



Norteamérica. Revista Académica del CISAN-UNAM

ISSN: 1870-3550

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Centro de Investigaciones sobre América del Norte  
México

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Norteamérica. Revista Académica del CISAN-UNAM, vol. 3, núm. 1, enero-junio, 2008, pp. 65-93

Centro de Investigaciones sobre América del Norte

Distrito Federal, México

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## Where Does Mexico Stand? Interpreting NAFTA's Regional Scope and the FTAA Hemispheric Project

HÉCTOR CUADRA MONTIEL\*

*To my beloved, much admired teachers,  
Georgina Oliva and Carlos Crespo*

### ABSTRACT

Using a hermeneutic strategic relational approach, this article examines the elements of the material and ideational international context directly relevant to development in Mexico. It opens with a section on relations between the United States and Mexico. The myriad of complex and multifaceted interactions, history and potentialities has been –and will remain– of utmost importance for both countries. The next part focuses on the North American Free Trade Agreement (NAFTA) which, evaluated under its own terms, has unquestionably been successful. Trade and investment have increased, and the *ad hoc* dispute settlement mechanism operated regularly in cases presented by each member. Yet, there are immense numbers of things that NAFTA cannot accommodate, as it has been narrowly conceived only as a trade agreement, albeit an expanded one. These omissions are of key relevance and must be spotlighted along with the agreement's relative successes for a serious, informed discussion to take place about the prospects of deepening NAFTA. Likewise, the negotiations for the Free Trade Area of the Americas (FTAA) would mean broadening its scope and membership. These are some of the key issues in the strategically selective context for the social processes of change in Mexico in the last few decades. Crucial challenges also lie ahead. If room for manoeuvre has existed in the past, there is a good chance that it will be greater in the future.

**Key words:** Mexico, United States, NAFTA, FTAA, hermeneutic

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## INTRODUCTION

Acknowledging that the Western Hemisphere and the North American region exist independently of our knowledge does not necessarily lead us to make only direct observations of relationships. Discourse and appearance in the socio-political and socio-economic world influence our perceptions and what we can read from ongoing processes. Since as observers, we are also simultaneously participants, what we either perceive or mis-perceive affects our understanding and interpretations. That is why international relations researchers constantly need to assess and determine where we are situated. Interpretive analysis in this article should be understood as a cartographic experience, one that actually illuminates where we are and also where we are heading.

To do this, mapping and situating actors and agencies within broader processes is by no means an easy task. Not only may tendencies and undercurrents provide mixed signals, but uncertainty and the lack of predictability are constant features in both domestic and international politics. What this article proposes is a narrative understanding of the regional integration processes Mexico has been taking part in for a number of years now. Mexico's historic relationship to, contact with, and proximity to the United States has influenced the processes in which both countries take part, although never in a deterministic way. The North American Free Trade Agreement successful partnership and support for the stymied Free Trade Area of the Americas project are cases in point.

The theoretical purpose of interpreting Mexico-U.S. relations, the NAFTA experience and the Free Trade Area of the Americas (FTAA) project is to restore agency to supposedly anonymous processes and political analysis to the logic of economic compulsion and determinism. By focusing on each actor's action and the manoeuvring room, the methodological objective of these efforts is to transcend empirical materialism and show the relevance of a proper discussion of ideas and their weight in the historic and contemporary real world.<sup>1</sup>

## THE ASYMMETRICAL, DYNAMIC RELATIONSHIPS BETWEEN MEXICO AND THE UNITED STATES

The relationship between Mexico and the United States has gone through significant changes at different times in history. Ever since right after both countries' inde-

<sup>1</sup> The dichotomy between reality and appearance is approached by adopting a critical realist philosophy of science position. Emphasis is put on interpretive knowledge, built on the identification of social phenomena causal powers.

pendence, bilateral relations have ranged from conflict to cooperation. Even though I concentrate on the contemporary period, the weight of the past and the historical memory for both sides cannot be completely neglected. Equally importantly, the already large, but still widening, range of interactions has been informed by ideas, perceptions, and myths that account for key factors hitherto unobserved (Aguayo, 1998).<sup>2</sup> They all have also played a causal constitutive role in material outcomes.

Using an interpretative account, it becomes clear that the asymmetries between Mexico and the United States have been key constant variables permeating all facets of their relationships. Contrasting available resources, military might, political organization and practices, diplomatic strategies, sets of values, cultural characteristics, and so on, in the past considered reasons for keeping a certain distance, over recent decades have been overtly endorsed as opportunities not to be missed. The different combination of the elements of consent, coercion, and hegemony present in the international system can easily be found in the annals of the relationship between the United States and Latin American countries. Nonetheless, the contemporary period has tilted toward a range of methods and strategies to convince Latin America that it is in its interest to actively collaborate with the United States, as the scope of shared and similar objectives increases. Epitomizing the exercise of hegemony has been the U.S. obsession with political and economic stability beyond its borders. In some cases, features of regimes abroad were considered secondary as long as they did not threaten the interests of individual countries. This was the case for the former hegemonic ruling party that held office in Mexico for seven decades.<sup>3</sup>

Ever since the end of the armed phases of the early-twentieth-century Mexican Revolution, there has been an evolving pragmatic understanding between the governments on either side of the Rio Grande.<sup>4</sup> This kind of pragmatism reflects the

<sup>2</sup> For instance, Aguayo argues that myths, such as the U.S. exceptionalism that sets it apart from the rest of the world, are completely inaccurate and misleading. Similarly, the claim that whatever course of action the United States takes has only positive repercussions in the international arena has clearly been discredited. Equally discredited is the assumption that corruption and inefficiency are pervasive for the public sector, but absent from the private realm (Aguayo, 1998).

The misperception of Mexico as an insular, passive, nationalistic country could not be farther from the truth. Likewise, the identification of common interests between Mexico and the United States does not mean that divergent points of view are out of the question. Taking for granted that Mexican foreign policy is guided only by principles such as self-determination, non-intervention in domestic affairs, and the peaceful resolution of conflicts is an idealistic approach which neglects its increasing pragmatism (Aguayo, 1998).

<sup>3</sup> Another example is the one provided by Chilean history. On September 11, 1973, Allende, a democratically elected president, was overthrown and killed by the local military with U.S. government support. Pinochet went on to implement an economic program more in tune with U.S. priorities, and ever since has been portrayed as an example for countries embarking on economic restructuring.

<sup>4</sup> The roots and original dynamics of the pragmatic understanding between the United States and Mexico can be traced back to the late 1920s. After the re-elected President Obregón was assassinated in 1928, U.S. Ambassador to Mexico Dwight Morrow, supported Calles and reached a high level of understanding with him. During the late 1920s, Calles made important concessions to U.S. oil companies in exchange for

asymmetries and the ideas that each has of the other. As they inform the courses of action taken and the strategies adopted, they yield a causal constitutive role in the material world. The role played by intangibles like ideas, information, perceptions, and even myths in the complex and multi-level interactions between the United States and Mexico has been used mainly –but not exclusively– to maintain the relationship, not exempt from touches of hegemony, and also to maintain the established order (Aguayo, 1998).

In terms of the democratic credentials of Mexico's previous one-party rule, the United States did not worry unduly about the other's diplomacy. Mexico's political and economic stability was a concern for the United States, regardless of how good or bad its democratic model was. The principles of non-intervention, self-determination, and peaceful resolution of conflicts guiding Mexican foreign policy were not a cause for anxiety to the United States, as the latter perceived the former to be frequently at odds with them only in matters of secondary importance. Regarding more important issues, some U.S. Department of the Army declassified documents stated that "in case of war... (or any other critical situation) Mexico would be an ally of the United States" (Aguayo, 1998: 56).<sup>5</sup>

The unwritten rules of the pragmatic understanding on commitments to mutual support established around shared interests evolved after World War II. Further formal agreements between the two countries have been inspired by the informal, pragmatic understanding typified by that between former Mexican President Calles and former U.S. Ambassador Morrow. Although never formalized in treaties or protocols, it became a tool of the utmost importance for the discreet resolution of differences. As relations have moved through different historic phases, the pragmatic, flexible understanding between the two governments has undergone gradual modifications. One of them has been the U.S. elite's sometimes overt –and sometimes

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Washington's support in preserving his regime's nationalistic image. Although Cárdenas later expropriated the oil industry in 1938, the pragmatic orientation of the relationship continued and strengthened over time (Aguayo, 1998).

<sup>5</sup> Nonetheless, in a famous case a few years ago, the United States did not get the unconditional support it wanted for its self-proclaimed crusade against terrorism. Holding a temporary seat at the United Nations Security Council, Mexico, along with a few other countries, did not back the U.S. initiative to attack Iraq in 2003. Minor diplomatic skirmishes followed.

There is no room here for a discussion about this conflict, which has extremely complex historical, geo-strategic, military, religious, energy, and political connotations. Suffice it to say that the open U.S. military involvement in Afghanistan and Iraq, in its self-proclaimed crusade against terrorism, was originally justified on the basis of faulty intelligence and too little evidence. Its closest ally, the United Kingdom, was also unable to defend the case for going to war. However, this was not an impediment to seizing more direct control over oil and gas resources from the region, despite its disclaimers to the contrary. Those actions are radically transforming, with unknown consequences, not only U.S. relations with the Arab countries but with the whole world. In addition to the significance of the energy resources of that region, U.S. military involvement, along with the thorny issue of its overt and covert support of Israel in its conflict with Palestine, infuriates nations in this Islamic region, which may yet have serious consequences.

covert– support in pursuing the economic and political stability favorable to its interests in Mexico. In particular, it has supported the latter’s civilian rule without democracy (Aguayo, 1998; Mazza, 2001).

Needless to say, the pragmatic understanding between the governments is not limited to the adoption of flawed models of government, nor to the increases in both the volume and value of economic transactions. Due to the asymmetries between Mexico and the United States, when the latter has exercised coercion, the former has little defense. With its small armed forces and stock of weapons, pragmatic foreign policy prevented Mexico from signing a military accord with the U.S., and from entering the continental military alliance embodied in the Rio Pact.<sup>6</sup> Yet, this strategy was modified in the light of changing circumstances during the Cold War. A previous security strategy of abnegation has been abandoned for bandwagoning. The former entailed eschewing alliances with any rival of the United States and pursuing no foreign policy interests that might be perceived as a threat by the latter; albeit with little cooperation. The new strategy has increased cooperation with the United States in security matters like drug trafficking, at the same time that it tolerates its unilateral actions and breaches of the bilateral arrangement. It also includes building up military capability to advance “joint goals” –almost unilaterally designed– in combating drug gangs (Domínguez and Fernández de Castro, 2001).

It surprises no one that the alliances forged to fight drug trafficking respond more to U.S. concerns.<sup>7</sup> Taking for granted that supply creates its own demand, the United States has pursued unilateral moves to “certify” countries in the fight against drug trafficking, even if it is not one of their own choosing. In turn, this has raised strong criticisms, since the U.S. is doing this to advance the extraterritoriality of its jurisdiction without full prior negotiation.

Due to the fact that the United States deems international security issues to be highly significant, the strategy of bandwagoning is considered less cost-effective for Mexico than the previous one of abnegation (Domínguez and Fernández de Castro, 2001). At the dawn of the twenty-first century, the U.S. crusade against terrorism is having serious repercussions throughout the world that go beyond the scope and aims of this article.<sup>8</sup> Nonetheless, it has already become –and it is likely

<sup>6</sup> Officially known as the Inter-American Treaty for Reciprocal Assistance.

<sup>7</sup> Operations such as Intercept, Condor, Intercept II, Safeguard, Gatekeeper, Casablanca, Thunder, etc., have meant an increase in the influence of U.S. activity within Mexico (Domínguez and Fernández de Castro, 2001). Most recently, in 2007 the Mexican government broke with longstanding tradition and extradited major drug traffickers to face trial in the United States. A Mexican Supreme Court decision overturned the rule banning extradition of criminals facing the death penalty in the U.S.

<sup>8</sup> After the 2001 attacks, terrorism was added to the United States’ security agenda against drug trafficking. These two concerns have also been added to Mexico’s original security agenda, which has historically included the U.S. itself. The lowering of barriers to facilitate the flow of trade in goods and services, as

for some time to remain— a strategically selective contextual factor and key reference point in U.S. relations with the rest of the world. Therefore, it affects Mexico without determining its courses of action, as happened during the Cold War.

Tied by geographical proximity, the incessant, dynamic formal and informal networks on both sides of the border move faster than —and do not necessarily follow— government preferences and official discourses. Making an effort to understand these unfolding processes, it is possible to see that the levels of inter-societal cross-penetration cannot be reduced to economic trade relations or political issues headed by the respective governments. The multiple layers of identity are incontrovertible evidence that there are very strong social processes and dynamics whose rich and constantly changing trends and counter-trends cannot be captured by the narrowly defined free trade agreement. Intergovernmental cooperation has formalized and institutionalized what is in fact the leading role of the situated actors in context, significantly contributing toward changing the conditions surrounding them.

Due to the traditionally fragmented nature of U.S. policy, in which different agencies deal simultaneously with sometimes overlapping and contrasting agendas and priorities, Putnam has suggested that, regarding international negotiations, there seems to be a trade-off between the domestic and the international dimensions. In particular, for a zero-sum game assumption, the importance given to either one level or the other means that the strength and impact of a bargaining position abroad could entail a weakening of its circumstances at home or vice versa (Putnam, 1988). Yet, the reciprocal interactions between domestic and international affairs for bargaining within a more centralized system such as Mexico's are not exempt from these scenarios. Furthermore, these dynamics at the national and international levels cannot be easily contained and are constituted by counter-trends as well. Consider, for instance, the increasing volume and depth of relations between the two countries, where the growing complexity and interactions of the multilayered tapestry of actors seem to follow patterns of decentralization at all levels. These patterns respond to the rising numbers of actors involved (Domínguez and Fernández de Castro, 2001).

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well as investment, has contributed toward making it easier for illegal exchanges and transactions to occur. Hence, issues such as drug trafficking and migration, both legal and illegal, have profited from reductions in transaction costs which, in turn, have been facilitated by political and economic cooperation and institution building (Domínguez and Fernández de Castro, 2001). Still, as drug traffickers mainly act as suppliers to the biggest drug market in the world, the efforts to eliminate and suppress them in other countries have been as costly as they have been unsuccessful. Much worse, they denigrate nations by making them submit to U.S. "certification", which, in turn, is conditioned to a great degree by non-drug considerations. As long as the incentives for procuring a share of such a profitable market exist, the only result is that more powerful and better organized cartels emerge to fill vacuums left by former ones. This promotion of specialized cartels has a high domestic price beyond U.S. borders. Not only does it contribute toward escalating violence to levels previously unheard of in those societies, but it also corrupts officials and profits from unsatisfied demands and impoverished sectors within inequitable, polarized societies.

Current outwardly-oriented economic strategies have enjoyed support and encouragement from Washington. Mexican technocratic governments have been praised while some big businesses have flourished, trade, and investment flows have boomed, and income distribution has widened. In addition to the growing inbound and outbound flows of trade and investment, important social dynamics continuously reshape the relationships between the two countries. They are neither merely attributable to the governments' wills, nor are they captured by the narrow framework of the North American Free Trade Agreement.

The Mexican government's trade liberalization and investment attraction strategies have gone through different stages. Following the 1982 crisis and import restrictions, it adopted a gradual approach to allow for the incremental deepening of the reforms that led to its joining the General Agreement on Tariffs and Trade in 1986 and became an important component of domestic economic pacts. They, in turn, paved the way for the North American Free Trade Agreement some years later. Import license requirements were gradually liberalized, whereas import official reference prices were incrementally eliminated. Import tariffs were reduced stage by stage as the core component of the trade liberalization strategy (Lustig, 1998; 1997; Hufbauer and Schott, 1993).

Some of the conditions that have facilitated the implementation of the outwardly-oriented economic model are by no means unproblematic. In Mexico's case, it has resulted in an import-prone, export-oriented industrialization for an important percentage of the manufacturing exporters. For the inbound industries, the benefits included macroeconomic stabilization, infrastructure provision, proximity to markets, especially that of the United States, labor availability, intra-industry and inter-industry investment and trade, compliance with quality standards, and just-in-time delivery, among other things. Nevertheless, the implementation of the outwardly-oriented economic strategies has helped U.S. firms to confront foreign competitors, leaving Mexico a sub-specialization at the lower end of value-added commodities chains (Dussel Peters, 2000; Gereffi, Spener and Bair, 2002).

If the costly social legacy of inequality and polarization of the crude implementation of the outward-oriented economic model are to be corrected, the reinvigoration of the domestic market, on the one hand, and the promotion and strengthening of endogenous growth with equity conditions, on the other, call for adequate redistributive policies, along with increased spending on education, health, and social infrastructure. A dramatic process of Polanyi's first movement's commodification has been the consequence of economic structural adjustment and labor flexibility –either intended or unintended– and has meant a drastic decline in real wages for a majority of the population, forcing them to look for alternatives to compensate for the



decline in their total income.<sup>9</sup> The need to seek new or additional income-generating activities contributed to a growing black market, especially, but not exclusively, in the main urban areas. Likewise, more family members were sent into the workforce to get additional income.

With regard to polarization and widening inequalities in Mexico, suffice it to say that in contrast to the negative impact of the economic constraints on the worst-off social sectors, the liberalization of capital flows allowed some of the better-off not only to protect their assets, but also to expand them by transferring them abroad (Lustig, 1998). If these problems are to be addressed, there is no doubt that the state has an important role to play in Mexico's future economic development. Due to widespread poverty and unsatisfied social needs, an enhanced agenda of reform which reassesses the importance of production and redistribution must not be postponed any longer. In short, efforts need to be made to tackle destitution and promote social justice.

Nevertheless, problematic as the poorly designed North American Free Trade Agreement is, analysts acknowledge it has been consistent and successful in its own terms. Ever since the very beginning, it aimed to eliminate trade barriers, to attract trade and investment flows, and to provide a dispute settlement mechanism between Canada, the United States and Mexico (Hufbauer and Schott, 1993; Lustig, 1997). Unquestionably, it has clearly succeeded in the narrow terms in which it was conceived. Trade and investment have soared, while the *ad hoc* dispute settlement mechanism has been operated and tested by all members. It has also had an impact on specialization in producing certain goods and in some sectors, as growing intra-industry and intra-firm trade flows indicate (Bulmer-Thomas, 2001a). The development of economies of scale and the promotion of efficiency standards are deemed key elements in easing economic integration within the three countries of North America. No less important, issues and sectors the signatories wanted to ignore in the negotiations were deliberately set aside so that an agreement could be reached. Had sensitive issues been included at the very beginning, negotiators might have faced stronger domestic constituencies, leading to a radicalization of each country's position at the negotiation table. Thus, the U.S. government opted to omit migration; the Mexican government, the energy sector; and Canadians, cultural issues. As the relationships have evolved, this increases the likelihood that the special status granted by their governments might face modifications in the future.

<sup>9</sup> Arguing that labor, land, and money are essential for a market economy, Polanyi stresses that it is not the same thing as considering them commodities, since they are not, because none of them were produced for sale on the market. The fiction of their being so produced became an organizing principle of society; they all became commodified (1957). Knowledge was added later by neo-Polanyians to the original three fictitious commodities.

The North American Free Trade Agreement goes beyond the typical free trade area. In addition to the multilateral compatibility requirements of General Agreement on Tariffs and Trade Article XXIV, a key component of NAFTA that makes it a “free trade ‘plus’ agreement” is its Chapter 11, referring to foreign direct investment. With a broad definition of investment, it stipulates national treatment to investors from the member countries, and most-favored-nation treatment for both investment and investors, which must be compatible with international law. There are also specific standards in the case of expropriation and losses due to armed conflict or civil strife, along with regulations on transfers and environmental matters. More crucially, it includes provisions for dispute arbitration, where private investors can proceed against members of government (World Trade Organization, 1996; NAFTA official text).

Nonetheless, to say that NAFTA has been consistent in the narrow terms in which it was conceived is not the same as to say that there is no room for a critical evaluation of it. For, clearly, there have been some inconsistencies that need to be addressed, and the dispute settlement mechanism is a case in point. The mechanisms for settling trade and investment disputes, along with countervailing duties and antidumping, as well as some other aspects of the agreement, are dealt with in Chapters 19 and 20, respectively.<sup>10</sup> Yet, the capability to start a lawsuit against any of the NAFTA parties is not exempt from controversy, nor is the impact and pace of the *ad hoc* panel mechanisms. For example, the World Bank argues that the panel review mechanisms have had no significant impact on U.S. antidumping and countervailing duties against Mexico and Canada. As the United States is the two countries’ most important trading partner, it is not surprising to find relevant cases there. Commenting on the adequacy of NAFTA, the World Bank draws lessons from which the rest of the Latin American countries may benefit. Among the “findings” is correcting the distortions caused by the rules of origin, because they represent additional costs to firms wishing to use the preferences of their agreement for their exports. Relocation does not become an option for companies based in any of the three countries if they are to satisfy the requirements for exporting the final product to the U.S. free of duty (Lederman, Maloney and Servén, 2003).

Regarding the *ad hoc* mechanisms for settling trade and investment disputes, if the lack of a permanent court, which would have entailed a permanent bureaucra-

<sup>10</sup> NAFTA contains formal dispute settlement provisions in six areas: Chapter 11 aims to resolve investor-state disputes over property rights. Chapter 14 creates provisions for handling financial sector disputes. Chapter 19 focuses on review mechanisms for antidumping and countervailing duties. Chapter 20 provides government-to-government consultation, at the ministerial level, for dispute resolution. Additionally, there are also specific provisions in both the environmental and labor side agreements. There is one interstate dispute settlement mechanism regarding domestic environmental laws, and another that fits under the respective labor side agreements (Hufbauer and Schott, 2005).

cy, has been highlighted as a key feature of the treaty, its operation suggests that more needs to be done to gain cumulative experience and expertise from non-permanent panelists. Furthermore, regarding investors' disputes, NAFTA's Chapter 11 allows private firms to sue governments for any changes since the agreement entered into force. Sensible as these steps might seem at first glance, this provision has backfired against some other NAFTA regulations. Specifically, it has been used against new environmental rules perceived as potentially harmful, or which could reduce investments, and were not in existence when the investors began operations. The problem is that the side agreement on the environment encourages a more rigorous upgrading of standards. Furthermore, the confidentiality of court proceedings is clearly not the best procedure for dealing with these issues. Hence, there is a clear need to change these practices to make the court procedures more transparent and also to narrow the scope of the provisions (Pastor, 2001).

Mexico, Canada and the United States are World Trade Organization members as well. Perhaps the most important similarity between the WTO and the regional trade agreement is that neither WTO nor NAFTA dispute settlement procedures have independent authority over national legislatures or domestic courts. On the other hand, some critics point to the overlapping jurisdiction between NAFTA and WTO dispute settlement mechanisms, where the latter's single, integrated system aims to avoid procedural controversies. Unlike the WTO, NAFTA's rosters of panelists are citizens of either party to the dispute. Timelines for arbitration do not coincide either. Criticisms of both NAFTA and the WTO's lack of transparency in settlement proceedings were key for pushing the former's ministerial-supported open hearings. Hence, it has been suggested that for NAFTA, stronger institutions would facilitate dispute resolution and strengthen the accord (Hufbauer and Schott, 2005). Let us next take a closer look at some other challenges, as preliminary approximations, that a deepening process of integration would entail.

#### THE CHALLENGE OF DEEPENING INTEGRATION: NAFTA IN THE FUTURE

NAFTA's relative success in its own terms in attracting trade and investment has significantly grown since the mid-1990s. Furthermore, the composition of trade features important degrees of integration shown in the volume of intra-industry trade. Of all the Latin American and Caribbean countries that exchange goods and services with the United States, it is Mexico that has reached the highest level of integration into U.S. commodity chains, pointing toward the construction of a single economic space (Bulmer-Thomas, 2001a). This cannot be exclusively attributed to NAFTA's

success. Although the North American Free Trade Agreement was not the jumping-off point for trade and investment among its members, it served to institutionalize them. Trade and economic integration began several years before the agreement. By the time it was signed, both the volume and value of intra-industry trade were already high. Moreover, the intra-industry trade, which can be explained by a combination of product differentiation, economies of scale, and imperfect competition, could also be extended to the service sector.<sup>11</sup> Although considered typical of trade between developed economies, for the Mexican case, intra-industry trade is a reflection of the high concentration of dozens of outwardly-oriented firms. Those companies not only export considerable volumes but are simultaneously behind even faster growing imports. Therefore, it comes as no surprise that subsidiaries of multinational corporations account for an important share of these transactions, especially in the form of intra-firm trade (Bulmer-Thomas, 2001a; Pastor, 2001).

Nevertheless, for a hermeneutic strategic relational perspective, there can be absolutely no argument about the fact that the North American Free Trade Agreement has been a catalyst for much more than trade integration alone. Since trade relations do not occur in isolation from other activities and contextual issues, NAFTA's failures are linked to its stark omissions. Celebrated as a free trade area in which a developing economy has joined two developed economies, it is striking that from the very beginning the North American Free Trade Agreement was negotiated as if there were no asymmetries among the countries. Making no mention of the contrasting differences in the size and weight of the markets, it takes for granted that economic growth depends mainly on trade. Were there perfect competition, we should not have to pay attention to issues of monopolistic markets and imperfect information. It was neither impossible to sustain the unrealistic assumptions that the levels of economic development were similar and comparable; nor that there were no vulnerabilities in any member; nor that disparities were non-existent in their societies. Those unrealistic assumptions reflected an inattention to the socially embedded character of economic activities within broader social and political contexts. Had such factors featured prominently in the negotiations, the various consequences of the elimination of trade and investment barriers would have been considered. They clearly range from social to environmental and political impacts. The fact that the NAFTA

<sup>11</sup> Intra-industry trade means that exchanged goods have comparable qualities or characteristics and could follow two different modalities. The vertical kind is considered severe and consistent with international trade flows, where a difference in factor endowments is the main determinant. For this case, a big difference in price between traded goods is evident. In contrast, the horizontal mode entails small differences in quality and prices between the commodities exchanged. Due to the asymmetries in purchasing power and income between Mexico and the United States, the contrasting features, qualities, and prices of traded goods reflect vertical intra-industry trade (Bulmer-Thomas, 2001a).

side agreements on labor and the environment were partially considered as externalities reflects its narrow design and unveils the challenge to amend its goals and refocus its emphasis and orientation (Pastor, 2001; Kingsolver, 2001; Poitras, 2001).

Short-sightedness is also reflected in the belief that only the countries' governments are capable of solving all problems which may arise, acting as leaders of their own societies. Likewise, the argument that the economic benefits would "trickle down" to all of society from the "free" market place is deeply ingrained in the position of neoclassical economics. Even though analysts praise the economic integration associated with the North American Free Trade Agreement, a great many of them fail to acknowledge the process's extraordinary complexity. It is not by any means restricted only –or mainly– to trade relations. The dimensions of the social processes clearly exceed the agreement's framework. A process of social integration has contributed toward creating a historical coalescence of the three countries greater than any before (Pastor, 2001; Kingsolver, 2001; Poitras, 2001).

One of the explanations for the NAFTA framework's deficiencies, present in most of the routine contacts, is the lack of a genuine trilateral approach. The sum of two bilateral relationships, namely the United States–Canada, on the one hand, and the United States–Mexico, on the other, does not make a trilateral mechanism (Pastor, 2001). Even though Canadian–Mexican relations have recently become more significant, they still constitute the weakest front of the association. Moreover, very little progress has been made in forging common policies; this can be attributed to the narrow original conception of NAFTA. Partly because of the asymmetry between the U.S. and the other members, and partly because of routine procedures that have prevented the recognition that a potential community is developing and could be further developed, NAFTA does not in any way represent a comprehensive strategy. In addition to the increasing degree of constant interactions, international migration is high, and people from Latin America in general, and from Mexico in particular, represent a large share of both legal and illegal immigrants to the United States. For a number of them, the rising degrees of polarization and widening income gap at home makes them move to a place where they can increase their standard of living. As long as strong economic incentives for migration exist, the flow of people cannot be easily contained.<sup>12</sup> A whole range of issues are closely associated with migratory trends. One is the importance of those whose remittances represent one of

<sup>12</sup> Originally established for migrant workers during World War II, the Bracero Program allowed Mexicans to temporarily work in the United States, especially in low-skilled activities. Its official end in the mid-1960s resulted in migration becoming undocumented (Aguayo, 1998; Domínguez and Fernández de Castro, 2001). Despite the U.S. preference for dealing with migration unilaterally, passing new regulations, and a range of strategies for tightening control at the border, the flow of people has not decreased. The main noticeable change has been the selection of the routes which the illegal immigrants take.

Mexico's most significant sources of income and whose political influence has also grown. Since millions of Latinos are eligible to vote in the United States, at the same time that their ineligibility to vote in Mexican elections abroad is being reconsidered, political parties from both sides of the border are inclined to court them.

A comprehensive trilateral approach would reconsider immigration and income gaps as manifestations of the same phenomenon. So far, most of the issues Canada, the United States, and Mexico deal with are considered in isolation from the rest, as if they were completely disconnected from their context. Such considerations are inappropriate in an extraordinarily complex process of integration. The process is currently underway and can be analyzed interpretatively. If, as some analysts have suggested, the North American Free Trade Agreement should be deepened and reinforced, a preliminary consideration, especially strong in the Mexican case, but also relevant in the other countries, should be to reduce and eradicate the degree of asymmetry. For the deepening of the current situation would also mean deepening the income disparities and inequalities. If this scenario is to be avoided in Mexico, there should be no delay in articulating and reinvigorating economic activities' forward and backward linkages, integrating more the import-prone, export-oriented sectors which have a low impact on labor due to the relatively low share of the work force they employ and the domestically-oriented firms where most people work. Hence, tackling asymmetries is of the utmost importance if integration is to succeed.

Even though the Mexican government has been timidly designing and implementing programs that make use of articulated incentives to strengthen the inter-sectoral and geographical links, much more needs to be done. Indeed, more strongly orienting productive and redistributive economic activities toward more equitable practices is urgently needed. As this is a complex issue, disarticulated and partial approaches will not do. A consistently long, sustained effort is needed, one not aborted by the pervasive six-year –or even shorter– programs that every administration puts into practice while in office. A consistent and sustained effort, part of an enhanced agenda of reform, requires political will and commitment. Guided by an ethical concern and a normative position, a broader, more equitable social, political, and economic transformation that makes use of networking could be of great help for redistribution. If put into practice openly, inclusively, and democratically, it is more likely that consistent aims and coherent strategies could be developed, where transparency and accountability would be vital. Acknowledging that the social process-

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The United States' most recent unilateral effort is building a fence on its side of the border with Mexico. This initiative not only sends an extremely poor diplomatic message of distrust and unneighborly relations for an economic partner and political ally, but does not address the migration issue comprehensively, as this complex phenomenon clearly requires. Such one way courses of action and unilateral policies are doomed to catastrophic failure and very bitter opposition both at home and abroad.

es of change are by no means opposed to the idea of integration requires, in turn, the recognition of the political nature of the courses of action chosen.

From the perspective of the NAFTA partners, it is worth taking into account one of the European Union's historical lessons. Its members openly embraced the goal of reducing disparities and promoting development. In so doing, they created social cohesion and structural funds available for the poorest countries and straggling regions (Pastor, 2001).<sup>13</sup> The main idea of reducing inequalities and raising living standards fairly and equitably has contributed to building a sense of community currently developing and gaining ground in Western Europe. This is one thing, among others, that puts the European Union on a different footing from the less institutionalized, more restricted and narrowly conceived forms of integration which mainly privilege trade relations in the pursuit of economic growth. Though the EU has also been characterised as an essentially neoliberal project, it offers important lessons.

Following neoclassical economic orthodoxy, it has been suggested that achieving soaring trade and investment flows could further benefit from greater reductions in transaction costs. Thus, monetary policies are highly relevant parts of economic integration processes. Unquestionably, the dominant currency in the region is the U.S. dollar. The absence of an economy that could balance the United States' weight and leverage in the Americas has led some to suggest various options for macro-economic policy coordination and currency management. They range from allowing flotation, to pegging currencies to the U.S. dollar, adopting a common currency, or even replacing the national currency with the dollar (Pastor, 2001). Flotation is supposed to allow a currency's free movement. However, in reality, in many cases such

<sup>13</sup> The case of the European Union is extraordinary in this sense, and its historical experience illuminates the economic integration process. Declaring the goal of reducing levels of inequality among its members, the main purpose of the European Social Fund was for vocational training and changing jobs, while the European Agricultural Fund gave grants to farmers to help them develop rural areas. The European Investment Bank provided loans in regions lagging behind. After the funds and resources were reorganized in the mid-1990s, the Cohesion Fund targeted the poorest countries. As increased income for spending on goods and services became available, it was mainly used to improve infrastructure and education with the aim of enhancing the productive potential of the country where these resources were channeled. The benefits did not stop there, however. They had multiplier effects because the cohesion funds contributed toward encouraging foreign direct investment. The Structural Funds provided resources for adjustments in agriculture, fisheries, and scarcely populated areas, along with regional development and social concerns. Lagging regional development, industrial decline, youth employment, and training for workers were also considered (Pastor, 2001).

Previous Mexican government administrations proposed an initiative for the straggler states in the southern part of the country. The Puebla-Panama Plan targeted attracting investment for infrastructure, which would, in turn, improve the overall economic situation and create brand new jobs in Puebla, Veracruz, Tabasco, Campeche, Yucatán, Quintana Roo, Guerrero, Oaxaca, and Chiapas. Moreover, the project went beyond the borders as it included the participation of Central American countries at the same time: Guatemala, Belize, Nicaragua, Honduras, El Salvador, Costa Rica, and Panama. Whether the plan fulfills its potential remains to be seen.

schemes are distorted when a currency faces interventions from central banks, making for a “dirty flotation”. This is the current situation in Mexico.

The controversy about dollarization is that the benefits of financial stability conducive to diminishing transaction costs, on the one hand, and a steadier fiscal discipline that would lower inflation, on the other, are outweighed by the problems this stability entails (Lederman, Maloney, and Servén, 2003). For a country to adopt the U.S. dollar as its national currency would mean sacrificing its seigniorage capacity, depriving it of control and the profits from printing its own money. It would also mean eliminating a shock absorber mechanism, especially in times of recession and unemployment. Furthermore, it would take the form of a transfer of power to the U. S. Federal Reserve, which sets interest rates exclusively in response to business cycles in its own country (Pastor, 2001). If Canadian and Mexican districts were added to the U.S. Federal Reserve, the entire monetary policy would respond to U.S. business cycles alone, not those of Canada and Mexico.

However remote it might seem today, it might be better in the long term to work toward building a common currency (Lederman, Maloney, and Servén, 2003). What this would mean is forging a monetary union, with a central bank that would reflect the members’ importance, weight and power, but at the same time would allow some room for each country to manage and make decisions about its national currency and seigniorage. If this is going to be operational, it needs to reflect the wealth of the three economies proportionally and the equivalences of the exchange rates (Pastor, 2001). Sensitive topic that it is, it must be addressed with caution in a genuine trilateral networking approach; otherwise it may be doomed to failure. It is important to bear in mind that a similar project took the European Union decades to build. It might take even longer on this side of the Atlantic. But if realistic positions are presented at the negotiation table, it would represent an opportunity for promoting the well-being of the people, and also for forging a sense of community. Hence, such a project is certainly worth embracing. The complications going beyond the current shallow integration process are most likely to affect both all the levels of society and government regulations, policies, and programmes. For, if deepening is not going to be strictly limited to trade relations, the social processes of integration certainly require refocusing government policies in an inclusive, realistic, democratic, and accountable way. Deepening integration is not only about trade and investment flows. It is a social, dynamic, open-ended process as well. Therefore, it must be acknowledged as such, and approached accordingly, because it might represent an opportunity for “double movement” decommodification trends (Polanyi, 1957).<sup>14</sup>

<sup>14</sup> A “double movement” is organized by the principles of economic liberalism and social protection. Market expansions are met by counter-movements. Protecting society is a key consideration, acknowl-



Unlike the European Union, the North American Free Trade Agreement signed by Canada, the United States and Mexico did not explicitly aim to create a community of people from the region. Still, it does not rule out the idea *tout court* (Kingsolver, 2001; Poitras, 2001). If this goal is to be incorporated, however, along with the explicit promotion of the population's well-being, in order to extend its original narrow agenda, it must be tackled trilaterally by making use of different networking mechanisms. It must also recognize the key features of current social processes, just as it did with economic restructuring some time ago. In this sense, gradual, step-by-step approaches, such as the proposals for a migratory accord, or visa waivers for Mexicans who cross the border regularly, tend to timidly reflect the social dynamic of integration, in which the governments of the region lag behind the dynamics and tendencies set in motion by their own societies.

For it is clearly impossible to disassociate the much-praised benefits of economic integration without realizing that such tendencies are constituent parts of broader social contexts. Important as they are, economic transactions and relations of exchange are merely one element in the processes and dynamics of social integration. Therefore, NAFTA's consistency in its stated trade and investment goals does not exhaust the broad range of interactions which, in an incremental and punctuated fashion, transform the contexts in which actors are situated. Making use of an interpretative strategic relational approach, it becomes clear that, if social integration is to succeed, one long-term goal must be to embed a spirit of inclusiveness, openness and reciprocity oriented toward achieving and shaping a sense of community, which, in turn, is respectful of differences. At the same time, it must seek to rule out unilateralism and bilateral tactics, thus making use of common approaches for addressing collective problems (Pastor, 2001). This kind of agenda must establish a vision of transformation and acknowledge that a basic prerequisite is the reduction of asymmetries, inequalities, and polarization. The objectives must recognize the socially embedded character of economic activities and the urgency of leveling the playing field. Complementary aims must be realistic and encourage consistent actions.

Thus, the enhanced agenda of reform for Mexico is highly compatible with and complements the aim of forging a sense of community in Mexico, Canada, and the United States as a long-term goal. In the short term, however, the project of a Free Trade Area of the Americas has absorbed these countries' efforts.

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edging the need for intervention against the market and using protective legislation to conserve both man and nature as well as the organization of production (Polanyi, 1957).

BROADENING THE NARROW FRAMEWORK MODEL:  
HEMISPHERIC TRADE UNDER THE FTAA

Since the U.S. government launched the Initiative for the Americas in the 1990s, the project for broadening the shallow integration of NAFTA to the rest of the Latin American and Caribbean countries was mostly welcomed in the hemisphere.<sup>15</sup> Based on this treaty's unrealistic assumptions, namely, of non-existent asymmetries, the promise of growth and development attracted interest in one of the most unequal regions of the world. Needless to say, the proposed FTAA would have been a daunting task, which should not have been restricted to trade relations alone, and which also would have been highly political.

The invitation presented to 34 democratic governments to consider their participation sought to encompass almost all of the Americas by the now missed deadline of 2005. It purposely left Cuba aside on the basis of its different socio-political and economic organization. The four main interrelated objectives listed in the Declaration of Principles of the Summit of the Americas favored the preservation and strengthening of the community of democracies in the hemisphere, while also promoting prosperity through economic integration and free trade. The agenda was complemented by aiming to eradicate hemispheric poverty and discrimination, at the same time that it sought to guarantee sustainable development and preserve the environment.<sup>16</sup>

<sup>15</sup> Yet, it should be borne in mind that the idea of integration in the Americas is by no means new. Dating back to the early nineteenth century when most Latin American countries were gaining independence from Spanish rule, Bolívar, the Liberator of South American nations, sketched ideas of integration in the form of a continental federation or federative convention, as recorded in the Congress of Panama. Although unable to turn these thoughts into reality, his ideas of supra-nationalism and integration, even if restricted to Spanish American republics, gained notoriety and influence (Collier, 1983). Despite the fact that participants in Panama addressed neither Panamericanism, nor Latin American solidarity strictly speaking, the congress is a key precedent to the Conference of the American States of the 1890s, and the birth of the Organization of American States (OAS) six decades later (Mora, 1960). Arising from Americanist idealism, Bolívar's efforts remain a source of inspiration in his own continent, while lessons have been learned from his failures as well.

A different perspective is provided by U.S. foreign policy and Latin American history. For the United States, a hemisphere where all the nations not only accept, but also embrace the political, social, and economic principles and practices it endorses has been a historical aspiration.

The Monroe doctrine formulated in the early nineteenth century was isolationist. It opposed extra-hemispheric intervention in the whole of the Americas. Nonetheless, it was amended through various corollaries and interpretations to allow the United States the discretionary and unilateral use of violence to deal with a wide range of scenarios in Latin America and the Caribbean. Arguing against non-colonization, it contained a warning against meddling in Europe and a defense of non-interference or isolationism. It is a unilateral position based on limited knowledge lacking any consistent legal foundation which masks a rationale for U.S. intervention, tailoring its interpretation to a myriad of situations in specific countries, or in the region as a whole. It has been used to facilitate pro-U.S. governments wishing to accommodate their economic interests, at the same time that it has provided a tool to eliminate those who sought more independent social, political, and economic paths (Dent, 1999).

<sup>16</sup> The Summit of the Americas Plan of Action signed in Miami listed 23 points related to the agenda's broad four objectives.

Two different groups of countries could be easily distinguished among the negotiators. One supported advancing negotiations, whereas the other argued that the conditions do not yet exist for the FTAA to be achieved. Thus, for the time being, it is too early to speculate on whether the project of the Free Trade Area of the Americas would, in the long run, tilt toward a Community of the Americas.

It became clear that the Free Trade Area of the Americas was a daunting task because it aimed to incorporate in a hemispheric format two of the world's richest countries with some of the poorest, straggling economies and some middle-income countries. The size of the economies could hardly cover a broader spectrum. They went from the biggest, most developed and most diversified in the world to the smallest and most vulnerable. The FTAA aimed to be compatible within the multilateral framework of the WTO/GATT, and also with the numerous free trade agreements the Latin American and Caribbean countries have subscribed to not only among themselves, but also with trading partners in other parts of the world. The widening of this big umbrella sought also to include preferential agreements, unilateral preferential arrangements, general association and cooperation schemes, customs unions, and other regional bodies. Thus, the Free Trade Area of the Americas could have been one of the most ambitious integration projects ever attempted. Unlike previous free trade agreements and integration efforts, the United States was pushing the initiative forward. Nowadays, the U.S. operates on three different economic negotiation fronts at the same time. It has not abandoned its preference for multilateralism and GATT/WTO negotiation rounds. What it additionally did was to put its weight behind the FTAA, while also reaching bilateral agreements.<sup>17</sup>

Nonetheless, since the early negotiations hindered the feasibility of the Free Trade Area of the Americas, one of the problems was the lack of a U.S. fast-track authority to show the rest of the participants a genuine level of commitment match-

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The first Summit of the Americas took place in Miami, United States in 1994. It was followed by the 1998 Santiago summit hosted by Chile and the 2001 Quebec Summit in Canada. The fourth Summit of the Americas was held in Monterrey, Mexico, in 2004, and the most recent one a year later in Mar del Plata, Argentina. All of them issued declarations.

<sup>17</sup> Apart from NAFTA, the United States has signed free trade agreements with Israel, Chile, Jordan, and Singapore. The U.S. recently ratified the Central America Free Trade Agreement (DR-CAFTA), with Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and the Dominican Republic. These Central American countries are not only already highly open and integrated with the U.S., but their economies are also highly dollarized (Lederman, Maloney, and Servén, 2003). DR-CAFTA merely institutionalizes the strong current pattern (Jaramillo and Lederman, 2005). It has also signed free trade agreements that are not currently enforced including with Colombia, Oman, Panama, Peru, and South Korea. Furthermore, it is very likely that the United States will increase the number of free trade partners in the future.

Canada has signed free trade agreements with Chile, Costa Rica, and Israel. Since the Canadians also play an active part in regionalism, they are currently negotiating with El Salvador, Guatemala, Honduras, Nicaragua, the European Free Trade Association, and Singapore. Moreover, it seems that CARICOM, the Dominican Republic, and the Andean Community will be added to the list in the short term as well.

ing the one it demanded. A fast-track authority is basically a mechanism meant to provide certainty to foreign countries negotiating trade agreements with the United States.<sup>18</sup> It forces the U.S. Congress to only vote in favor or against a treaty, without allowing it to make any amendments, and therefore substantially limits the amount of debate it could face (Schott, 2001; Domínguez and Fernández de Castro, 2001). Since fast-track authority was no longer an option for the FTAA's overstated hemispheric project, the U.S. had also committed itself to multilateral and bilateral negotiations. This strategy of negotiating simultaneously on three different fronts has been typical of the U.S. and clearly discernible since the time of GATT's Uruguay Round.

There is no question that, for the United States, the Free Trade Area of the Americas would have been a good deal, as it would have required only a few changes in its current trade barriers and legal and regulatory frameworks. The burden of the adjustment would have fallen to the Latin American and Caribbean economies. The FTAA, it was proposed, would have helped to avert discrimination and offer opportunities for U.S. firms to export and invest in these markets. It was expected that the lowering of barriers to trade and investment would benefit trade, productivity, and U.S. workers' income. Furthermore, the perception was that the hemispheric project could have had spillover effects for overall relations within the region around issues like outlawing drugs, the environment, and labor and education reform. It was also hoped that it could have promoted international cooperation among the parties on pressing social, economic, and political problems (Schott, 2001).

This might strike us as an irony, because the whole negotiation setting had assumed that there were no asymmetries, and that the promised growth and development would have trickled down to the members. Therefore, from an interpretive perspective, the idea of widening the North American Free Trade Agreement entailed widening the unrealistic assumptions based on which it was negotiated, and under which it is currently operating, to reach more countries in the Americas. The incentive for most of the Latin American and Caribbean economies was based on the engagement of the United States. For a number of them, the U.S. represents one of the most important sources of trade and investment, the main exceptions being Mercosur and Chile. Mercosur's priorities are oriented toward the European Union (Bulmer-Thomas and Dunkerley, 1999).<sup>19</sup>

It comes as no surprise that some of the benefits of the proposed FTAA were identical to the ones suggested prior to the ratification and coming into force of

<sup>18</sup> It was introduced by the United States Omnibus Trade Act of 1974 (Domínguez and Fernández de Castro, 2001).

<sup>19</sup> Even though Mercosur members differ in their particular positions and priorities, they spoke with one voice during the FTAA negotiations. Reflecting the relative weight of their economies, the two biggest markets in the hemisphere, namely the United States and Brazil, co-chaired the final stages of the negotiations.

NAFTA (Weintraub, 2000). Hence, the suggestion of “locking in” economic reforms and the provision of a sort of “insurance policy” against protectionism at home and unilateralism abroad were not new at all. It was not likely to protect all industries against unilateral antidumping practices. The Free Trade Area of the Americas would have approached uneven levels of economic development by making use of the strategy agreed on in NAFTA. Thus, it followed a widened negotiation procedure that encouraged countries to accept the whole set of common obligations, but made allowances for negotiating different implementation schedules. Since each country could set its own external tariffs, they did not necessarily need to stick and bind themselves to a certain level, but could choose what best suited them. The FTAA was presented as an indivisible package or single undertaking, where the decision making procedure was consensual.

Such an approach, which privileged outwardly oriented economic policies, ran the risk of further de-coupling the import-prone, export-oriented sectors from the rest of the domestically oriented sectors. Similarly to Mexico, most of the Latin American and Caribbean countries might have found that a handful of firms would have taken full advantage of the FTAA with a small impact on the work force and the population’s living standards. Depending on the degree of integration with the U.S. as the most developed economy and hub of the Free Trade Area of the Americas, intra-industry trade might have increased, as might intra-firm trade. If the worst-case scenario of polarization was to be avoided, it was necessary to go beyond different tariff reduction schedules, in order to acknowledge the asymmetries between the negotiating countries more realistically. Yet, ruling out the possibility of a more equitable negotiation and final outcome was a failure to recognize the open-ended character of the social processes of change. For power is not only about decision making, agenda setting, and preference shaping; it becomes evident in all social relations where economic transactions are submerged in a broader social context (Lukes, 1974; Foucault, 1990, 1977 and 1976; Hay, 2002; Polanyi, 1957, 1992, and 1996).

If the small and least developed economies had sought to keep themselves free of economic reductionism and deterministic logics, the task ahead for the small economies of the region, which amounts to eliminating two-thirds of the negotiators, could have been challenging. The most critical cases were those where the countries depend heavily on foreign trade and investment and sometimes on a single commodity or service, and where physical infrastructure is underdeveloped and their human and technological resources are poor (Schott, 2001). Critical stages of commodification, along the lines of Polanyi’s first movement, would have meant that the desirable rates of economic growth and development would not have come easily, let alone be likely to “trickle down”. The situation would have been even

more serious when encouraged by improving “readiness indicators”, whereby international vulnerabilities might have accentuated, becoming more responsive to changes in foreign supply and demand, thus affecting movements in foreign capital and the exchange rate market, and diverting them from the domestic sector.<sup>20</sup> In particular, this was similar to the synchronized aggregate economic fluctuations of Mexico *vis-à-vis* the United States. This is likely to occur with a number of Latin American and Caribbean countries (Schott, 2001; Lederman, Maloney, and Servén, 2003).

The standard advice of strengthening domestic economic reforms and improving the institutional framework to help create growth opportunities both in new and traditional sectors provides a difficult panorama for the diversification of production and the expansion of employment opportunities. This is because countries in Latin America and the Caribbean interested in joining a process of integration via the Free Trade Area of the Americas proposal were left to cope on their own while “unilaterally” undergoing a structural reconstitution of their economies. Their commitment to a shallow free trade area was not rewarded by acknowledging the urgency of reducing the sometimes abysmal inequalities. As the NAFTA model was exported to the rest of the hemisphere, so were its omissions, such as the lack of social cohesion and structural funds. Had such features existed, they would have represented more realistic opportunities, and valuable resources for helping the whole hemisphere achieve endogenous equitable growth and better income distribution. In the long run, if the FTAA, or any alternative hemispheric agreement, is to reap all those promises of development, its success will depend heavily on the reduction of inequalities within sectors, societies, and regions. But it is never too late to readjust the course of action: the sooner, the better.

It is important to bear in mind that an enhanced agenda for reform should not surrender international interactions and commitments. What it should do is to propose more balanced goals and strategies between international and domestic agendas. For, hermeneutically argued, this by no means reveals the pursuit of radically opposite aims, since there is room for enhancing broader and more inclusive strategies for the preservation and strengthening of democracy. Similarly, in this kind of reform agenda, with the socially embedded character of promoting prosperity through economic integration and free trade, it is necessary also to be attentive to and proac-

<sup>20</sup> Schott proposed a benchmark for making estimates of the relative economic performance and competitive capability of the various Latin American and the Caribbean countries. The “readiness indicators” comprised three main indices. The first was made up of selected macroeconomic indicators like price stability, budget discipline, national savings, external debt, and currency stability. The second considered market-oriented policies and reliance on trade duties as the main components of the market indicator. The third assessed policy sustainability. Finally, the readiness indicator reflected the average of the main indices. According to Schott, the indicators of the region as a whole, and for most of the individual cases, have improved since the mid-1990s (2001).

tive about eradicating poverty and discrimination. Needless to say, this must also make a priority of achieving sustainable development and preserving the environment. Pursuing all these objectives of the Free Trade Area of the Americas does coincide with a transformation of society, by putting it back in control of the processes. However, this kind of collective enterprise would probably encounter problems in its realization. Yet, if appropriate strategies are selected, the goals will remain in the realm of the possible. This is the opportunity that can be seized.

## CONCLUSIONS

The main argument presented here is that the strategically selective context within which actors interact does not necessarily determine their courses of action, either already taken, or yet to be taken. For, the material and ideational circumstances in specific geographic and historical limits are also, in turn, continuously reshaped by the situated agents in a specific spatio-temporal context.

This article focused on the circumstances surrounding the social processes of change in contemporary Mexico. It highlights key trends and countertrends which may help us understand and explain the open-ended, contingent nature of the socially embedded contemporary phenomena under scrutiny. And it pays attention to different aspects of the international dimensions.

The value added by this is a richer, more comprehensive perspective which attends to the social, political, and historical tendencies and undertows, as they set the stage for examining issues and agendas that can be considered closer to the Mexican experience. Volumes have been filled examining Mexico's relationships with the United States. My emphasis is mainly on discussing current processes.

I do not stop there, however. Since I undertake a realist, process-tracing exercise throughout the article, I also hint at the crucial issues that lie ahead. Particularly important are the challenges of deepening the shallow integration process of integration posed by the North American Free Trade Agreement, on the one hand, and the broadening of a hemispheric Free Trade Area of the Americas, on the other. A hermeneutic perspective has explanatory power at the regional level, warning of the risk of increasing processes of commodification if the unrealistic assumptions on which NAFTA was negotiated are not revised. Although the agreement has been consistent in the narrow terms in which it was conceived, its deficiencies must urgently be addressed. It is equally urgent to incorporate reducing inequalities and forging a community as central goals. Furthermore, the theoretical tools used here also point to the daunting task the FTAA represents and warn against negotiators uncrit-

ically accepting unrealistic assumptions, which might have future intended and unintended consequences. For the smallest, weakest economies, increased trade and investment flows might not have a strong enough desired impact on labor, for they would send more income to the rich and polarization could intensify.

Polanyi explicitly warned against the stark utopia of “self-regulating” markets (1957). In his view, if historical transformations are to succeed, they do not only depend on economic self-adjustments. Therefore, due to the socially embedded character of human activities, the success of both national and international processes of change depends on the society in which they are embedded.

The socially embedded character of economic activities demonstrates that they are situated within a broader social and political context. Political as they are, it is a central claim of this article that processes of integration mean much more than increasing trade and investment. If we acknowledge the embeddedness of economic activities, the landscape of integration reveals political and social characteristics pointing toward the potential for forging a community that might take decades to emerge. Relevant as they are, we do not only need to take a closer look at Mexico-U.S. relations. For acknowledging the consistency in the narrow terms in which the North American Free Trade Agreement is designed should not prevent action to tackle its omissions and deficiencies. Challenges ahead include reducing the widening gaps of inequality on the one hand and forging a strong sense and idea of community on the other. They are clearly needed for deeper and more consistent integration. NAFTA’s shallow model, should it be exported to the Americas, exposes the Free Trade Area of the Americas’ smallest and weakest economies to a situation in which trade and investment might flow, but inequalities and polarization might worsen.

Clearly, some social and political dimensions of the North American Free Trade Agreement have been neglected and subordinated to economic exchanges. However, it is evident that in the medium and long-term the success or failure of integration trends will depend on the societies in which they are embedded. It is imperative that the widening disparities between and within countries, regions, and sectors be halted and corrected. Such a prerequisite would, in turn, reflect the acknowledgment of the socially embedded character of economic activities. There is no doubt that in an optimal scenario, inequalities must be eliminated –or at least reduced– to start moving toward forging a community in the region. What this would entail is acknowledging the leading role of the social and political aspect of the transformations associated with the process of integration. Distant as this scenario might seem, it is one which, in the end, will be most likely to succeed, since the societies in these countries are the ones which ultimately dictate the success of the processes of change.



As the North American Free Trade Agreement unfolds, it would provide an exceptional opportunity for updating developments and tracing their key features and issues. Both NAFTA and the FTAA proposal show the lack of a sense of community, and scant interest in forging it, plus the inexistence of cohesion and structural funds. These are telling examples. Clearly, much can be learned from both the EU agenda and experience.

The FTAA's already missed deadline provides an excellent opportunity for reconsidering both the assumptions and omissions of such an ambitious regional trade agreement. If a hemispheric proposal is to succeed, it needs to take into account national variations more. Cohesion of a region is key if it is to succeed. In case of this integration project, it must be socially constructed, not deterministically accepted, by paying attention to its strengths and weaknesses. The Americas are extremely far behind the goal of a cohesive region due to their socio-economic and political disparities and inequalities. These problems must be urgently addressed. Equally important, efforts toward forging an authentic sense, goal and idea of community must not be postponed indefinitely. A cohesive region stretching from Alaska to Tierra del Fuego demands action and a clear purpose. We can all help build them.

The originally enthusiastic and contagious initiative for a hemispheric integration scheme for the new world has now cooled off. On the one hand, the international context during the late 2000s is not as conducive as it used to be during the early part of the decade. Slowed economic performance in the hemisphere's biggest economies and the low priority the U.S. government has granted it versus the high priority of its wars on Afghanistan and Iraq are perceived abroad as a non-propitious context for such an engagement. On the other hand, domestic politics have played an important role. The rise of left regimes in Latin America, though they are significantly different from one another, contrasts with the neo-liberal and pro-U.S. wave of governments that preceded them during the 1990s. For a very big share of Latin Americans, the payoffs of liberalization, privatization, and deregulation strategies have been meagre and disappointing to date. On top of that, the international momentum of Bush, Jr.'s second term has lost appeal, as U.S. citizens focus more on the domestic agenda during their 2008 presidential campaigns.

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