

Strategic Dialogue No. 2: The Trade Debate

Articles by Jorge Castañeda, Sydney Weintraub, Lyuba Zarsky and Kevin Gallagher | November 10, 2004

The IRC's Americas Program is committed to fostering strategic dialogue and reflection among civil society actors engaged in Latin American and Caribbean issues. To that end, we have started a regular series of briefings that summarize different views about pressing hemispheric issues. We welcome your feedback and comments, which will be posted to our website www.americaspolicy.org and circulated in our Spanish and English e-zines. Please send your comments in English, Spanish, or Portuguese to americas@irc-online.org.

The Americas Program has published numerous critiques of the North American Free Trade Agreement (NAFTA) and similar free-trade accords such as the Central American Free Trade Agreement (CAFTA) and the proposed hemispheric agreement for a Free Trade Area of the Americas (FTAA). Contributors to the program will carry on and deepen such critiques. But we also believe it important to look toward alternative proposals for economic integration and for national development. What's more, we believe that conflation of trade accords and hopes for sustainable development is a mistake. The solutions to Latin America's economic and governance problems will not be found in any present or future trade agreement, regardless of its social and environmental protections. The development challenges facing Latin American and Caribbean people must be met by national policies. Trade policies, as with foreign aid policies, can bolster domestic development policies or restrict their scope and effect.

In the interests of sparking strategic dialogue and thinking about the nexus between trade and development, we offer several summaries of recent essays and reports, followed by specific points of discussion.

Moving Forward to a North American Economic Community

Although an early critic of the NAFTA, Jorge Castañeda argues that there is no going back. Instead, "The next step is to deepen integration by generating common policies on issues such as migration, economic policy, monetary convergence, joint action on security issues along the border, energy cooperation, and common agricultural policies." Castañeda, Mexico's former foreign minister, who has been a longtime advocate of social democratic policies for Latin America, writes: "Future strategy should

be oriented to intensify the links shaped during NAFTA's first decade as well as discussing the possibility of creating a North American economic community by taking advantage of shared needs and values." According to Castañeda, "The main challenge that Mexico faces in relation to NAFTA is how to come to terms with the new economic, cultural, social, and political realities that NAFTA has created with the United States and with the rest of the world."

NAFTA at 10: A Plus or a Minus?

By Jorge G. Castañeda
Current History, February 2004

Online at:

http://web.nps.navy.mil/~relooney/3040_c1158.pdf

Mexico Has Mostly Itself to Blame

Sydney Weintraub has insisted that U.S. critics of NAFTA are "mercantilist" and has repeatedly warned that trade is not a development panacea. Taking the view typical of most economists, Weintraub, who directs the Americas program at the Center for Strategic and International Studies (CSIS), argues that trade creates winners and losers, and it is up to governments to increase the number of winners in their countries. In the case of Mexico, he says that the government has failed to adopt the type of social, fiscal, development, and monetary policies that would enable the country to take advantage of its increasing economic integration with the United States. Among these failed domestic policies he includes: inadequate tax collections (11% of GDP compared to 34% in the United States) that keep the government from addressing major social concerns, such as health care and education; failure to tackle regional, especially north-south, disparities; lack of a technologically advanced workforce that could increase the value-added in Mexico's manufactured exports; and a corrupt



judicial system. “The big story is economic policy,” says Weintraub, “and the adjunct is NAFTA—not a trivial trailer, but by no means the main feature.” He notes that many of NAFTA’s critics have called for its dissolution, but “they do so without explaining how that would improve the average Mexican’s economic and social condition either in the countryside or in urban areas.”

Scoring Free Trade: A Critique of the Critics

By Sydney Weintraub

Current History, February 2004

Online at: [http://www.csis.org/simonchair/](http://www.csis.org/simonchair/ScoringFreeTrade_Weintraub.pdf)

[ScoringFreeTrade_Weintraub.pdf](http://www.csis.org/simonchair/ScoringFreeTrade_Weintraub.pdf)

Development Plan Should Guide Foreign Investment, Trade

Yes, foreign investment in Mexico and Mexican exports increased dramatically during the first decade of NAFTA, as its proponents had predicted. But the investment and exports have not sparked development because the related production makes little use of Mexican inputs aside from the country’s cheap labor. In their evaluation of NAFTA-related industrial ventures and exports, Lyuba Zarsky and Kevin Gallagher note that economic integration and the liberalization of the Mexican economy have failed to ignite economic growth, create jobs, stem migration, or protect the environment. What’s more, “Because Mexico is not building capacities for internal innovation and production; the long-term prospects for sustainable industrial development in Mexico are grim.” The authors recommend that Mexico “make sustainable industrial development, rather than foreign inflows and exports, the centerpiece of its development strategy. With such an approach Mexico could leverage its connection to global markets to foster internal capacities for production and

innovation, especially by concentrating on improving the overall climate for domestic production and investment—the key to sustained growth.”

NAFTA, Foreign Direct Investment, and Sustainable Industrial Development in Mexico

Americas Program Report, January 28, 2004

By Lyuba Zarsky and Kevin P. Gallagher

Online at:

<http://www.americaspolicy.org/briefs/2004/0401mexind.html>

Discussion Points:

- Is the idea of a North American economic community that weds development and trade goals the next stage of economic integration, or is it a social democratic pipedream—unrealistic because of U.S.-Mexico asymmetries and the structural impediments of existing trade and investment rules?
- Is Weintraub right that free-trade critics, especially in the United States, are disguised mercantilists? And are trade critics so focused on the adverse impacts of trade deals because it’s easier to criticize than to formulate development policy alternatives?
- Do Zarsky and Gallagher too quickly dismiss the benefits of Mexico’s foreign investment and export boom, and do their ideas about a national development strategy echo the failed import-substitution policies of the 1960s and 1970s?
- What processes and mechanisms are needed to create a bottom-up globalization trend that demystifies the free-trade iconology and replaces it with domestically driven policies in accordance with internationally recognized principles for sustainable development and geo-political stability?

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