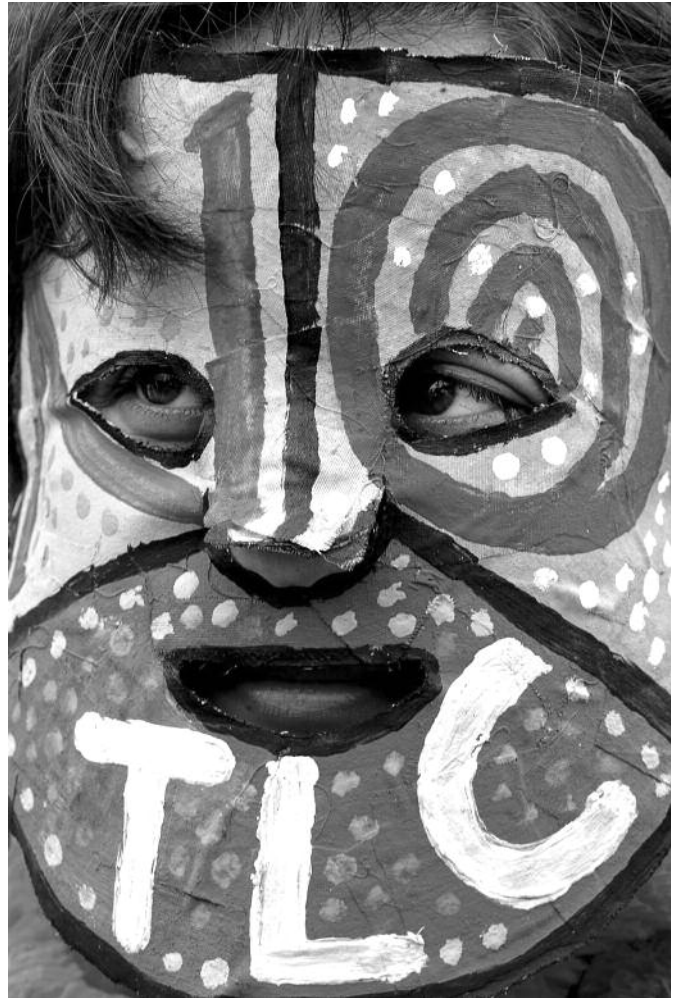


# Economic and Social Cohesion In North America

Carlos Heredia Zubieta\*



Juan Carlos Ulate/Reuters

From the Mexican perspective the main challenge for North American integration is political.

**W**hy is the integration of the three North American partners stymied? Why do people often say that the North American Free Trade Agreement (NAFTA) has reached its limit and that Mexico did not take proper advantage of its first 10 years? What is needed to re-launch regional integration as

a market-driven process, led by governments and supported by the citizenry?

In 1992 and 1993, I was part of a group of Mexicans critical of what was then being negotiated as NAFTA for two basic reasons: a) the very restricted way in which the treaty was negotiated, excluding important sectors of Mexican society like small and medium-sized businesses, unions and, in general, civil society; and b) the

---

\* Advisor to the Michoacán state government.

Even NAFTA's main proponents no longer show the same enthusiasm they had at the beginning, and today their willingness to pursue integration is, in the best of cases, discrete.

exclusion of issues that were fundamental for Mexico like labor rights, migration and the development gap among the three trade partners.

Twelve years after the negotiations concluded, the context has changed dramatically. Mexico no longer seems to be one of the United States' priorities except with regard to Washington's domestic security agenda. At the same time, feelings that our country did not take advantage of the window of opportunity of greater access to the U.S. market have become more common since increasing numbers of countries are now gaining access.

The integration of North America will continue due to inertia because the network of relations among the three countries is more and more elaborate. However, this process will develop increasingly on a local and regional level, among regions that make economic and business sense of the process, more than because of an agreement among Ottawa, Washington and Mexico City.

The challenge for Mexico lies in taking the initiative for codifying the integration process differently, incorporating values that until now have been absent from it, such as social inclusion and public participation so as to benefit the ordinary citizen. Public policies' medium- and long-term viability depends on their roots among the citizenry. Thus, from the Mexican perspective, the main challenge to integration is political. It

seems relevant, then, to ask ourselves how to advance in formulating inclusive, legitimate public policies for the integration of North America. This article will attempt to do so.

#### WHO WANTS INTEGRATION?

Paradoxically, even NAFTA's main proponents no longer show the same enthusiasm they had at the beginning, and today their willingness to pursue integration is, in the best of cases, discrete. The tenor of the discussions underway among the three governments' officials and among former officials and business leaders has been very similar, with three things in common:

- a) National security and the fight against terrorism is the absolute priority for the Americans, absolutely subordinating all issues to it. Here, of course, we must understand that security means U.S. security, and its extension to North America is conceived as part of the U.S. design.
- b) Canada's priority of its bilateral relationship with the United States, above and beyond anything that would involve a tri-lateral relationship.
- c) Mexico's insistence on including migration and labor mobility in the integration process. Here, there is a brutal clash between the way the U.S. thinks of solving the issue, with

reforms to U.S. immigration law, and Mexico's desire to reach a bilateral accord with the U.S. government.

Another constant theme in the discussion has been U.S. and Canadian insistence that Mexico do its homework and implement pending domestic reforms before turning to its trade partners for support with funding for development. Depending on who says it, this proposal turns into a demand that Mexico open its energy sector to international private capital or that Mexico reform its tax system to generate greater domestic revenues before seeking external backing. If these reforms do not happen, proponents argue, Mexico will slide down the slippery slope of economic irrelevance and stop being an important player in the global economy.

In practice, Mexico has lost standing on the United States' geo-political and geo-strategic agenda, which has turned its attention to the Asian-Pacific region. In mid-2005, Washington only expected "cooperation" from Mexico in the design of border security and the fight against terrorism. It no longer sees it as a priority alliance. U.S. policy designers in the White House, the Capitol and the states deal with Mexico because it is a neighbor with whom something has to be done simply because it will continue to be there, but strategic priorities are increasingly oriented toward the Asian-Pacific region, specifically China.

It is clear from the start that integration is above all the result of objective economic and political factors and that rhetoric and pronouncements of good will are not enough to speed it up. Taking everything into consideration, even though most Mexicans feel that the United States has benefited more

from NAFTA than our country, our attitude to integration with North America is reasonably positive. According to a survey of the Center for Economic Research and Teaching (CIDE) and the Mexican Council for International Affairs (Comexi), 61 percent of Mexicans have relatives living outside the country, the overwhelming majority of whom are in the United States. The same survey showed that 68 percent of the Mexican public and 79 percent of leaders polled had positive feelings toward the United States, and 65 percent of the public and 87 percent of leaders had a positive attitude toward Canada.

However, for Mexican society as a whole, the popular support and legitimacy of the North American integration process will depend to a great extent on its producing concrete advantages for the population and not only for the elites who usually accrue the benefits.

#### INTEGRATION FOR WHAT AND FOR WHOM?

While in the early 1990s, NAFTA proponents credited President Carlos Salinas de Gortari with the Senate's almost unanimous approval of the treaty, we critics pointed out that Mexican society as a whole had not taken on board the treaty as its own at all. It was a decision that was not processed internally, but imposed on Mexican society from above and abroad.

The fundamental reason that integration is behind is its lack of social legitimacy. While the agreements among governments have gained political legitimacy through the approval by the U.S. and Mexican Congresses and the Canadian Parliament, in practice, the participation of civil society has been lim-

ited at best, and in Mexico's case, practically non-existent.

With regard to another process of regional coordination, the Puebla-Panama Plan, objections came mainly from numerous organizations of small agricultural producers and indigenous and civic groups that see it as just more of the same: a program to use Mesoamerica's natural resources and cheap labor with no strategy for creating value and distributing its benefits locally. For the governments and above all the big corporations, the important thing was gas and oil extraction, using energy sources, water, forestry resources and other natural riches. Infrastructure construction was conceived mainly for transporting natural resources from their source to where they would be industrially processed in the Valley of Mexico or the northern part of the country, but not in their place of origin. Electricity lines were put up to supply the big cities and industrial areas outside the region.

The integration of North America has been left without any social support. Its opponents have no reason to support it because they do not see how they can benefit from a plan that only fosters the interests of political bureaucracies and big corporations. They do not see themselves reflected in the process of integration; they cannot find their place in it because it does not exist. In the best of cases, they are conceived as spectators, and in the worst, as pawns

in a subordinate integration. They are not citizens who can express an opinion and participate in a strategy that includes them. This must change radically if integration is to have a basis in society.

#### DOING OUR HOMEWORK

The proponents of free trade agreements say that they are not an instrument for redistributing wealth and income. They are wrong. The codification of trade flows and, above all, of investment, has a very direct effect on the way in which wealth and income are created and distributed in any society. In fact, the negotiating chip that the first President George Bush and President Bill Clinton used with U.S. congresspersons to promote the trade agreement's approval was precisely that it would create jobs and opportunities in Mexico. They argued that this would favor a reduction in Mexican migration to the United States, contributing to strengthening security in North America.

The theory of economic development has gone into great detail about the "trickle-down effect", whereby the creation of wealth in higher-income groups ends up benefiting lower-income groups. The scientific calculation of causality among variables is always controversial and therefore how much

Mexico has lost standing  
on the United States' geo-political  
and geo-strategic agenda, which has turned its attention  
to the Asian-Pacific region.

growth and employment in Mexico are due to NAFTA will continue to be matter for debate, as will the even more complicated issue of what would have happened if there had been no treaty.

What is certain is that in a context of profound economic and social polarization like the one that exists today in Mexico, the “natural” course of events favors those who are already linked to the global economy. In the absence of a strategy to counteract inertia, investment and trade agreements that do not include public transition programs directed at excluded and disadvantaged sectors end up by sharpening existing asymmetries and development gaps domestically and, as a result, in the whole North American region.

Since 1994, the wage and income gap between Mexico and its two trade partners has increased significantly. The gap between Mexico’s northern and southern and southeastern states has also increased. Twelve years after negotiating the trade partnership with the North American region, the Mexican economy is not meshing nationwide and the country lacks a way forward to territorial integration. NAFTA has proven to be an appropriate vehicle for adapting the Mexican economy’s capacity for producing goods and services to the demands of the U.S. economy’s business cycle. Today, we are more integrated outwardly, particularly northern Mexico, and more un-integrated inwardly.

#### TOWARD A STRATEGY OF ECONOMIC AND SOCIAL COHESION

Mexico needs public policies that can promote the articulation of its economy and the integration of its territory.

The states of Mexico’s Northeast, specifically Coahuila, Nuevo León and Tamaulipas, have established a strategic relationship with Texas, dubbed by some “NAFTA within NAFTA.”

This is precisely the strategy for economic and social cohesion proposed here. The idea is to “pull up” the country’s most disadvantaged regions to achieve a more dynamic evolution of the domestic market and greater opportunities for Mexicans in their own country. The aim is to narrow the gap between Mexico’s North and South, but fundamentally to respond to the urgent need of creating a national development strategy.

In any case, a public policy of economic and social cohesion in Mexico requires at least three strategic, coherent, consistent lines of action:

- a) the construction of integrated networks of physical infrastructure oriented toward local and regional economies;
- b) investment in people, translated into the formation of human capital and the utilization of technology and innovation to create a knowledge-based society;
- c) the transformation of institutions and the political culture to promote practices of public responsibility and good government: in other words, the establishment of the rule of law.

With regard to investment in people, the construction of an inclusive, educated society is indispensable for governability in Mexico. Achieving the UN’s Millennium Development Goals

(halving world poverty and hunger; improving access to drinking water; achieving universal primary education; decreasing child mortality; bettering maternal health; applying science and technology to innovation for development; and promoting environmental sustainability) by 2015 is an absolute requirement for making Mexico’s regions and individuals more competitive. This is the translation of the aim of “investing in people” proclaimed worldwide by our country’s political leaders. Investing in development is also an imperative of government and makes for good business because it expands markets, while economic and social polarization inhibits economic growth and creates political instability.

With regard to investment in infrastructure, in NAFTA’s first decade, very few advances were made in North America’s physical integration. Logistical corridors must be developed to facilitate safe, efficient transportation of both people and goods throughout the three countries. In addition to the integration of highway, water, energy and security systems between Tijuana and San Diego, Ciudad Juárez and El Paso or both Laredos, or the highways between Hermosillo and Phoenix or Monterrey and San Antonio, logistical corridors are needed from one end of the continent to the other. The best opportunities seem to be framed in multimodal transport from the ports on Mexico’s

Pacific coast toward the Great Lakes region and the U.S. Eastern Seaboard. These multimodal transport services are proposed for the Manzanillo-Houston and Puerto Lázaro Cárdenas-Kansas City routes, which can complement and even compete with the overworked ports of Los Angeles and Long Beach in the task of transporting freight from the Pacific Basin to the U.S. East Coast.

In a similar fashion, the states of Mexico's Northeast, specifically Coahuila, Nuevo León and Tamaulipas, have established a strategic relationship with Texas, dubbed by some "NAFTA within NAFTA." One outstanding characteristic of this form of sub-national integration is linked to energy as a factor of competitiveness. The four states share the Burgos Basin, a vital field of non-associated gas and they are studying the possibilities of synergy and complementing each other in health services and other spheres. We should remember that Nuevo Laredo, Tamaulipas, is the place where the greatest amount of trade by land is carried out between Mexico and the United States. Even though the violence associated with drug trafficking all along Mexico's northern border has made the yellow lights flash on for security reasons, trade is not going to stop, and therefore, the search for new forms of cooperation for security in the region will be an absolute priority for both governments.

#### FINANCING INTEGRATION: WHAT RESOURCES?

The European Union has successfully operated structural and cohesion funds to narrow the development gap among its regions. These funds have been financed mainly by the relatively more developed member countries, particularly Germany. This made it possible to raise per capita income in impoverished regions of Portugal, Spain, Greece and Ireland, bringing it close to the union's average level, and, in the case of Ireland, raising it higher than the European average. However, any mention of the European experience, even if just to draw lessons from it without mechanically replicating it—an impossible task, in any case—is met with the immediate, energetic rejection by U.S. and Canadian authorities.

In addition, the May 2005 defeat of the European Constitution by French and Dutch voters—which without actually stopping integration, does question its political and social legitimacy—will certainly contribute to greater caution about the European road.

Senator John Cornyn (R-Texas) has presented a bill to establish the North American Investment Fund. However, neither the political climate on Capitol Hill, which opposes any initiative that sounds like subsidizing Mexico, nor the absence of achievements of the Mexican government itself in closing

the development gap between the two countries contribute to creating a scenario that favors this aim.

Therefore, realistically speaking, a program to promote economic and social cohesion in Mexico could not be expected to be funded by the United States and Canada. Mexico depends on its own resources. Tax revenues must be increased, even though no ability whatsoever has been shown in recent years in coming to agreements about approving a fiscal reform that would contribute to refinancing the Mexican state.

#### ECONOMIC CITIZENSHIP

Today, economic inequality is an essential trait of Mexican society. One of the main problems of anti-poverty policies is that they are unable to definitively raise families out of poverty. According to the 2005 National Survey on Household Income and Expenditures, from 2002 to 2004, 10 percent of the country's richest households increased their portion of national wealth (from 35.6 percent to 36.5 percent). Even if we accept the figures that say that from 2002 to 2004, there was a marginal reduction in the number of the poor, the fact is that the polarization of wealth and income continues. The reduction of poverty measured in this way is not rooted in sustained economic growth or in a reduction of inequality, crucial objectives that are an essential part of a program of economic and social cohesion.

Despite the advances in political citizenship mainly in the field of federal electoral rights (including Congress's recent approval of Mexicans' living abroad being allowed to vote by mail in

Any mention of the European experience, even if just to draw lessons from it without mechanically replicating it, is met with the immediate, energetic rejection by U.S. and Canadian authorities.

the 2006 presidential elections), economic policy (specifically international economic, trade, and financial agreements and treaties) continues to be effected completely outside any mechanism of democratic decision making.

Economic and financial policies are presented as innate, impervious to any change due to the political stripe of the administration and beyond the reach of the average citizen. They are the purview of the large multinational corporations, the international financial institutions, the Ministry of Finance and the Bank

of Mexico. These are not accountable to the citizenry. The Senate fulfills its duty of discussing and approving international economic and financial treaties, but links from it to the public are fragile and scanty.

In this new stage of integration, it is indispensable to demonstrate who benefits from the proposed policies and in what way. As long as the citizens feel cut off from the process, they will continue to consider it just a plaything of the elites. Only if we manage to revert the dangerous geographical, sec-

toral and income inequality through a strategy for cohesion will we be able to integrate internally as an indispensable step for a successful external integration. Only by building a strong national economy and a vigorous domestic market will we be able to be competitive in the global economy. **NMM**

---

#### NOTES

<sup>1</sup> First published in *Nexos* no. 332, August 2005, pp. 28-32.