987), pp. 116-127.

23. The Japanese spent less than 1 percent of their GDP on their military as compared to the U.S.A.'s more than 7 percent during the period 1960-1980. This made it possible, in part, for the Japan to nearly double the U.S.A. rate of investment per GDP over the same period. Robert W. DeGrasse Jr., Military Expansion and Economic Decline (Armonk, N.Y.: M.E. Sharpe Inc., 1983)

24. President Carlos Salinas of Mexico's decision making technocrats is packed with individuals with economic degree from prestigious U.S. Universities like Harvard, Yale, Stanford, and Chicago. The President himself holds a degree in economics from the University of Harvard. "The President's Team: Competence and Vision," The Washington Post National Weekly Edition, September 16-22, 1991.

25. Baer M. Delal and Erb F. Guy (eds.), Strategic Sectors in Mexican-U.S. Free Trade, The Center For Strategic and International Studies (Washington, D.C.: 1991); Peter Morici, Trade Talks with Mexico: A Time for Realism, The National Planning Association (Washington, D.C.: 1991).

26. For information on oligopolies and multinational corporations in Mexico see Fernando Fajnzylber y Trinidad Martinez Tarrago, Las Empresas Transnaciónales (México: Funda de Cultura Económica, 1982); José Manuel Quijano, Hilda Sánchez y Fernando Antía, Finances, desarrollo económica y penetración extranjera (Mexico: Universidad Autonoma de Puebla, 1985), and Jesús Tamajo y José Luis Fernández, Zonas Fronterizas (Mexico: CIDE, 1983).

27. Christophe Gevisier, op.cit., p. 79.

28. "Detroit South: Mexico's Auto Boom, Who Wins, Who Loses", Business Week, March 16, 1992, pp. 98-103; "A Revolution Already in Progress", The Washington Post National Weekly Edition, June 1-7, 1992, pp. 6-9.

29. Christophe Gevisier, op.cit., p. 78.

30. Ibid., p. 66.

31. Potential Impact on U.S. Economy and Selected Industries of the North American Free Trade Agreement, International Trade Commission (Washington, D.C.: February 3, 1993). For recent studies on the impact of NAFTA, see N. Lustig, B.P. Bosworth and R.Z. Lawrence (eds.) North America Free Trade: Assessing the Impact (Washington, D.C.: Brookings, 1992) and "Mexico (Various), Current History, February, 1993, Vol. 92, No. 571.

32. Paul Krugman, The Age of Diminished Expectations (Cambridge: The MIT Press, 1992), p. 105.

33. Andre Gunder Frank, "The Development of Underdevelopment", Monthly Review, Vol. 18, No. 4, September, 1966.

34. Most adversely affected by NAFTA will be the small farmers (ejidos), beneficiaries of the Mexican Revolution. Recently, they have been given titles to their lands in preparation for what lies ahead. Agribusiness will replace them, imported corn will be substituted for domestic production and, in the process, these small landowners will become proletariats (laborers) -- pushed off the land and not welcomed in the Mexican cities or across the border into the U.S.A.