

The two faces of free trade

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Unlike subjects fundamental for society basically involving value judgments or merely ideological, political, ethical, or philosophical positions, economic thought cannot simply "express an opinion." Even understanding the mechanisms behind economic processes, and especially their effects on the different groups and classes of society, is a complex task.

Income distribution, the pace and direction of accumulation, and flows of capital are topics which -without denying the individual's right to information and the participation of all of society in matters that concern national welfare- have to be dealt with by specialists. They cannot and must not be left in the hands of pseudo-communication experts, or makeshift "economists" who just obey orders or, at best, work from subjective frameworks in which their scanty and questionable knowledge and understanding are the guiding intellectual lights. These "economists" tend to manipulate or distort public opinion. This has been the case with the Free Trade Agreement (FTA) between Canada, Mexico, and the United States, which apparently will be signed, come what may, now that the fast track has been approved by the U.S. Congress on the 24th of May, 1991.

The FTA and the changing world

At the present time the discussion has already gone beyond whether or not we should sign the FTA and the tedious "fast track" or "slow track" debate which gave the Bush and

Salinas administrations such a headache. In any case, those opposing the treaty, either in the United States, Canada, or Mexico, have neither the means nor the clout to prevent it, and they probably won't acquire either of these in the short or medium run. It is hard to admit, but this is the case.

In these circumstances, the first thing to do is to accept the fact that we live in a different country not only from that of five or ten years ago, but different even from that of a few months ago.

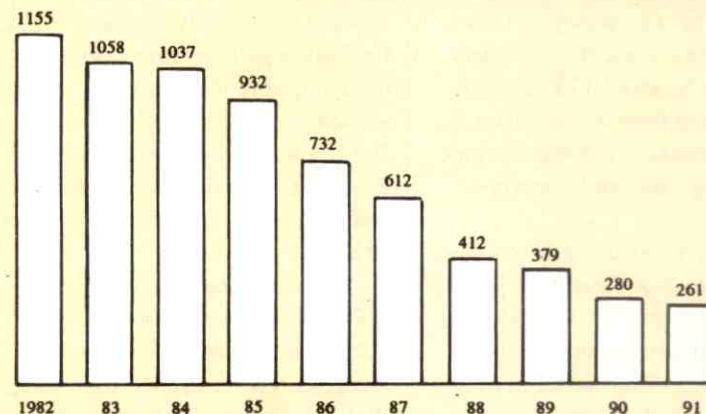
With all its obvious limitations and contradictions, the renegotiation

of the external debt laid the groundwork -as part of a general neo-liberal strategy- for regaining access to foreign loans which, even though the people responsible for the nation's financial system complain are given in dribs and drabs, have provided support for the production system, especially in concrete projects for strengthening and expanding the infrastructure and, to a lesser extent, in the oil industry and some formerly state-owned services.

Likewise, the policy of paring down the state through widespread and far-reaching processes of

TOTAL NUMBER

PUBLIC SECTOR COMPANIES



Note: 1991 to March.

Privatization and liquidation of state-controlled enterprises that were considered non-strategic for the government, or that were grossly inefficient, has been an integral part of Mexico's structural reform. From an all time high of 1,115 state-controlled entities in 1982, the number was slashed to 280 by 1990.

Source: MEXICO: AN ECONOMY ON THE MOVE
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The challenges of changing economic patterns, neo-liberalism, the role of privatization, foreign capital, free enterprise and government pose hard questions about the shape of the future Mexico and the state of Mexican sovereignty.

reprivatization, both of existing industries –telecommunications, mining, foundries, the financial system– and of opening up areas formerly reserved for the state or for Mexican citizens to direct investment by national or foreign private capital –such as in construction of highways, railroad services, federal transport, education, customs, and general services, to name a few– has aroused enormous interest and support from Mexican big business and from foreign investors. In spite of this, foreign investors –particularly the Japanese– are demanding greater

concessions and changes in the laws on how and where transnational capital can operate.

This is the direction in which the most powerful national forces are going, those that expect the greatest benefits from the FTA such as the financial, commercial and industrial groups, the mass media, and those holding key posts in the Mexican political system. They see the FTA as an opportunity to retain or improve their present influential position.

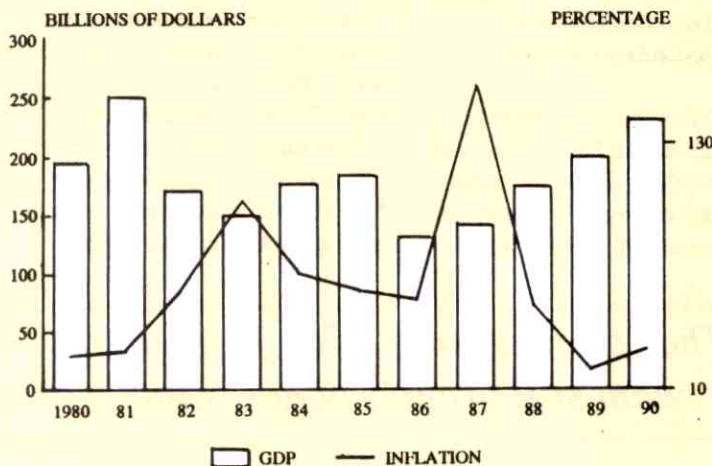
The developments initiated in 1982, and accelerated under the present administration, have on the

one hand been heading toward laying the groundwork for an improved Mexican image in international forums, mainly the financial organizations and the governments and investors of the highly industrialized countries –hegemonic leaders of their respective regions, blocs or markets– and on the other hand, in the domestic sphere, toward consolidating and legitimizing established authorities and powers, even while making up for what has been lost by the classes and groups that have been hard-hit by a crisis dating back to the late seventies.

It is clear that the FTA and the opening up of the country in all aspects have become the linchpins of the strategy for inserting Mexico into the concert of nations, the stated intention being to make Mexico part of the so-called First World.

This was manifest in point No. 25 of Mexico's 1991 *Letter of Intention to the IMF*: "The Mexican government maintains its commitment to consolidate the progress made in relation to the liberalization of trade. In 1991 it will continue to protect national producers from unfair practices abroad, but it will avoid introducing unjustified trade barriers. The opening up of the economy will be consolidated by the negotiation of a free trade agreement with the United States and Canada. It is expected that formal negotiations will start in mid-year although informal discussions have already been started and are progressing satisfactorily. In these negotiations Mexico will seek to bring down the existing tariffs and do away with non-tariff barriers.

TOWARDS STABLE GROWTH



Inflation has been reduced to about 25% per year, while economic expansion has resumed at an annual rate of nearly 3.9% in 1990, the fourth consecutive year of expansion. Productivity and real wages in the industrial sector are growing, and, most importantly, Mexican manufactured goods have a larger presence in international markets.

Source: MEXICO: AN ECONOMY ON THE MOVE
Department of Economic Studies
BANAMEX (Banco Nacional de México).

Furthermore, stress will be put on the setting up of clear rules for solving disputes and for defining the access of Mexican products to U.S. and Canadian markets¹.

Mexico, a player with no cards

However, the actual path of

Alienation, by any means (trusts, leaseings) of national territory, either for its raw materials, for tourism, or as a place of residence for pensioners from the developed nations - mainly American - even in the cases of restricted areas such as beaches and the border strip.

obstacle to committing resources to new projects or to the expansion of the existing production plant.

The relinquishing of mechanisms and measures that define domestic economic policy by allowing governments or supra-national organizations to participate in making policy, either through commitments set out in letters of intention (IMF) or by applying for new loans from international banks and other institutions (World Bank), or directly through commitments undertaken vis-à-vis governments with hegemonic tendencies (either military, technological or commercial), not only the USA but the new leaders of the Pacific or the Pan-European regions, that is to say Japan and the reunified Germany.

In international relations, lining up with the powerful countries as opposed to the traditional dignified Mexican foreign policy, which until a few years ago was conducted strictly in accordance with the principles of the Estrada Doctrine on vital issues such as non-intervention and the peaceful solution of conflicts between states. These changes are already being felt in the official attitude toward the bloody and unjustified invasion of Panama, the Persian Gulf War and the constant provocation and permanent blockade of Cuba.

“Tackling economic questions requires expertise”

liberalization over the last nine years has left the country practically defenseless vis-à-vis its counterparts, not only in the realm of trade, but in legislation on direct foreign investment, in the so-called deregulation, in across-the-board lowering of Mexican tariffs without compensation on the part of other countries, and in the concessions to lure investment in sectors that are restricted or forbidden by the Constitution. These make it very difficult to take into account the needs and aspirations of the working classes.

In other words, the economic policy followed by the last two administrations in Mexico, even prior to the FTA initiative, has granted such privileges to foreign big business and to the international financial organizations (mainly American, for example those that Ambassador Negroponte referred to in his famous memorandum in which he commented on the implications of the FTA on Mexican foreign policy) that the only thing left to be negotiated are aspects that no sovereign nation should ever feel compelled to negotiate, namely:

Exploration, exploitation, transformation and sale of oil and its by-products, by far Mexico's greatest source of wealth.

¹ Nacional Financiera, *El Mercado de Valores* (The Securities Market). Year LI, No. 9, May 1, 1991.

Participation as privileged partners or absolute owners in branches and sectors that up to now have been protected by the Mexican Constitution, mainly articles 27 and 28, when this participation means getting around the Carta Magna itself by means of decrees in order to avoid having to obtain authorization from the Mexican Congress. This manoeuvring was done with regard to the Regulations on Foreign Investment and the deregulation of basic petrochemicals, in which by presidential decision they were labelled as secondary economic activities.

Transformation of the labor laws, above all the Federal Labor Law, over which far-reaching debate has sprung up in business circles. It is important to stress the fact that in spite of

constant violations, breaches and omissions (of the law which stipulates a decent wage, employers' commitments in terms of housing, transport and training, among others), both the letter and the spirit of the Mexican law are the most progressive in the world. From the point of view of potential investors, both domestic and foreign, this might become an

“The Japanese and other foreigners want still greater concessions”

Changes in the rules on land ownership. It is well known that the present situation in the Mexican countryside is the result of a long and complex crisis that began in the mid-sixties with the virtual disappearance of capitalization in the agricultural and stock-raising sectors, and the inadequate handling of guaranteed prices for agricultural

products. The most powerful national groups and foreign entrepreneurs in this branch blame these problems on state intervention and on the existence of the *ejido* [common land held by peasant families which is worked individually or on a communal basis, but cannot legally be sold] as a form of ownership incompatible with a free market, and stress the need for efficiency in the production of foodstuffs and renewable raw materials. Therefore, according to these groups, it is essential to alter the laws. They have stated this repeatedly, and have followed up with strong pressure on the Mexican government.

Ever since the accentuation of Mexico's dependence on other countries for essential foodstuffs, and the fall in agricultural output aggravated by the dramatic

contraction of the domestic market due to the anti-inflationary measures of the mid-eighties, conditions have been favorable for launching a new offensive to radically change the system of land-ownership

the next step will be the FTA, although this means granting something that not even the European Community -whose degree of integration is unprecedented- has granted.

“The Mexican government upholds its commitment to consolidate free trade”

complemented by the privatization of agroindustry and the opening up of the country to imports of foodstuffs and raw materials. Thus sugar refineries were put up for auction, imports of agricultural and stock-raising products increased, and the U.S. position in the GATT's Uruguay Round was strengthened in so far as world trade in such goods increased. This seems to indicate that

What to do about the imminent trilateral agreement?

Again, at the present moment it seems unlikely that those who oppose the FTA as it is being written up by the federal executive branch -that is, the President and his economic cabinet-might introduce modifications that would make it less risky for the nation's economy and its sovereignty, since in Mexico there is no equivalent to a fast track that would have to be authorized by Congress.

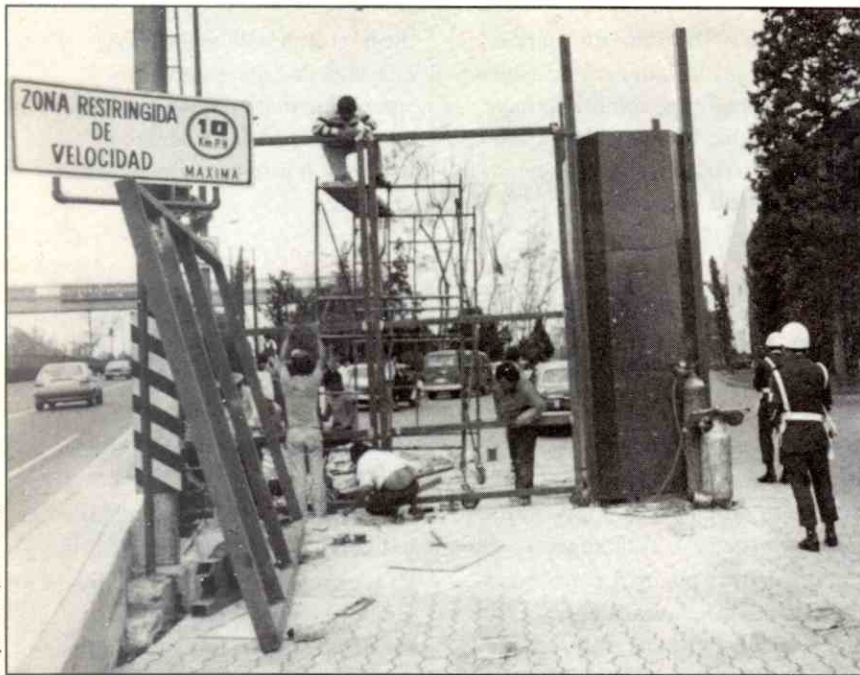
There are many alternative proposals, but their application involves a fundamentally political question, and will depend on the possible changes in the domestic power relations. Perhaps the most forceful, feasible, and justifiable alternative is the Mexican government's replacing the proposed FTA by a Continental Development Agreement in which Latin America, and Mexico in particular, would take on a different role. But this would be the subject of another essay.

For now, it is enough to admit that there is strong opposition to an FTA that promises the kinds of risks already described, and others that it is not possible to deal with now. The fact is that the picture is obscured by the lack of accurate and timely information, the absence of open debate between specialists and those involved in the agreement process, and the shortage of serious and rigorous studies that attempt to predict



Julio Capdelaria/Cuartocero

Ready or not, free trade is somewhere down the road.



Eloy Valiente/Cuartoscuro

Hurry up and get competitive.

the economic, political and social effects of the FTA.

This enables those who stand to benefit the most from the FTA to present the population with pure *faits accomplis*, without any possibility of civil society participating. This may cause grave and irreversible consequences for the nation.

Nobody, at least openly, can be against fair and fluid world trade, or against international collaboration. None can oppose the maintenance of fair terms of trade as opposed to those, as until now, that deteriorate to the detriment of backward and dependent regions.

But the course of recent history has proved that the contrary is the case: the trends are toward protectionism, through tariffs or other mechanisms, economic-political blocs, the rendering impotent of comparative advantages by technological subjection to the strongest, the increasing dominance of the large conglomerates and transnational banking in the production-financial sphere. All of these phenomena bring about disorder

in an international economy that is increasingly polarized and subject to deterioration of all kinds.

In spite of the above, yet without wanting to give these notes too optimistic a tone, some conditions that

would mitigate the potentially negative consequences of the FTA might still be possible; for example the continued protection of industries such as oil and its exploration, exploitation, transformation and sale; the agricultural and stock-raising sector; trade in services, especially financial and banking services; better conditions and regulations for brands and patents; the safeguarding of the educational and cultural sector which for a long time has been in a state of ominous vulnerability; the conservation and strict application of labor laws; and the absolute guarantee of human rights and humane living conditions for migrant workers. We

must demand that the extremes of Mexican law and Mexican economic and political reality converge, and nothing less than that. Most important is the participation of civil society through its legitimate representatives or in new direct ways in the planning of the nation's economic policy and international relations, of which the FTA is just one and perhaps not the most important part.

There is an awareness that time is running out and the conditions in which the negotiations are developing are unfavorable, when we take into account that:

There is a recession in the United States, whose end is nowhere in sight, and that in other parts of the world (mainly Europe and Asia) groups, blocs, and markets are strengthening in a prelude for what might be real economic warfare between the great powers and their allies involving technology, production, trade and financing, a war that will get hot at times, and whose consequences are unpredictable².

“The FTA means a level of integration which even the EEC has refused to endorse”

Now that the cold war between the former capitalist and socialist blocs—distinct from those of today—has died down or come to an end, confrontations between allies of convenience and the formation of new political groupings take on new and little known forms, whose intensity and impact have yet to be seen.

I insist, however, that the next few months will be crucial, and that we still have the capacity to influence the direction in which events are going.

² See Arturo Bonilla's work on "El Tratado de Libre Comercio y La Guerra Económica Mundial" (The Free Trade Agreement and the Economic World War), Institute of Economic Research, UNAM, April 1991.