PART I

SETTING THE STAGE

1. The NAFTA Development Model of Combining High- and Low-Wage Areas: An Introduction

by Richard S. Belous and Jonathan Lemco

In the United States, the congressional and national debate over the North American Free Trade Agreement (NAFTA) was divisive and damaging. It demonstrated underlying fears of job loss, downward wage pressure, environmental degradation, and open borders to immigration. Although many critics of the agreement acknowledged that long-term benefits might accrue from the deal, they asserted that the short-term costs could be wrenching. This fear has some basis, for one would be hard-pressed to find a similar example elsewhere of two developed economies integrating with such an underdeveloped one. The admission of Portugal, Spain, and Ireland to the European Union is not of the same scale.

The NAFTA builds on the existing Canada-U.S. pact, but goes further by addressing such unresolved issues as protection of intellectual property rights, rules against distortions to investment, and coverage of transportation services.[1] The agreement includes commitments to liberalization of trade and investment. It provides for a ten-year phased elimination of tariff and most nontariff barriers. It will help North American companies compete more effectively against foreign producers, although its success in doing so will depend in large part on maintaining polices that promote economic growth.

However, the NAFTA barely addresses energy issues. The side agreements on labor and the environment have not been tested and may prove to have no enforcement capability. The rules of origin provisions could be problematic.

BIG AND SMALL WINNERS

For the United States and Canada, the NAFTA is expected to provide, on balance, moderately positive results. Mexico could be the big winner, however. For the two wealthier partners to the pact, exports to Mexico will increase, promoting net job growth. Efficiency will increase since economies of scale will produce higher incomes in the United States and Canada. Mexican incomes are expected to increase, and this wealthier consumer market is expected to buy more U.S. and Canadian goods. Also, higher Mexican incomes might result in lower illegal migration of Mexican workers to the United States, at least in the long run. These are all articles of faith by supporters of the NAFTA, of course.

Many opponents in the labor movement charged that the NAFTA was a deal promoting investment, not enhanced trade. They asserted that the deal was good for multinational corporations that could relocate in low-wage Mexico, thereby endangering jobs in the United States and Canada. The American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) maintained that high-wage U.S. manufacturing jobs would diminish in number or that workers would be faced with lower wages. The labor movement did not accept the NAFTA proponents' view that although some manufacturing jobs would be lost, high-wage and high-tech jobs would be attracted. It should be noted that the jobs of unionized workers may be among the most vulnerable to dislocation. Presumably, these high-wage and high-tech jobs, if they exist, may not be unionized. It should also be stressed that the side agreement on labor did not assuage the AFL-CIO's fears that labor rights and standards would not be protected adequately.

The Clinton administration acknowledged during the NAFTA debate that increased trade with low-wage countries could have a dampening effect on U.S. wages—at least until the government and corporate America work together to create training, education, and technology programs that will promote a high-wage, high-skill economy. The NAFTA debate divided the Democratic party, and the president was in the awkward position of relying on House Republican support for the NAFTA's passage.

From a Canadian perspective, the free trade issue had been won or lost, depending on one's view, in 1988 with the signing of the Canada-U.S. deal. The NAFTA was less contentious. Many free trade agreement (FTA) opponents in Canada accused the government of being principally responsible for the nation's deep recession. However, a credible case can be made that without the deal, Canada's economic problems would be worse still. In fact, Daniel Schwanen of the C. D. Howe Institute in Toronto has demonstrated that the value of exports to the United States has increased more in those sectors where tariffs were lowered or eliminated under free trade than it has in raw or semi-finished resource products (like many forest and mineral products) that have traditionally been freely traded.[2] Meanwhile, exports of other value-added, resource-based products also jumped to the United States, but not to the rest of the world. For example, such U.S.-destined exports enjoying lower tariffs were up 24.8 percent in 1992 compared with 1989, but down 1.6 percent with the rest of the world.

The report separated automotive and crude oil export results from the figures because these are huge and well-worn export areas, trading without tariffs for decades. But here the news is also good. The value of crude oil exports was up 66 percent between 1988 and 1992, from approximately $4 billion to $6.7 billion. Canada's car and truck export surplus to the United States surged from $12.2 billion to $15.7 billion, while its parts import deficit increased only from $5.7 billion to $6.1 billion. This brings the net surplus in autos and parts to $11.6 billion from $6.5 billion in 1988.[3]

NAFTA AS A DEVELOPMENT MODEL

This study is most concerned with the implications of the NAFTA as a model for developing countries. With the NAFTA's passage, some suggest that the agreement's partners should entertain expansion throughout the Americas. Others insist that the North American economic partners should consolidate their trading position first. Still others believe that developing countries should devote their resources to seeking maximum advantage from the December 1993 General Agreement on Tariffs and Trade (GATT) agreement. There is truth to this latter point, of course. But the NAFTA is important, too, especially for Central and South America.

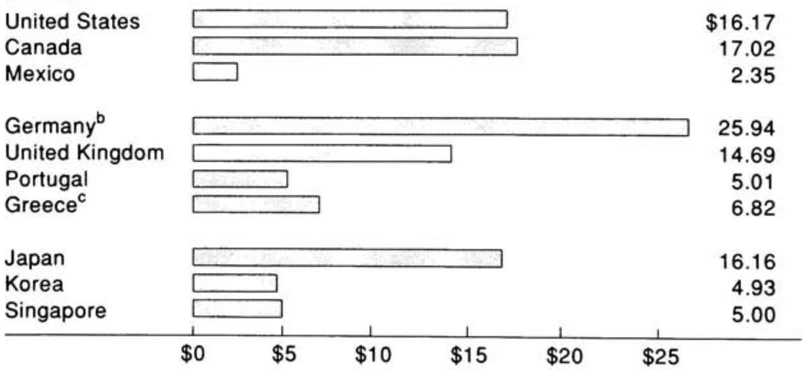
MIXING HIGH- AND LOW-WAGE AREAS

While the regional trading blocs in North America, Europe and East Asia have many striking differences, one basic feature is common to all. In North America, the European Union, and East Asia, the formation of regional trading blocs involves the uniting of high- and low-wage areas. Figure 1 shows how large these wage differentials are. For example, in 1992, Mexican compensation rates were on average approximately 15 percent of those in the United States, and similar experienced similar compensation differentials obtain relative to the European Union. In 1992, Portuguese compensation was, on average, only roughly 19 percent of average German rates. Meanwhile in East Asia, the differences between Korean and Japanese compensation rates were also quite large (i.e., Korea's average compensation rate in 1992 was approximately 19 percent of that paid in Japan). Because China is emerging as a major trading partner with many East Asian nations, Japan and other wealthy Asian countries will have to contend with very large compensation differentials created by relatively inexpensive Chinese labor.

Wage rates are often used as a proxy to symbolize vast labor market-related differences in various areas. As pointed out in Table 1, not only does the formation of regional trading blocs link markets with vastly different wage rates, but it also blends

FIGURE 1

Average Hourly Compensation Rates in Various Countries, 1992[a]
(U.S.$)



[a]Average compensation rates for manufacturing workers.

[b]Includes workers in western Germany only.

[c]1991 figure.

Source: U.S. Bureau of Labor Statistics.

TABLE 1

Various Socioeconomic Indicators
(U.S.$)

	GNP per Capita, 1990	Average Annual Pop. Growth, 1980-90	Adult Illiteracy, 1990	Life Expectancy, 1990	Income Distribution % of Income Held By:		Average Annual Growth of Urban Population, 1980-90
					Bottom 20%	Top 20%	
United States	$21,790	0.9%	<5%	76 years	4.7%	41.9%	1.1%
Canada	20,470	1.0	<5	77	5.7	40.2	1.1
OECD Average	20,170	0.6	4	77	—	—	0.8
Japan	25,430	0.6	<5	79	8.7	37.5	0.7
Mexico	2,490	2.0	13	70	n.a.	n.a.	2.9
Chile	1,940	1.7	7	72	n.a.	n.a.	2.3
Argentina	2,370	1.3	5	71	n.a.	n.a.	1.8
Venezuela	2,560	2.7	12	70	4.7	50.6	2.8
Korea	5,400	1.1	<5	71	n.a.	n.a.	3.5
Singapore	11,160	2.2	<5	74	5.1	48.9	2.2
China	370	1.4	27	70	n.a.	n.a.	n.a.

Source: World Bank.

together countries that have many different socioeconomic characteristics. While the United States in 1990 had a gross national product (GNP) per capita of almost $22,000, Mexico had a GNP per capita that year under $2,500. As shown in Table 1, Canada and the United States also have experienced rates of population growth, adult literacy, life expectancy, and growth in urban populations that are different from those experienced by Mexico. Similarly, Japan's socioeconomic indicators differ greatly from those of many of its East Asian trading partners.

Decision-makers in government, business, labor, agriculture, and the media have been very interested in the developmental implications of creating a regional trading bloc that links high- and low-wage areas. Will such a linkage be good for both the high-wage and the low-wage areas? Will it pull down the wage rates and other benefits in the high-wage area? Will it push up the wage rates and benefits in the low-wage area? Will it promote equitable and efficient growth, or will it stunt development in various parts of the bloc? These questions are hardly academic, because many economic, social, and political variables depend on their answers.

A major question is whether there will be upward or downward convergence of compensation rates, unit labor costs, and benefit levels. As one author in this volume, Clark Reynolds of Stanford University, puts it, upward convergence happens when the levels in the country with lower rates come up to the levels in the country with higher rates. Downward convergence happens when the levels in the latter come down to the levels of the former. These two possibilities, of course, entail quite different political and developmental results.

Mainstream economic theory argues that the greatest gains in efficiency and growth tend to come from linking those regions that have very different labor, productivity levels, and capital market and natural resource conditions. If two nations are similar in detail, then they will probably have similar comparative advantages. Thus, by linking them in a regional trading bloc, the possibilities for increased economic efficiency and growth may be small. However, if two nations have very different labor, product, capital, and natural resource markets, then they will probably also have different comparative advantages. When these two nations are linked in a trading bloc, then the possibilities for economic efficiency and increased growth tend to be very large, according to mainstream economic theory.[4]

DIFFERENT APPROACHES

The possibility of large gains from economic integration also creates the possibility of large labor market and social displacement. The formation of a regional trading bloc often creates winners and losers. The three major blocs are developing very different approaches toward handling labor market and social displacement. The European Union is forming a written social charter, while the NAFTA is not. However, President Bill Clinton pushed for and won agreements that deal with labor and environmental issues. The bloc that is forming in East Asia is purely economic and is not held together by any treaty.

There is a debate over how much the NAFTA should become involved in social charter issues. Or, as two analysts put it:

> In broad terms, this issue boils down to a question that is becoming familiar in all international trade forums: How far, and by what means, is it legitimate for one country to use trade policies to respond to the domestic policies of its trading partners? There is nothing remarkable, for example, about a country changing its tariffs in response to changes in another country's tariffs. But what about a country changing its tariffs in response to another country's labor standards, environmental controls, or social welfare programs? . . . It is possible to argue for a minimal free trade position that makes the smallest possible demands on domestic policies. At the other extreme is a maximal position that submits a wide range of domestic policies to the control of an international agency.[5]

Some analysts have viewed the formation of the North American regional trading bloc as a "win-win" proposition for both the high- and low-wage regions. They predict that wages, employment levels, and productivity will all increase in the United States, Canada, and Mexico because of the NAFTA. These results will be created by a more efficient allocation of resources and increased regional specialization.

Other analysts see the formation of a regional trading bloc in North America as a "lose-lose" proposition. They predict that not only will wages, employment levels, and productivity be diminished in the United States because of the NAFTA, but also that Mexico will be hurt in the process. They predict that several important Mexican industries—such as agriculture and various parts of the manufacturing sector—will be hurt by competition from the north.

Most of the authors in this volume do not place themselves in a "win-win" or a "lose-lose" camp. Instead, most view the formation of a North American trading bloc as a process that will generate significant winners and losers. The winners may outnumber the losers; nevertheless, the displacement in the transition process could be significant.

Many of the authors point to ways that the "losers" in the integration process can be helped. They also point to ways that the development process can be beneficial to both the high-wage and the low-wage areas. In the long run, the NAFTA model of development will be able to continue to function only if it addresses the benefits as well as the costs associated with the integration process.

FUNDAMENTAL CONCERNS

A fundamental concern of many of the authors in this volume is the implications of the NAFTA for wages and investment patterns. In an effort to predict the NAFTA's winners and losers, Clark Reynolds, in Chapter 2, attempts to link macroeconomic and microeconomic theory, and he questions whether these economies will converge. Reynolds defines two types of convergence—upward and downward—and highlights the three stages in convergence between productivity and wages. To evaluate the convergence climate of the 1990s, Reynolds discusses the problems of convergence in an open economy with very different wage levels.

Results from Reynolds's NAFTA model show sustained growth potential for Mexico through consumption spending. The model also indicates that the winners from integration are low-skilled labor in Mexico and high-skilled labor and capital in the United States. The losers are high-skilled labor in Mexico and low-skilled labor in the United States. Reynolds places a question mark beside the status of capital in Mexico.

Harley Shaiken, in Chapter 3, notes that if the promise of freer trade is to be realized, then paying attention to the implications of the NAFTA's social charter should be the foundation of further economic integration in this hemisphere. To develop this argument, he addresses three issues. First, he examines Mexico's potential in terms of manufacturing and high-tech production. The author contends that a macroeconomic overview of productivity data does not reveal the substantial modernization of manufacturing plants for products like autos and computers. However, in a growing number of Mexican plants, quality and productivity rival the best in Japan and the United States. Second, the author discusses the relationship between rising productivity and wages in Mexico. The historic link between rising productivity and wages that allows workers to enter the middle class has largely been absent in Mexico. Shaiken warns that a situation in which Mexico achieves First World productivity at Third World wages could exert a downward pressure on wages throughout North America.

Third, Shaiken examines the likely impacts on labor markets in the United States of an economic integration process that fails to address critical social issues. He examines the influence of integration on collective bargaining and wage setting. A relatively small movement of high-wage manufacturing jobs to Mexico could exert a significant demonstration effect for both collective bargaining and the nonunion sector. The fundamental choice for the United States is either pursuing a high-wage, high-skill strategy or slipping into competition based on low wages and diminished skills. In the context of Mexico's emerging potential as a high-tech export platform coupled with sluggish U.S. wage increases, Shaiken states that the structure of Mexican labor markets could have unprecedented influence on labor markets in the United States and Canada.

In discussing the investment issue, Isaac Cohen, in Chapter 4, asserts that the benefits of the NAFTA will be realized if trade liberalization generates increased levels of investment. In attempting to assess the agreement's impact, the author suggests that it is necessary to focus on other dynamic effects such as factor price equalization. Equalization is an inevitable consequence of free trade between two countries, and the resulting increase or decrease in wages may cause economic and social dislocations. Cohen states that in an agreement like the NAFTA, however, gains for labor are ensured even though the economic integration is taking place between a developed and a developing country.

The relationship between the United States and Puerto Rico is used as an example of successful trade liberalization between a less developed country and a developed country. Although

Cohen acknowledges the Puerto Rican experience cannot simply be repeated elsewhere, he believes that there are equalization and adjustment lessons to be learned from the island's success in the pharmaceutical industry.

In addition, Cohen stresses the need for socially equitable adjustments. Devaluing currencies, for example, makes Latin American wages attractive to foreign investors, but at the cost of impoverishing workers. Competitiveness based on social equity, he says, requires better training for the labor force, leading to better salaries and improved income distribution.

Richard Rothstein, in Chapter 5, posits that it is impossible to integrate a high-wage, high-skill economy with a low-wage, low-skill economy while hoping to maintain the former at its high-wage status. In fact, he states that the 1938 Fair Labor Standards Act, which set a minimum wage, was adopted under similar conditions—to prevent the deterioration of the Northeast after the flight of manufacturing to low-wage regions in the South. The author is concerned about the problems of integrating Mexican wages with the U.S. economy, the drastic decline of Mexican wages as a result of policy intervention, and the issue of labor standards. Using the Great Depression as a basis for comparison, Rothstein highlights the plight of Mexican workers who are unable to consume the products they produce, concluding that in such a climate, U.S. export markets in Mexico will not grow.

Van R. Whiting, Jr., in Chapter 6, maintains that the movement toward free trade in the NAFTA and the Americas can be explained in three ways. First, liberalization and economic integration respond to underlying flows of goods, people, capital, and information. North American free trade is supported by functional interdependence. The NAFTA is built on a base of low transaction costs and high levels of information flows, opportunities for industrial restructuring, and strong political leadership.

Second, new patterns of foreign investment, linked to the increased competition within industries in the major developed markets of Europe, Asia, and North America, produced new opportunities for nontraditional exports from developing countries. Beyond the efficiencies of specialization, global restructuring of industry and particularly the possibilities for new investments in regional markets help create a new interest in economic liberalism in developing countries.

Third, the failure of statism and of inward-oriented development in the 1980s created the basis for new political coalitions to emerge, reflected in an emerging consensus in the Americas. The main challenge is building a political coalition able to provide stable policy. In an era of uncertainty, predictability is more important than speed; stable and predictable policies are crucial. The primary challenge is designing policies that will be sustainable in the face of inevitable opposition from those previously privileged sectors that retain political power and resist the imposition of specific losses, even if they are offset by generalized gains.

HEMISPHERIC INTEGRATION AND DEVELOPMENT

To better understand the NAFTA model of development, Joseph Grunwald, in Chapter 7, provides a review of Latin America's economic heritage, its relationship with the United States, and issues involved in hemispheric integration. He notes that recent integration efforts may be more efficient because Latin American countries have unilaterally reduced trade barriers. For the same reason, fear of trade agreements with the North has subsided and many countries in the region are actively seeking free trade arrangements with the United States. Mexico is a unique case because the NAFTA recognizes the already existing intimate economic relationship with the United States. The fact that other countries seek a free trade agreement with the North in the face of a postwar decline in the importance of the United States in their total trade confirms the belief that their primary objective, even more so than for Mexico, is not trade expansion but the bolstering of domestic and foreign confidence in their economies.

Sidney Weintraub, in Chapter 8, considers the macroeconomic implications of the NAFTA for Mexico in the context of how the country has managed its economy during the restructuring process that began in the 1980s. He asserts that the symbolic insurance provided by the NAFTA has increased investment because of anticipation of free trade and certainty of treatment. Although static and dynamic studies predict that economic growth will result from free trade, Weintraub cautions that all the conclusions assume a well-managed domestic policy.

The NAFTA can serve as a model for future North-South agreements, but it is unclear how closely the model will be followed. The author believes that the possibility for economic integration based on the NAFTA model depends on the state of the industrial structure in the developing country. If the developing country is an exporter of raw materials, for instance, North-South integration will be relatively meaningless. In fact, it is Weintraub's hope that more subregional integration occurs among member developing countries. Regarding nonmembers, the author suggests that the NAFTA signatories conclude agreements with subregional groups rather than permit the accession of numerous single nations. For the United States, the short-term effect of the NAFTA on the macroeconomy may be hardly noticeable. But in the long term, according to Weintraub, Mexican growth translates into growth for U.S. exports because Mexico's marginal propensity to import is higher than that of the United States.

Rudolf M. Buitelaar, in Chapter 9, focuses on the structure and dynamics of production and trade, distinguishing between the relationships among Latin American countries and between Latin America and the outside world. He questions whether a development strategy that pursues intra-regional integration between developing countries is different from a global export-led development strategy. Buitelaar hypothesizes that it is part of the same strategy—integration between Latin American countries is one part of a global opening-up strategy that pursues general export-led growth. Second, he wonders if there are differences between the composition of trade flows among Latin American countries and that between Latin American countries and the rest of the world.

Buitelaar argues that regional markets offer opportunities to develop industrial exports that are likely to have important technological learning effects. A case can be made that regional integration should be promoted by explicit policy measures, complementary to extra-regional trade—not opposed to it, because openness of markets to third parties goes hand in hand with increased intra-regional export efforts.

MEXICAN VIEWPOINTS

Of the three NAFTA partners, Mexico will show the effects of the NAFTA most. Not surprisingly, diverse opinions have been expressed in Mexico about the NAFTA's consequences. Adolfo Aguilar Zinser, in Chapter 10, begins by addressing several issues regarding the NAFTA that he believes remain unchallenged in Mexico. For instance, the author says that there is general agreement that Mexico must sign a regional trade agreement with the United States to build and establish conditions for future development, but the options available are no longer as contradictory or exclusive as those presented in the past. The issues that are debated, however, include ways to increase U.S. investment and production in Mexico, deregulation, and the role of the state in the economy. Aguilar then discusses the sequence of events that are ultimately expected to reduce the flow of migration from Mexico to the United States and the concern over the disparity between the Mexican and U.S. economies. Criticism of free trade is based on what Aguilar labels the "10 terms of redefinition." He concludes that Mexico deserves a state-of-the-art trade agreement, like Europe's Maastricht Treaty, that includes a social charter, standardization of norms, and compensatory investments.

To accumulate capital for further economic growth and to create the adjustment mechanisms necessary for the transition from a closed system to an open one, Gustavo del Castillo V., in Chapter 11, writes that Mexican policymakers must look to transitional economics that focus on the short to medium term while laying the groundwork for long-range policies. Some of the macroeconomic conditions governing Mexican liberalization include redefining the state as a social actor; application of self-imposed and exogenously imposed limits on the intervention of the state in the economy; and crafting necessary economic and social conditions for putting this redefinition into practice. The new role envisioned for foreign investment has already attracted new commitments from transnationals such as Nissan and Ford. However, the author cautions that the NAFTA shifts anticipation of economic growth to Mexico's external sector while allowing the internal market to remain constricted through wage and fiscal policies.

According to a 1989-91 survey, small and medium-size manufacturing firms in Mexico were enthusiastic about free trade. However, many said they must entirely restructure their organizations and would need financial, computational, and communication services to compete. Because these firms believe that competitiveness lies in increased technological know-how and are seeking access to human and capital resources, del Castillo states that Mexico must have an industrial policy that emphasizes educational and technical achievement, coupled with a monetary policy that frees and accounts for the capital needs of these industries.

Daniel Szabo, in Chapter 12, examines the NAFTA in the context of both old and new developing models adopted by Latin America in the past few years—models that have not solved the competing goals of growth and equality. Szabo acknowledges that the NAFTA alone will not solve Mexico's development problems, but he believes that the potential rewards will outweigh the costs. Although it provides for a Trade Commission and Secretariat, the agreement will not create common development financial institutions, coordinated economic and social policies, or powerful supranational governing bodies. Given this scenario, Szabo says it is unlikely, though not impossible, that a social development fund or common financial institution will be created. However, he believes that Mexico is the principal beneficiary of the NAFTA, with Canada gaining largely by avoiding discrimination in a Mexican market. Because the economies of the United States and Canada are much larger than Mexico's, Szabo states that the overall impact of the NAFTA will probably not be so significant as critics and supporters believe. He emphasizes the important symbolic and political role of the NAFTA for Latin American governments that view the agreement as the "new" U.S. policy toward the region. From this perspective, Szabo concludes that the development of the NAFTA's social dimension becomes even more important.

To discuss the question of international labor migration from Mexico to the United States, Jorge Bustamante, in Chapter 13, begins by examining some basic assumptions. First, the NAFTA was a political strategy presented as the best option for economic development in Mexico. Second, Mexico entered the negotiations with the United States willingly, not as a result of the asymmetry, of power between the two countries. In fact, in an unprecedented move, the Mexican government opened the process of consultation to representatives of different sectors of the economy—such as business, labor, and academia—and organized an advisory committee on agreement negotiations. Finally, the two sides of the border define differently the question of labor migration. The United States views the problem as a crime-related phenomenon, while Mexico considers it an economic and labor-related problem. Although calculating illegal immigration is difficult, Bustamante notes the results of a study conducted in

Tijuana since 1987. The study estimates that no significant impact will be felt in the phenomenon of undocumented immigration in the first five years after the signing of the NAFTA. In six to 10 years, the impact will be no more than a 25 percent reduction, while the study predicts a maximum reduction of 50 percent in 11 to 15 years.

CANADIAN VIEWPOINTS

Canada's interests in the NAFTA may be the least understood of those of the three partners. Ronald Wonnacott, in Chapter 14, explores the high points and pitfalls of the NAFTA from a Canadian perspective. Through participation in the NAFTA, Wonnacott writes, Canada has avoided discrimination it would otherwise have faced in Mexico in competing with duty-free U.S. goods. In other words, the Canadian government has been successful in gaining access to a rapidly growing Mexican market on terms as favorable as those of the United States. Another benefit is Canadian tariff-free access to inexpensive supplies of intermediate goods produced in Mexico. Wonnacott believes that, in one important way, the NAFTA is superior to treaties like the GATT, which allows developing countries to maintain many of their own barriers to liberalized imports. The NAFTA has effectively told Mexico and other future participants that if they want to participate in the agreement, they must be prepared to remove their own trade barriers.

Wonnacott considers the NAFTA an improvement over the Canada-U.S. Free Trade Agreement (CUSFTA) for Canada in many ways: for example, it modifies and extends duty drawbacks and provides greater discipline over standards. More important, all three countries will have the same low or zero most favored nation (MFN) tariff on computer imports from non-NAFTA countries, thus making rules of origin unnecessary. This sets a precedent in future negotiations for the elimination of the problems rules of origin create in a world in which firms are having increasing difficulty in tracing what has been produced where.

Ann Weston, in Chapter 15, suggests that for many Canadians, evaluation of the NAFTA must be seen through the lens of experience under the CUSFTA. Although the CUSFTA coincided with macroeconomic problems and global recession, Weston suggests that lessons learned from the agreement include the need for adjustment assistance and improved monitoring and evaluation of labor and environmental standards in all three countries. She says the issue of enforcement of both adjustment measures and labor standards has been raised in Canada, with some proponents favoring a social charter similar to the European Union's. If the NAFTA fails to deal directly with the adjustment issues likely to arise in Mexico, it must provide special rules sensitive to the country's different level of development and liberalization. Also, the phasing and extent of liberalization in particular sectors must allow for asymmetrical or relative reciprocity. For example, Mexico can address this need through a longer phase-in period for meeting the common rules.

BUSINESS AND LABOR VIEWPOINTS

The business and labor communities are focused on the NAFTA, for the consequences of the agreement will have the greatest impact on their interests. John D. Tessier, in Chapter 16, asserts that the public sector must undergo the same restructuring process experienced by industries and corporations wanting to remain competitive internationally. Because this restructuring is occurring on a global basis, Tessier states that the choice for Latin American policymakers is no longer what direction to take, but how quickly to make the transition to market economies. Moving from a protected to an open market environment not only causes massive changes in government responsibilities and procedures but also realigns the role of the business community within this new economic structure. To illustrate this point, Tessier briefly discusses IBM's role in Latin America and shares knowledge gained from the corporation's own restructuring process. For instance, trade blocs have forced IBM to organize its business around trading areas to avoid prohibitive investment costs. However, such a structure also allows IBM to provide more support for the members of the region without duplicating every management service in each country.

William C. Doherty, in Chapter 17, predicts that the NAFTA would result in a major job loss for the United States and that it would push down U.S. wage rates. Although the NAFTA has generated some conflict between the United States and Canada over this issue, he asserts that the greatest conflict has been between U.S. and Mexican interests. According to Doherty, corporations export jobs to Mexico for one economic advantage—low wages.

With millions of Mexican workers unable to find jobs in the Maquiladoras (assembly plants), illegal immigration into the United States has increased. The labor movement is also concerned about working conditions and the enforcement of environmental regulations in this area. To address these concerns, U.S. labor leaders are meeting with their Mexican counterparts because the AFL-CIO is not satisfied with the NAFTA as it now stands.

Although the AFL-CIO has concluded that a trade agreement with Mexico is not inherently bad if it is a fair trade agreement, Doherty stresses that the U.S. relationship with Mexico should have the same degree of dignity as that of the European Union's relationship with the poorer countries of Europe. Just as the EU has developed a substantial development plan to raise the economic status of those countries, Doherty believes a similar plan would have to equalize disparities between the three countries without taking jobs away from U.S. workers. The U.S. labor movement would like the NAFTA to guarantee some provisions designed to protect the workers of all three countries—decent Social Security benefits, strict enforcement of labor laws, and rights to freedom of association and collective bargaining—all enforced by trade sanctions.

Eugene W. Zeltmann, in Chapter 18, discusses the structure and role of the sector advisory committees in the NAFTA negotiations. The Industry Sector Advisory Committee for Capital Goods (ISAC-2), one of 17 committees, works to remove barriers to the free conduct of trade in capital goods, including the area of heavy electrical equipment. The committee was asked to evaluate the trade agreement, and it presented to Congress a list of the NAFTA's pluses and minuses. Zeltmann says the committee told Congress that the NAFTA would go a long way toward eradicating many trade barriers and would "unshackle the creative energies of the people of the three North American signatories."

In its evaluation, ISAC-2 concluded that the NAFTA's net impact on U.S. employment would be positive. However, the committee recommended assistance and job training for workers who lose jobs and are unable to find employment with their current skills. On environmental issues, the committee views the NAFTA as a "green agreement" that will result in substantial environmental improvement when implemented. To illustrate this point, Zeltmann highlights the increased efficiency of today's combined-cycle power-generation plants that utilize natural gas for the production of energy.

Juan de Nigris, in Chapter 19, examines the effects of trade liberalization on Mexican economic and social policy. He stresses that not all of Mexico's problems can be solved through the NAFTA, but involvement in the agreement is an important piece of the country's economic integration strategy. Furthermore, the success of the agreement will not be the result of "good" or "bad" negotiating, but will depend on its ability to develop clear rules that define behavior in regional economies. The rules are also important because de Nigris believes that they may inspire confidence for investors in the Mexican, Canadian, and U.S. economies. Under the NAFTA, the United States should benefit from Mexico's high propensity to import U.S. goods, especially critical capital and high-tech products. De Nigris also points out that the United States will gain in the intellectual property and service sectors, as Mexico seeks assistance in areas such as transportation and telecommunications.

According to de Nigris, the history of his company, VITRO, serves as proof that Mexico has been fighting to achieve and maintain international competitiveness and economic efficiency for a long time. Mexican companies are reacting to global realities as much as regional ones.

They are working quickly to take advantage of economic opportunities that began well before the NAFTA. In their push for economic integration, these companies have not forgotten their social responsibility, and many, like VITRO, have numerous social programs for their workers. Although VITRO is just one example, de Nigris believes that many companies have followed the same developmental path, with others ready to continue the processes of modernization.

A SOCIAL CHARTER?

Our final authors examine the European social charter as a possible model for the NAFTA and the extent to which non-governmental organizations (NGOs) have become players in the NAFTA debate. Reiner Hoffmann, in Chapter 20, maintains that although the success of labor market policies in Europe can be compared to the NAFTA market of the future only to a limited degree, he believes that the EU experience shows the agreement must progress beyond the status of pure market integration if it is to be successful. In contrast to the neoliberal approach of the NAFTA, for instance, European integration has always been accompanied by the attempt to take the social dimension of the single market into consideration. In his chapter, Hoffmann addresses three central aspects of Europe's social dimension that he believes can supply important insights to successful implementation of the NAFTA—the European Dialogue, the European Social Fund, and the European Regional Fund.

Cathryn L. Thorup, in Chapter 21, insists that in today's world, international relations bear scant resemblance to earlier models based on the interaction of unitary rational actors. Nongovernmental organizations working in concert with counterpart groups around the world are contributing to a transnationalization of civil society. Thorup asserts that the significance of "citizen diplomacy" for North America first became apparent during the NAFTA negotiations in 1990. Subsequent cross-border organizing and coalition-building have influenced the shape and substance of an integrated North America, making it clear that relations between the United States, Canada, and Mexico are no longer the exclusive domain of economic and political elites. As countries find themselves unable to manage their relations on a strict government-to-government basis, the process of negotiating economic integration has become more complex, forcing negotiators to take more issues and actors into account. At the same time, Thorup points out that NGOs are weaving together the interests of citizens from each country, contributing to the formation of an evolving sense of societal interdependence. This trend affects decision-making not only in the commercial arena but in other issues, such as immigration.

UNCHARTED WATERS

The North American Free Trade Agreement is an experiment in largely uncharted territory. Never before has there been such a discrepancy in levels of economic development between the partners to such an agreement. The NAFTA has aroused interest across industrial and governmental sectors and around the globe, for if it is ratified in the United States, it will be a laboratory for those concerned about what such agreements will do to wages, labor mobility, labor unions, investment, living standards, and economic development. If the agreement benefits only a small group and injures many, then the NAFTA will have failed. However, if it is successful—by which we mean if increased trade is facilitated, investment is raised, job loss is minimal, job cre-