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BACKGROUND PAPER

GOVERNANCE *and* THE LAW

Searching for Growth and Development in Authoritarian Mexico: A Brief Tale of the NAFTA Commitment Device

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PRELIMINARY DRAFT

Searching for Growth and Development in Authoritarian Mexico: A Brief Tale of the *NAFTA Commitment Device*. [1]

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Abstract

Mexico's pursue and implementation of the North American Free Trade Agreement (NAFTA) was a pro-growth policy strategy that deepened Mexico's economic liberalization process at a time of crisis and macroeconomic stabilization. In that context, NAFTA constituted a commitment device to investment that ensured continuity to both the stabilization and the liberalization processes. NAFTA was possible for Mexico thanks to a new coalition between public and private elites that had recently gone through a deep transformation process themselves. After more than twenty years, NAFTA has significant results in terms of investment and levels and diversification of trade; however, the evidence on its impact in growth and development is mixed. The asymmetry of negotiation power between the United States and Mexico affected the agreement, but its final shape and implementation were impacted in important ways by Mexico's political realities. Two examples of this: The highly hierarchical, *camarilla*-style line of command of the Mexican team derived in in controversial concessions and strategic mistakes in the areas of agriculture and financial services. Later, a corporatist, authoritarian regime induced a weak supplementary labor accord that could have had the potential of effectively promoting higher equity through strengthened workers rights and more democratic industrial relations.

[1] Note commissioned as background document to the World Bank's *World Development Report 2017: Governance and the Law.*

Introduction

1. On January 1, 1994, the North American Free Trade Agreement (NAFTA) between Canada, United States and Mexico entered into force in order to establish a common free trade area. The negotiation process began in early February, 1990 with a proposal by the Mexican government to form a bilateral free trade area with the US, which Canada would eventually too in order to ensure the protection of its own commercial interests –Canada itself had already signed a bilateral Free Trade Agreement with the US in 1987.[2]
2. **NAFTA's main objectives** are eliminating trade barriers, facilitating and promoting cross-border flow of goods, services and investment, increasing conditions of fair economic competition and property rights protection, and establishing the corresponding joint mechanisms for resolution of disputes (NAFTA Secretariat, 2014). From Mexico's governmental perspective, NAFTA would allow to "regulate the growing trade flows between [the three] countries and incentivize investment and jobs." (Salinas de Gortari, 1994)
3. More specifically, the agreement was expected "to increase the growth of non-oil exports, and to achieve a greater inflow of foreign direct investment (FDI) within the country […] based on the understanding that the former would generate greater employment within manufacturing industries, which use labor intensively, and that the latter would complement internal savings, which had proven insufficient to finance the country's economic growth." (Serra Puche, 2015)[3]

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[2] For an outstanding analysis of the trilateral negotiation process –including systematic interviewing of many of the key players involved, among other resources—see Cameron & Tomlin (2000). For an interesting account of the same process from the point of view of a member of the Mexican negotiating team, see von Bertrab (1996).

[3] Kindle Locations 792-795. Jaime Serra Puche, Minister of Trade and Industrial Development at the time, was responsible of achieving NAFTA under President Carlos Salinas de Gortari (1988-1994). Serra designated his Vice-Minister for International Trade Herminio Blanco Mendoza as Chief Negotiator of NAFTA.

4. Pursuing a free trade agreement with the United States was **part of a larger process of reforms** implemented by a relatively young and very cohesive group of Mexican economists. This group, which fully dominated the economic policy realm in Mexico between 1988 and 2000, saw in the free market approach to development a way out of the debt and inflationary crisis the country was going through since 1982; they also saw in it the way to a much needed new cycle of sustained economic growth. [4]
5. Such reform process included privatization of state-owned enterprises, lowering subsidies, deregulation, land tenure liberalization, unilateral reduction of trade tariffs, and in fact, concrete efforts to increase trade and investment exchange with the United States, among other policy changes. It also included an unmistakable move towards full-fledged trade liberalization through Mexico's entry into the General Agreement on Trade and Tariffs (GATT) in 1986.[5]
6. By the end of 1989, foreign investment had not reacted favorably enough to these reforms and to the debt-reduction agreement the Mexican government had signed with commercial banks (Lustig, 1992). The Salinas administration then saw bilateral commercial integration with the United States as a potentially advantageous position in what could be seen as a race against other countries trying to **attract investment through economic liberalization** –particularly the former socialist countries (Pastor & Wise, 1994). The entry to NAFTA would also serve to justify at the domestic level Mexico's economic reforms as part of a broader transformation process of which Canada and the United States were also part of; not only the benefits, but also the costs would be shared by other countries besides Mexico (Cameron & Tomlin, 2000).

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[4] For a timely and detailed account of the particular experience of Mexico during the so-called "lost decade" in Latin America, see Lustig (1992). See Camp (1990 and 2010) for the origins and profile of the political group in power at the time.
[5] A recent overview of these years as part of Mexico's broader economic and political trajectory can be found in Shirk & Edmonds-Poli (2015).

The North American Free Trade Agreement

7. The agreement covered the broad areas of trade in goods, technical barriers to trade, government procurement, investment, services and intellectual property, and dispute settlement provisions. From the Mexican point of view, the sectors where negotiations entailed the highest difficulty in terms of defending its interests were those of energy, agriculture, automobiles, and also the dispute settlement provisions, particularly regarding antidumping (von Bertrab, 1996). The financial services and investment sectors would also prove to have their own complexities.
8. Mexico would eventually obtain significant gains from NAFTA in terms of trade, non-oil exports and investment (see below). However, the Mexican government made important **concessions** during the negotiations due to different reasons: For example, in order to provide enough incentives to its counterparts to keep negotiating and reach an agreement, **maize** –a key crop in the millions-of-people Mexico's rural economy—was very rapidly put on the table by Mexico, as part of a proposal to liberalize agriculture across-the-board. [6]
9. In the **financial services** realm, Mexico accepted the principle of *national treatment* for financial service providers, and discarded the permanent caps on foreign investment in the banking sector; both concessions were made too soon and in exchange for no concession at all from Canada or the United States because the two Finance Ministry officers in charge followed instructions from the Trade Ministry to quickly reach a deal, without having complete information of the negotiation as a whole –President Salinas himself had put Trade in charge of negotiations in this sector in spite of Finance resistance; after this incident, Finance and the Central Bank took over. At the same time, Minister of Trade Serra made every effort to maintain **centralized control** of the whole negotiation through people from his most

[6] These and other specific details on the NAFTA negotiations typically come from Cameron & Tomlin (2000), unless indicated otherwise.

trusted group of collaborators (*camarilla*) only.[7] This management strategy eventually proved to be inefficient and a less centralized one was implemented (Cameron & Tomlin, 2000).

10. Some of the features of **Mexican politics impacted the negotiation** process more in general. It has been argued, for example, that the negotiating position of the Mexican government was debilitated by its lack of accountability to, and lack of participation of a wider spectrum of potentially affected domestic actors. Instead, Mexican negotiators kept close a rather reduced group of allies from the private sector, namely the economically most influential representatives of it. This was particularly clear in the case of agriculture, where the millions of small, low-income producers did not find see their interests represented during the negotiations (Santacruz, 1997). As it will be shown below, this actually responded to the ruling coalition that was reconfigured during the years of economic reform.
11. Many of the concessions may have come from the Mexican team's strong **willingness** to attract investment. That was the clear case of its open attitude towards the possibility of arbitration between investors and national states, and to establish rules on expropriation. "Canada was more afraid of foreign investment. We wanted more investment; the Constitution was our limit," said a Mexican investment negotiator quoted literally in Cameron & Tomlin (2000: 113). Some other concessions may have come from **inexperience** and/or **ideological bias**. Another Mexican negotiator has been quoted accordingly: "We had people with Ph.D.s from Stanford who knew the issues, but had little experience. Although one believes in free trade, one has to know the protectionist arguments. There were many economists on our team who could not give the protectionist arguments."
12. Overall, it was a negotiation with a **structural power imbalance** where Mexico needed the United States a lot more than the United States needed Mexico

[7] See Camp (1990) for a description of the *camarilla*-style of networking and leadership that has characterized much of the post-revolutionary Mexican politics. On the role of this political group as part of a new elites' coalition that made NAFTA possible, see next section of this note.

(Cameron & Tomlin, 2000: 123-124), but also one that was influenced in significant ways by the characteristics of Mexico's **political regime and leadership**, further deepening such power imbalance.

13. NAFTA was signed by the three countries in December 1992 and ratified by their respective legislatures during 1993. However, this was possible only after the 1992 electoral process that took Bill Clinton to the presidency of the United States decisively altered the process of ratification in that country. The main text of the agreement was a product of Republican President George H.W. Bush administration, and in order to obtain the ratification from the new democratic majority in Congress, President Clinton demanded (he had already suggested it as a candidate) to negotiate **two supplemental accords on labor and environmental standards**, which basically would be intended to ensure that every country effectively enforced their own environmental and labor laws and regulations (Cameron & Tomlin, 2000).
14. Since the first stages of the negotiations, visible critics of NAFTA in Mexico had voiced their preoccupations NAFTA's potential negative impacts on human rights, workplace health and safety issues, environmental matters and foreign competition (Lustig, 1992). Some of them organized and proceeded to establish active links and cooperation with several similar groups opposed to NAFTA within the United States and Canada (Heredia, 1994). The sum of many of these voices, along with the new political distribution of power in the US Congress played an important role in the demand for the supplemental accords.
15. The additional round of negotiations and the corresponding congressional lobbying process, where Mexico showed unprecedented proactivity (Lewis, 1993 in Heredia, 1994), took place between March and August 1993, and resulted in an **environmental accord with enormous potential** thanks to the vigorous support of environmental activists and organizations. In contrast, **the labor accord was born much weaker**, covering only health and safety, child labor and minimum wages due to the reluctance of the Mexican government to alter the corporatist nature of its industrial relations –which were completely left out of the table along with any

intention to address workers' rights issues whatsoever (Cameron & Tomlin, 2000). This matter has been recently documented in a systematic comparison between the two accords, formally known as the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC). Regarding the latter, Aspinwall (2013) analyzes a number of NAALC cases against Mexico and shows how in spite of pressures from this NAALC itself, the Mexican agency for freedom of information, domestic courts and even "ad hoc" pressures form the federal government, labor politics in relation to NAFTA continue to be a "deeply entrenched system of protection, influence peddling and institutionalized corruption." (p. 132) Once the NAAEC and the NAALC became a reality, the United States Congress ratified NAFTA in November 1993, making it possible for it to enter into force the first day of January 1994.

16. The **impact of NAFTA** presents a mixed panorama. On the one hand, it has been recently argued that in terms of **trade**, **non-oil exports** and **investment**, and in strict attention to the original objectives of NAFTA from a Mexican perspective, the agreement has lived up to expectations: the value of exports plus imports of goods and services as share of Gross Domestic Product (GDP) increased more during the years right after NAFTA's entry into force than with any other pro-free trade reform; non-oil exports in 2013 were equivalent to four times their 1993 value in real terms, and consistently higher than the rest of the world's during the same period; and finally, the average FDI inflows grew almost ten times between the 1980-1993 and the 1994-2012 periods, representing a real growth of 312.3 percent (Serra Puche, 2015: Figures 1-3).
17. When comparing different periods to account for years of crisis, recovery and relative stability, this trend in FDI is confirmed in both its extent and limits. Between the years right before and after NAFTA, **average FDI inflows into Mexico in billions of dollars almost quadrupled**, and then doubled again during the first years of the past decade to slightly increase since the 2008 crisis until today. It should also be noted that FDI from the United States into Mexico almost tripled between right

before and after NAFTA, almost doubled during the 2001-2007 period, and then decreased during the most recent years (See Table 1 below). Comparisons with other upper-middle-income economies like Brazil, or with high-income countries like Argentina and Chile are illustrative. Right before and after NAFTA, the aforementioned trend in FDI inflows in Mexico was very similar to that in Argentina and Chile, and from 2001 it was clearly superior. Brazil's inflows, on the other hand, grew more than twelve times during the pre- and post-NAFTA years, and then more than tripled again during the pre- and post-2008 crisis years.

18. **As a percentage of GDP**, the picture is also positive although less optimistic in the case of Mexico. Between the years right before and after NAFTA, **average FDI inflows into Mexico multiplied by more than two**, and then have remained almost unaltered ever since. Very similar patterns can be found in the cases of Argentina and Brazil, although these two countries showed larger increases than Mexico right after NAFTA. Meanwhile, Chile has shown a consistent increase of its average FDI inflows as percentage of GDP, which during the years right after NAFTA were more than twice and by the end of the last few years were more than 3.5 Mexico's FDI.

19. Table 1. Average Foreign Direct Investment inflows into Mexico and selected countries, 1982-2014.

	1982-1986	1987-1993	1994-2000	2001-2007	2008-2014
Billions of US dollars					
Mexico	**1.9**	**3.2**	**12.5**	**25.0**	**26.4**
(From the United States)*	-0.1	1.6	4.6	9.0	6.9
Argentina	0.4	2.0	9.6	4.0	9.0
Brazil	1.6	1.5	18.9	21.0	65.9
Chile	0.2	0.9	4.8	6.4	19.6
As a percentage of GDP					
Mexico	**1.2**	**1.1**	**2.5**	**3.0**	**2.3**
Argentina	0.5	1.1	3.4	1.9	1.7
Brazil	0.7	0.4	2.6	2.6	3.0
Chile	1.1	3.0	6.5	5.7	8.4

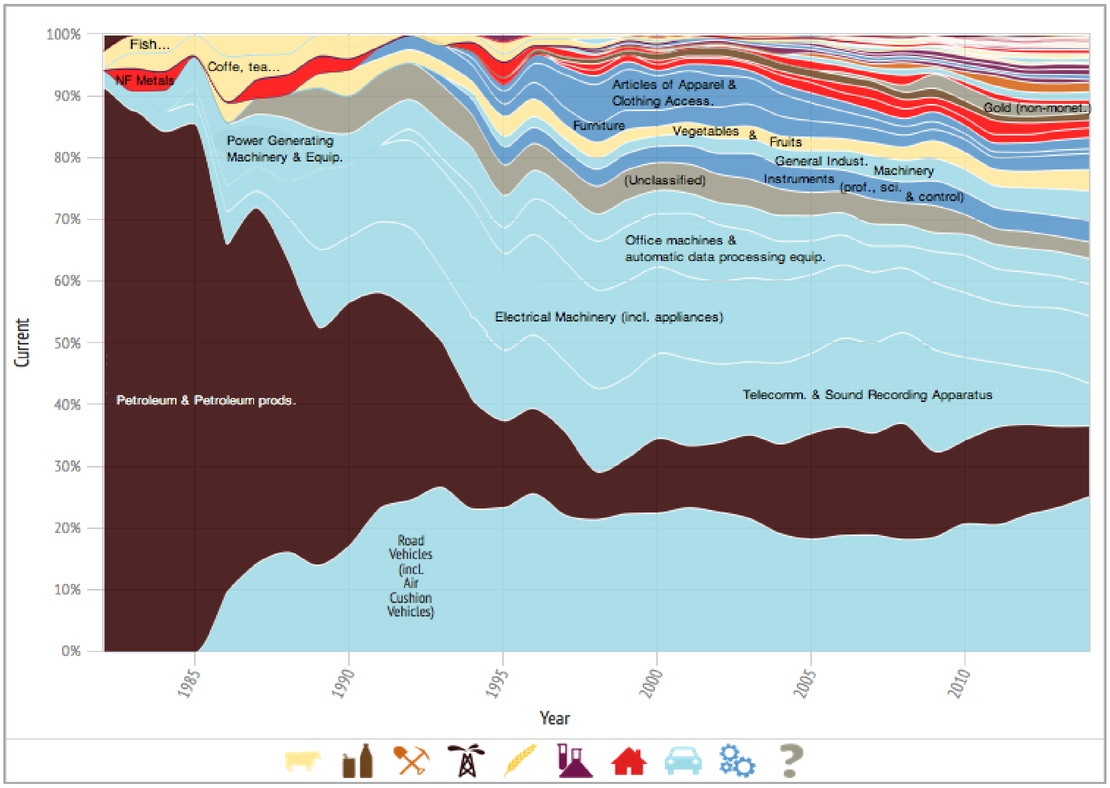
Sources: Author's calculations with data from theWorld Bank's *World Development Indicators* for most of the information. *Data from the U.S. Bureau of Economic Analysis for FDI from the US into Mexico only.

20. The post-NAFTA years brought **not only more FDI and trade, but a radical transformation in Mexico's exports composition**. Figure 1 shows how between

1982 and 1990 Mexico's exports concentrated primarily in Mineral Fuels (crude oil, primarily), Machinery & Transportation Equipment; Food/Live Animals for Food; and Manufactured Goods Classified Chiefly by Material. By 1995, one year after NAFTA's entry into force, exports had initiated a clear process of **diversification** which further intensified during the following years by incorporating the following sectors as well, and a wide variety of goods within them: Miscellaneous Manufactured Articles; Chemical & Related Products; Drinks & Tobacco; and Crude Materials (Inedible, excluding Fuels).

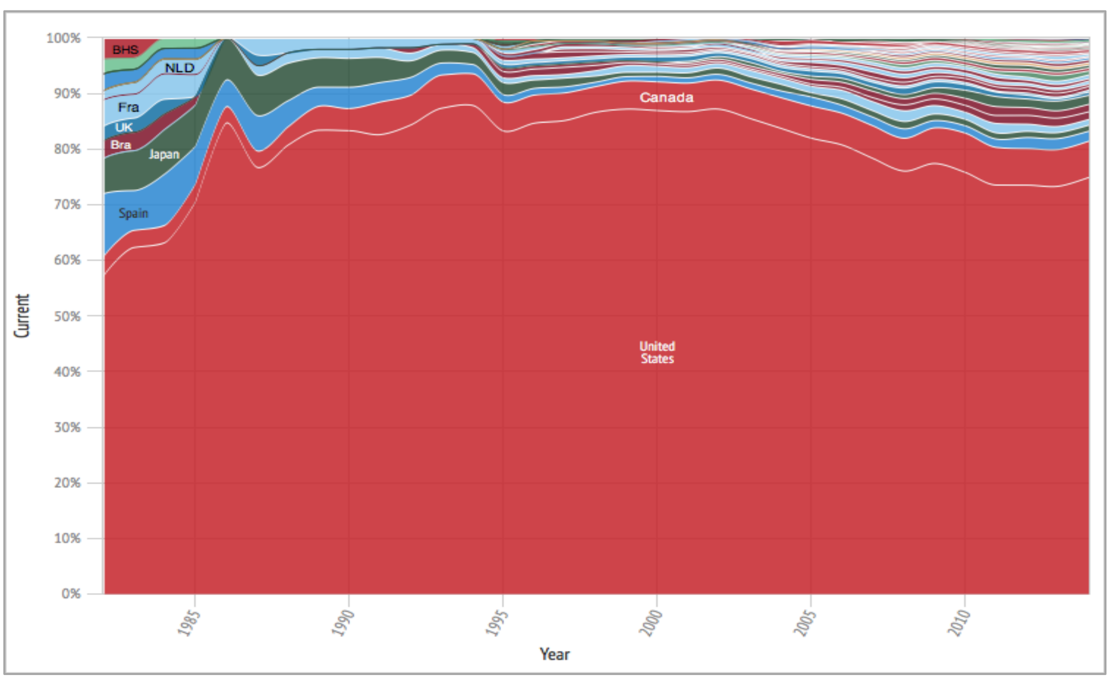
21. This path towards exports diversification is similar to the one followed by comparable high- and upper-middle-income countries in Latin America like Argentina, Brazil and Chile, whose exports nonetheless have always been relatively less concentrated, and have never been as reliant on Mineral Fuels, Machinery & Transportation Equipment, and Miscellaneous Manufactured Articles as Mexico's – see Annex 1 for Figures on these three countries' exports diversification during the same period.
22. During these years, the number of Mexico's exports partners increased, but the **United States continued to be its main commercial partner** –in 1995, exports to United States where 83% of total exports, by 2002 that share was 87% and it has decreased since then to reach 75% in 2014 (see Figure 2).
23. On the other hand, looking at what was expected to gain from the increased trade, non-oil exports and investment coming out of NAFTA, it is possible to find a wide variety of **contrasting evidence**. Many of the assessments of NAFTA impacts recognize the difficulty to disentangle the sole effect of the agreement from the larger international economic environment, and from the macroeconomic stabilization and liberalization processes implemented in Mexico during the 1990s.

24. Figure 1. Mexico's exports diversification (SITC4, Gross, Current Totals), 1982-2014.



Source: The Atlas of Economic Complexity (2016).

25. Figure 2. Mexico's exports partners, 1982-2014.



Source: The Atlas of Economic Complexity (2016).

26. For instance, it has been suggested that the fast growth of **non-oil imports from Mexico** between 1993-2000 should not be attributed to NAFTA only, but also to the large demand generated by the 1990s economic boom of the United States, and to the depreciation of the Mexican peso in the aftermath of the 1994-1995 peso crisis (Blecker & Esquivel, 2010). Another example would be that, as stated by Villareal & Fergusson (2014), the over-a-million **jobs displacement** occurred in Mexico's agricultural sector between 1991 and 2000 found by Scott, Salas, & Campbell (2006) could also be atributed to unilateral, domestic reforms in that country like the land reform or the elminination of subsidies and state enterprises.
27. In general, recent reviews of NAFTA impact assessments describe outcomes that fall short from the most optimistic expectations of NAFTA advocates. This is the case of Grumiller (2014:10), who reports findings by Caliendo & Parro (2012) about a rather small impact (1.31%) of tariff reductions on **consumer welfare** in Mexico, as well as a debate on whether this country's **GDP** has actually increased due to NAFTA – Lederman, Maloney & Serven (2003) stating that it has actually happened, at 4-5% between 1994 and 2002; Weisbrot, Rosnick & Baker (2004) replicating their study and finding that NAFTA in fact slowed growth in Mexico, and Romalis (2007) suggesting that the agreement brought a -0.3% change in the country's GDP. In terms of employment, Grumiller also reports Salas' (2006) claim that NAFTA was partially responsible for the displacement of about one-sixth of agricultural jobs in Mexico, and regarding income he shows Caliendo & Parro's (2014) finding that reduction in tariffs brought a 1.72% rise in **real wages** between 1993 and 2005, and Hanson's (2003) argument on how NAFTA contributed to rising wage dispersion in Mexico.[8]

[8] Another useful review of NAFTA impact assessments can be found in De la Cruz, Riker & Voorhes (2013). A proper exploration of the impacts of NAFTA, particularly regarding the question of why increased trade and investment did not result in higher economic growth, is beyond the scope of this note. Discussion on these and topics like productivity, agriculture, trade and investment, infrastructure or regional inequality, can be found in the aforementioned works, and also in those by de Hoyos & Iacovone (2011), Prina (2013), Vasquez & Oladipo (2009), González (2011) and Baylis, Garduño-Rivera & Piras (2012), among many others.

Commitment to Investment in Authoritarian Mexico

28. NAFTA can be considered a **commitment device** that allowed the Mexican government to signal domestic and foreign investors that the macroeconomic stabilization and economic liberalization processes initiated in the early 1980s would be maintained in the future. The agreement was possible, among other things, because of the profound transformation these processes generated in Mexico's political and economic elites, which have proven to be of great importance in this country's contemporary history (Camp, 2002). At the time, Mexico's political system was a hegemonic- or dominant-party authoritarian regime with an extremely powerful presidency, a high level of political and administrative centralization, and corporatist control of labor and peasant populations. A delicate balance among elite groups, open electoral fraud, repression and strong grassroots support were also part of the regime's menu for political dominance. In this context, said elites' transformation derived in **a renewed coalition in the economic policy making realm** that made possible for the government to further commit with free trade and investment through NAFTA with an acceptable trade off between economic and political costs and benefits.
29. Regarding the **private sector**, on the one hand a severely reduced fiscal space (due to high debt and low public revenues), trade liberalization, deregulation, opening to FDI and privatization debilitated the previously dominant statist and private import-substituting elites by reducing the sources of rents available for them to extract. On the other hand, these same measures promoted the generation of new export and foreign investors elites by allowing many old (i.e., statist, import-substituting) and new private entrepreneurs to gain monopoly rents through deregulation, by transferring to them most of the manufacturing sector through privatization, and by attracting more FDI through less discretionary rules. That renovated private sector elite had now every incentive to support a long-term commitment with an enduring

liberalization process, of which NAFTA would be perhaps its most salient device (Tornell & Esquivel, 1995).

30. At the same time, another crucial transformation had been occurring in Mexico's **public sector** elite. The politicians in power who proposed, negotiated and implemented the stabilization and liberalization processes initiated in 1982, were part of an ideologically cohesive network of political groups or *camarillas* which, unlike their statist-leaning predecessors, shared the free market ideological and policy perspectives adopted by their main leaders during their years of graduate training in Economics in the United States. This political network had started its formation many years before, during the undergraduate studies in Mexico of many of its members in the 1960s, and dominated Mexico's political economy from 1982 to 2000 (Camp, 2002 & 2010).
31. This dominance would eventually contribute to a deep political elite division by alienating from key positions to those who did not share the free market ideology, which in turn may be considered as one of the possible factors pushing towards the eventual demise of the ruling party PRI in the year 2000.[9] It was this strong political elite, led at the time by President Salinas, who proposed, negotiated and implemented NAFTA as a *sine qua non* part of the ongoing stabilization and liberalization process. In spite of its dominance, this group acted as a coalition generator rather than as a full-fledged autocrat (at least regarding the economic reform process), always making sure to have powerful groups supporting these reforms (Tornell & Esquivel, 1995).
32. The **change of incentives in the private sector and an ideologically renovated political leadership** in Mexico's economic policy were crucial to make NAFTA a reality. During the 1970s and early 1980s, the leaders of populist and mass organizations in the labor and peasant realm still enjoyed a strong ideological and political influence over the national political leadership. As the process of economic

[9] Bruhn (1997) and Starr (1999) cited by Camp (2010), as well as the latter himself.

reforms progressed, this privileged position of influence was taken by **the now pro-free market private sector that, along with the Salinas administration, became the leaders of a new elite coalition in Mexico** –a pro-macro stabilization, pro-economic liberalization, and therefore, **a pro-NAFTA coalition** (Poitras & Robinson, 1994).[10]

33. **On the public sector' side**, the members of this coalition were a few key ministries and state institutions, the ruling Institutional Revolutionary Party (*Partido Revolucionario Institucional, PRI*), the PRI-dominated legislative power, the PRI-controlled labor and peasant organizations, part of the intellectual community, the most influential news outlets, a very significant proportion of the Mexican public opinion, and a ad-hoc Advisory Board for the Free Trade Agreement.
34. During the years of trade liberalization, the **presidency** and the most important members of its network of political groups maintained a highly centralized control of economic policy. Those **ministries** and officials traditionally linked to the former import-substituting policy strategy (agriculture, labor and foreign affairs, for example) lost influence within the national government. Meanwhile, a reorganized Ministry Trade and Industrial Development gained importance, and a trusted member of the Salinas *camarilla* was designated to lead it and make NAFTA happen. A similar thing occurred with the Ministry of Finance and other state institutions like the central bank and development banks. (Poitras & Robinson, 1994). The presidency and its core ministers and collaborators maintained strict control of all the information related to trade liberalization, and put no real effort in promoting an open, public debate about the NAFTA or its negotiation (Pastor & Wise, 1994).
35. At the same time, **the ruling party PRI**, which retained absolute power in national politics for the better part of the 1929-2000 period, reorganized and strengthened itself by merging (and so diluting) the strength of labor and peasant sectors; by promoting *technocrats* into key government positions and demoting many rather politically inclined bureaucrats; by decentralizing resources away from the Mexican

[10] In what follows, the general depiction of most of the members of the pro-NAFTA coalition, its critics and its opponents come from Poitras & Robinson (1994), unless indicated otherwise.

capital to create new constituencies, and by strengthening its relationship with the big businesses community –traditionally close to the center-right National Action Party (*Partido Acción Nacional, PAN*) (Pastor & Wise, 1994; Poitras & Robinson, 1994). Although the PRI consistently utilized illegal and non-democratic practices to stay in power, it should be noted that its strength came also from the actual political loyalty of voters via, among other, the systematic manipulation of public spending –with well identifiable spikes during election times—and the political focalization of certain public programs –like the National Solidarity Program (*Programa Nacional de Solidaridad, Pronasol*) during the Salinas administration (Magaloni, 2006).[11]

36. Meanwhile, **the PRI-dominated legislature** not only supported the idea of NAFTA, but also renounced to its oversight role. Before the formal negotiations began, the Senate (in response to a request from the executive) organized a national consultation forum in 6 different cities during one month to discuss Mexico's foreign trade relations, to quickly recommend the government to negotiate a bilateral free trade agreement with the United States, without exploring the many arguments against it (Senado de la República, 1990). During the trilateral agreement negotiations, occasional congressional hearings on the matter took place without any real consequences, and in the end the Senate (where PRI legislators were 60 out of a total 64) ratified NAFTA with 56 *Yeas* and 2 *Nays* (Heredia 1994; Poitras & Robinson, 1994).

37. The **major workers organizations**, closely associated to the state through the corporatist pact that brought political stability to the country after the 1910 revolution, promptly aligned behind the NAFTA proposal while expressing some concerns: the Federation of Mexican Workers (*Confederación de Trabajadores de México, CTM*) hoped for workers' rights to be protected; the Congress of Labor (*Congreso del Trabajo, CT*) expressed its desire for higher wages and employment as a consequence of the agreement; and the Revolutionary Federation of Workers and

[11] For a brief characterization of Pronasol and its wider importance in the transformation of PRI and the road towards regime change in Mexico, see Kaufman & Trejo (1997).

Peasants (*Confederación Revolucionaria de Obreros y Campesinos, CROC*) voiced that a slow transition and retraining for workers should be implemented. Finally, the Federation of Goods and Services Firms (*Federación de Sindicatos de Empresas de Bienes y Servicios, FESEBES*) also showed its support along with worries about jobs and wage levels. At not point were these voices strong enough to represent a real veto point (nor intended to) in the domestic politics of NAFTA in Mexico.

38. By the time NAFTA was proposed and being negotiated by the Mexican government, **mass media** in Mexico was still a monopoly with strong links to the state, and major press electronic and written outlets covered NAFTA providing only scarce information and no critical analysis (Heredia, 1994). Among the **intellectual community**, ideas about free trade and economic liberalization had gained popularity, at least among members of some of the most prestigious national research and education institutions located in Mexico City like the *Colegio de México* (Poitras & Robinson, 1994).

39. NAFTA could also count on relevant **public support**: in 1991, the share of Mexican population showing *total* and *somewhat* approval to NAFTA was 80.4% (with a 22.4% *no opinion*), and in 1993 the same share was 73.5% (31% no opinion), the two most important sources of their support to NAFTA being a positive evaluation of President Salinas's performance and a positive attitude towards the United States (Davis, 1998).

40. Finally, the pro-NAFTA coalition also included an **Advisory Board for the Free Trade Agreement** chaired by the minister of trade and composed by representatives from the executive and legislative powers, the labor, agricultural and business sectors, and the academia.[12] Unfortunately, the Board's role was strictly advisory and not decisions were taken by it (Heredia, 1994), which for every practical purpose may have reduced its role to a mere device to legitimize decisions that were taken elsewhere.

[12] The complete list of members of the Board can be found as Annex 3 of Serra Puche (2015).

41. The pro-NAFTA coalition **on the private sector side** was composed by big, medium and small businesses organizations. As the main representative of the private sector in NAFTA negotiations, the Exim Business Associations Board (*Coordinadora de Organizaciones Empresariales de Comercio Exterior, COECE*) played a particularly relevant role. The **big businesses** leading the private sector side of the coalition included large manufacturing companies strong enough to compete in the United States, medium-sized manufacturers with exporting potential in certain specific niches, fruit and vegetable producers, capital-intensive foreign firms and domestic suppliers of foreign businesses in Mexico. As stated before, these firms embraced enthusiastically the idea of a free trade agreement because they would benefit directly from it, and also because they saw in it the assurance that economic liberalization and stability would be maintained in the future (Tornell & Esquivel, 1995).
42. The main organizations articulating the interests of the most influential firms at the time included the Federation of Mexican Employers (*Confederación Patronal de la República Mexicana, Coparmex*); Federation of Chambers of Industry (*Confederación de Cámaras Industriales, Concamin*); Federation of National Chambers of Commerce (*Confederación de Cámaras Nacionales de Comercio, Concanaco*); National Agricultural Council (*Consejo Nacional Agropecuario, CNA*); Mexican Businessmen's Council (*Consejo Mexicano de Hombres de Negocios, CMHN*); Mexican Association of Insurance Institutions (*Asociación Mexicana de Instituciones de Seguros, AMIS*), and Mexican Association of Brokerage Houses (*Asociación Mexicana de Casas de Bolsa, AMCB*). All of these organizations fell under the influence of the private sector main umbrella organization, the Business Coordinating Council (*Consejo Coordinador Empresarial, CCE*) (Thacker, 2000).
43. The **medium and small sized businesses** were also part of the coalition, represented mainly by the National Chamber of Industry (*Cámara Nacional de la Industria de Transformación, Canacintra*). Unlike the larger firms, these smaller ones were not particularly interested in foreign trade, and they even showed some initial

reservations regarding the negative impact NAFTA could have on them. To these reservations the government answered by offering incentives like a preferential credit program for micro and small businesses (*Programa de Apoyo para la Micro y Pequeña Empresa, Promyp*). In the end, they supported the agreement not only because of those incentives, but also because, as in the case of the big businesses, they perceived the agreement as an integral part of the ongoing macro stabilization process which had delivered lower levels inflation already and it was expected to deliver future economic stability.

44. Once the Mexican president decided to pursue a bilateral free trade agreement with the united states and invited a variety of business sector representatives to discuss the matter, the internationally- and United States-oriented, big business-controlled Business Coordinating Council (CCE) created the **Exim Business Associations Board (COECE)** in order to represent Mexico's private sector interests during the NAFTA negotiations.
45. COECE was heavily biased towards the biggest private interests in Mexico, which was obvious in the fact that the CCE members with full voting rights were precisely the seven business organizations mentioned above –Coparmex, Concamin, Concanaco, CAN, CMHN, AMIS and AMCB. Meanwhile, Canacintra (representing medium and small business) and a number of other less influential business organizations had rights of voice but not vote within the CCE. COECE organized itself according to the initial configuration of NAFTA negotiations, adapted promptly whenever negotiation dynamics changed, and continuously interacted with government negotiators from very close (Thacker, 2000).
46. COECE's feedback to the negotiations process included not only the entrepreneurial experience of its members, but also a number of commissioned impact assessments for different economic sectors NAFTA was expected to impact, which at least at the time of the negotiations were not shared much beyond COECE and the NAFTA negotiating team. COECE's bias towards the big business interests, its access to first-hand and specialized information, and the pro-market view of development its

members shared with the government negotiators, granted it great informational and strategic advantage en relation to the interests of medium and small size industry (Pastor & Wise 1994). Unlike the previously mentioned Advisory Board for the Free Trade Agreement, COECE did influence the decisions that were made during the negotiation process (Heredia, 1994; Thacker, 2000; Alba & Vega, 2002).

47. **Outside the pro-NAFTA coalition**, open opponents or somewhat critics of the agreement included the two other main political parties –the PAN and the leftist Democratic Revolution Party (*Partido de la Revolución Democrática, PRD*), a number of independent labor organizations, a minority of the most influential intellectual community, and some organizations from the civil society with rather low levels of political leverage.

48. The **center-right party PAN** generally agreed in ideological terms with the macroeconomic stabilization and the economic liberalization agendas. However, its reservations regarding NAFTA were linked to the fact that the agreement had the potential of strengthening the political legitimacy of the PRI, and therefore to support its hegemonic position in the Mexican political system. The PAN also voiced their concern about the lack of open consultation with civil society (even in the form of a national referendum) before actually going through with the agreement, as well as on the negative impact the latter might have on Mexico's sovereignty and Mexican workers' rights.

49. The **leftist party PRD**, on the other hand, being in many ways the product of a deep division within the ruling party PRI, was in itself one of the signs of a renewed coalition ruling Mexico's political economy (Bruhn, 1997). The PRD did not share the same pro-free market view of development embraced by the new national economic elites, and its concerns regarding NAFTA were typically related to Mexico's sovereignty in relation with the United States, Mexican workers' rights (just as those of PAN), its potential impact on low-income population, the negative consequences it could bring to the environment, and the possibility of losing jobs in Mexico due to the agreement.

50. Although most of the organized labor sector supported NAFTA mainly due to its corporatist relationship with the state via the ruling party PRI, a number of groups within what has been called the "**independent labor movement**" warned about the potential perils of the agreement. Thus, for instance, the Federation of Regional Autonomous Peasant Organizations (*Unión Nacional de Organizaciones Regionales Campesinas Autónomas, UNORCA*) expressed their concern about the negative impacts the agreement would have on peasants, and the Authentic Workers' Front (*Frente Auténtico del Trabajo, FAT*) questioned the pro-business bias adopted by Mexico during the negotiations, as well as the risks the agreement could bring to workers' rights, human rights and the environment –the FAT was composed by a number of independent labor unions, rural cooperatives and neighbor associations.
51. Although the pro-free market view of development had gained recognition among many of the most influential **intellectuals** and prestigious national academic institutions, that was not necessarily the case within big public education institutions like the Mexico's National Autonomous University (*Universidad Nacional Autónoma de México, UNAM*) and many of its affiliates, who worried about the potential loss of sovereignty and the impact on income distribution that NAFTA could bring. With them, there were a number of organizations of civil society also opposing NAFTA, among which the Mexican Network for Action on the Free Trade Agreement (*Red Mexicana de Acción Frente al Libre Comercio, RMALC*) occupied a very important place.
52. **RMLAC** was a network of at least 80 labor, environmental and human rights groups, many of which had some connection to the leftist party PRD. Although most of its members actually believed that the agreement could bring more investment and jobs, they had the perception that the negotiations were not necessarily protecting Mexico's interests in the best possible way. They were also concerned about the non-transparent way in which the process was being conducted, the highly exclusive influence of the political and economic elites on it, the lack of a public consultation about it, and the insufficient protection that the agreement would bring to labor,

consumers and the environment. Along with some of its partners in Canada and the United States, RMLAC even proposed an alternative version of the agreement that took into account these concerns (Poitras & Robinson, 1994; Heredia, 1994). In the end, the combined efforts of different actors opposing NAFTA were not enough to significantly alter the results of negotiations.

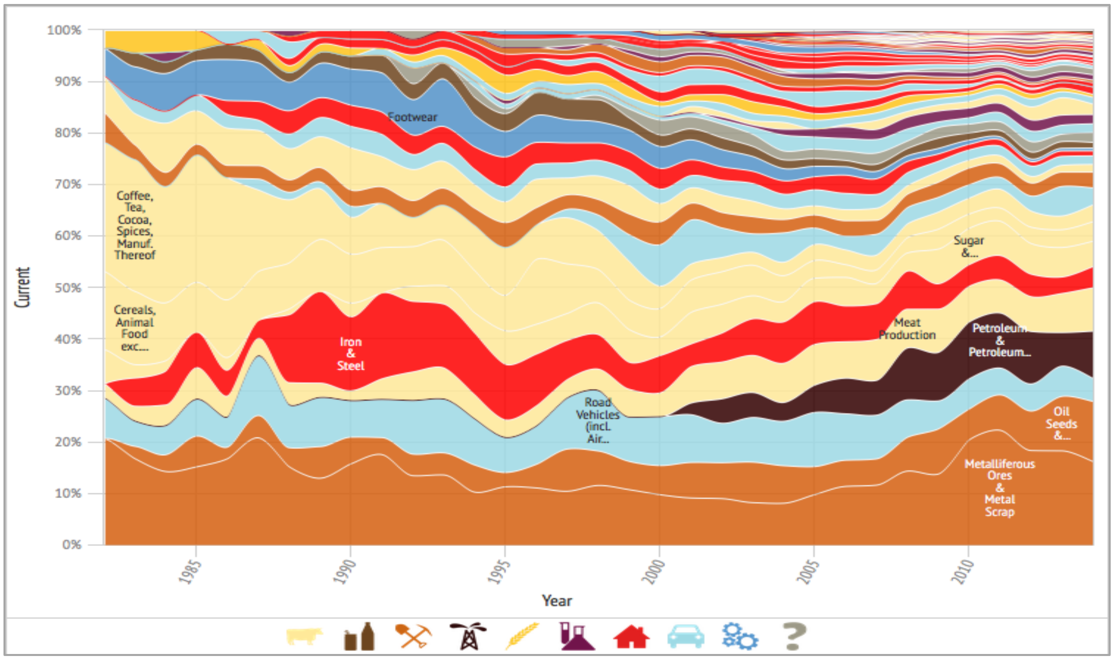
Conclusions

53. Mexico's pursue and implementation of the North American Free Trade Agreement (NAFTA) was a pro-growth policy strategy that deepened Mexico's economic liberalization process at a time of crisis and macroeconomic stabilization. In that context, NAFTA constituted a commitment device to investment that ensured continuity to both the stabilization and the liberalization processes. NAFTA was possible for Mexico thanks to a new coalition between public and private elites that had recently gone through a deep transformation process themselves. After more than twenty years, NAFTA has significant results in terms of trade, non-oil exports and investment; however, the evidence on its impact in growth and development is mixed. The asymmetry of negotiation power between the United States and Mexico affected the agreement, but its final shape and implementation were impacted in important ways by Mexico's political realities. Two examples of this: The highly hierarchical, *camarilla*-style line of command of the Mexican team derived in in controversial concessions and strategic mistakes in the areas of agriculture and financial services. Later, a corporatist, authoritarian regime induced a weak supplementary labor accord that could have had the potential of effectively promoting higher equity through strengthened workers rights and more democratic industrial relations.

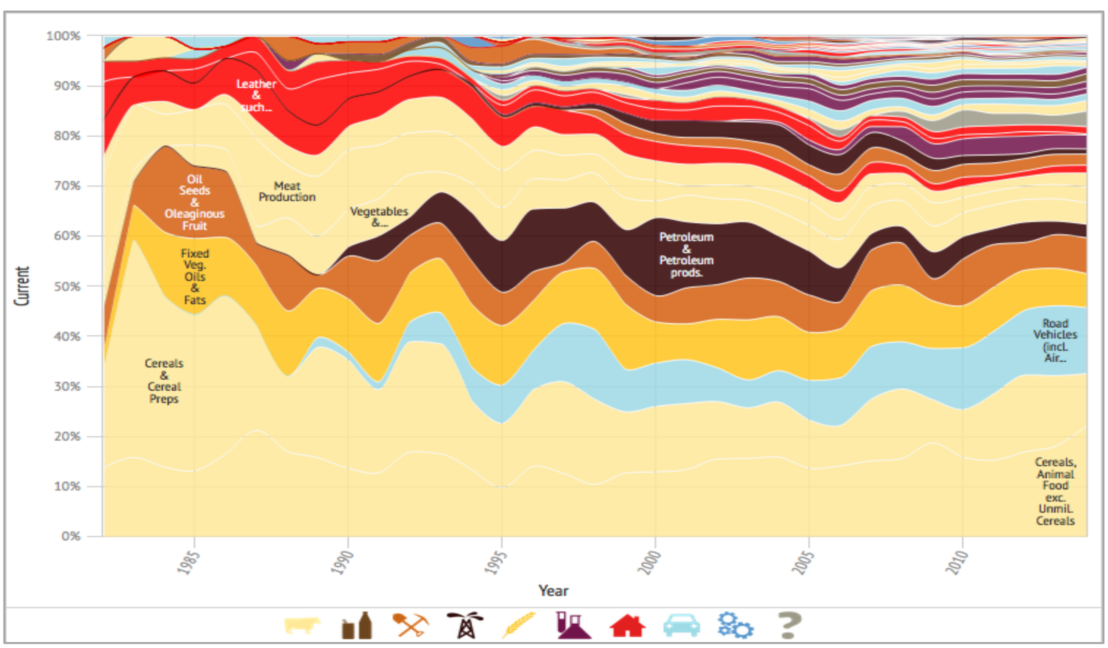
Annexes

Annex 1. Exports Diversification in Argentina, Brazil and Chile (SITC4, Gross, Current Totals), 1982-2014. Source: The Atlas of Economic Complexity (2016).

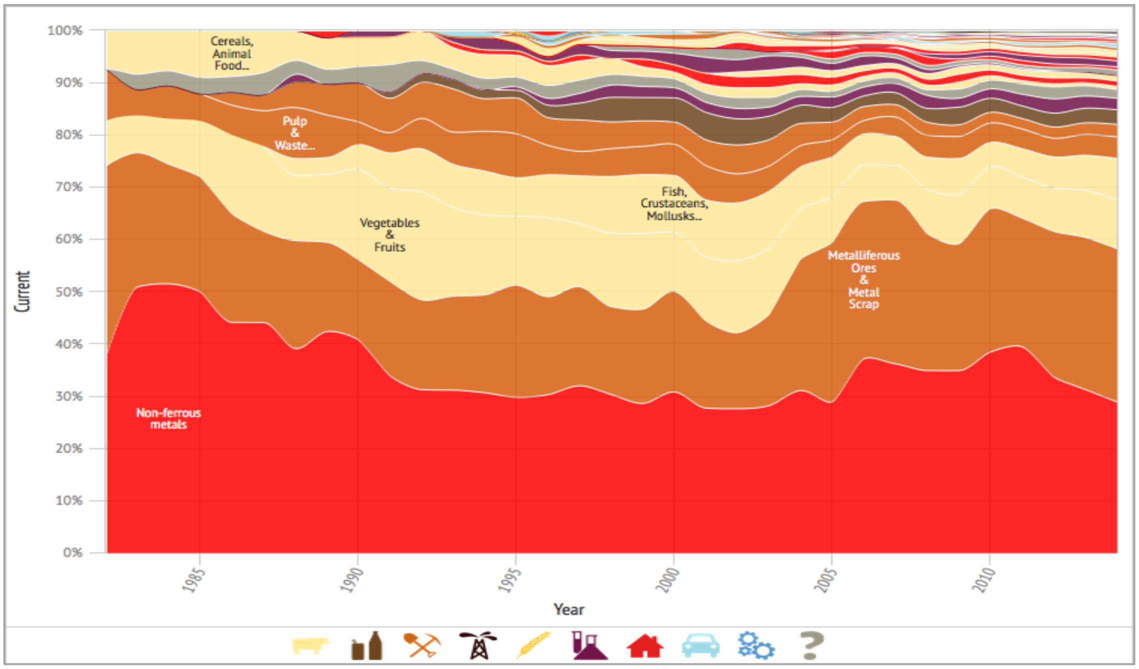
Argentina



Brazil



Chile



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