

WILL THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA)

SUPPORT THE CITIZENS OF MEXICO AGAINST ELITE EXPLOITATION?

by

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## ABSTRACT

### WILL THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) SUPPORT THE CITIZENS OF MEXICO AGAINST ELITE EXPLOITATION?

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Throughout this century, the Mexican Government has been dominated by the well-connected who have benefitted from favorable government rulings and lucrative contracts. Mexico has also had a tragic pattern of boom/bust cycles culminating in severe financial collapses which have caused painful suffering for the masses while the elites have preserved their privileges. But this time, NAFTA may be a critical factor in helping Mexican reformers create a fundamentally different economy.

This paper will review how government spending in Chiapas benefitted the rich at the expense of the poor, how Mexican citizens are trying to change political processes, and how NAFTA may help shift government from elite favoritism to technocratic criteria, which in turn will benefit the average citizen. This paper will conclude with an analysis of how the three government decision-making models of Graham Allison (Rational Actor, Organizational Process, and Government Politics as discussed in his classic work about the Cuban Missile Crisis, The Essence of Decision) can be used to assist international agencies in evaluating the quality of decision-making in developing countries.

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Throughout this century, the Mexican Government has been dominated by the well-connected who have benefitted from favorable government rulings and lucrative contracts. A recent indictment of the Mexican elites comes from the Pulitzer Prize author, Andres Oppenheimer, in his 1996 book, Bordering on Chaos in which he describes the factors leading to the Chiapas rebellion and the subsequent events that culminated in the political destruction of President Carlos Salinas. In public remarks at the Americas Society in New York in May 1996, Oppenheimer voiced his concern that history could easily repeat itself in another boom/bust cycle whereby international markets extoll the potential of Mexico which is then followed by a shocking financial collapse. This tragic pattern over the last five decades has led to painful suffering for the masses while the elites have preserved their privileges. But this time, NAFTA may be a critical factor in helping Mexican reformers create a fundamentally different economy.

This paper will review how government spending in Chiapas benefitted the rich at the expense of the poor, how Mexican citizens are trying to change political processes, and how NAFTA may encourage technocratic decision-making. This paper will conclude with an analysis of how the three government decision-making models of Graham Allison (Rational Actor, Organizational Process, and Government Politics as discussed in his classic work about the Cuban Missile Crisis, The Essence of Decision), can be used to assist international agencies in evaluating the quality of decision-making in developing countries.

### Chiapas

Chiapas became important because of intensive media attention which was attracted to powerful symbols beginning with the rebellion which started on the New Year's Eve before the first official day of NAFTA, and continuing with several interviews involving the mysterious magnetism of the masked figure of Subcommander Marcos surrounded by colorful Indian tribesmen in the jungles of southern Mexico. These dramatic events highlighted the fundamental reality that Chiapas contributed large amounts of natural resources to Mexico but that the governing entity, the Institutional Revolutionary Party (PRI) had done almost nothing for its people. As Oppenheimer describes it:

Chiapas peasants were the utmost symbol of Mexico's uneven distribution of wealth...Chiapas supplied nearly 60% of Mexico's hydroelectric power, 47% of its natural gas, and 21% of the country's oil and was one of Mexico's top producers of lumber, coffee, and beef. Yet about a third of all households in the state did not have electricity, and half of its population did not have access to drinking water.

To make matters worse, in the face of abject poverty the federal government squandered money on two dubious projects benefitting the elite: a Chiapas airport built in the worst possible geographic location but on land that had been owned by a former governor of Chiapas and a new \$11 million opera house near a historic colonial theater. Chiapas would now have two major performing arts centers in the midst of widespread poverty.

Chiapas also demonstrated the weakness of Solidarity--President Salinas's favorite government initiative that was devoted to self-help programs for the working-class and poor peasants of Mexico. In Chiapas, President Salinas had participated in a ribbon cutting ceremony for a new hospital in a remote jungle village complete with manicured gardens financed by Solidarity. The hospital is now nearly empty in a poor rural area that does not have a single paved road while the contractors who built the hospital continue to enjoy its construction profits. The Chiapas rebellion dramatically revealed the soft underbelly of Mexico's economic development--tremendous natural resources fueling comfortable lifestyles for the wealthy alongside the absence of electricity or safe drinking water for poor peasants.

### Changing Political Processes in Mexico

The big question in Mexico is will power transfer peacefully from those well connected to the old establishment to new reformist elements who will facilitate a technocratic government whose decisions benefit the masses? There are essentially two views about this question--one, the powerful will not allow significant change and the hopeful opposite, democratic forces are underway that will eventually transform the existing governing structure. Andres Oppenheimer is concerned that significant change will not happen:

key players in Mexico's drama of the mid-nineties had not learned the lessons of the past and that--once again--meaningful political reforms would be put off for better times....the Zedillo government was making sounds of triumphalism despite the lack of any progress in curing Mexico's chronic ills. (p. 323)

But despite Oppenheimer's concern, he details several forces which may lead to a political transformation. The major source of change comes from Northern Mexico, especially its industrial capital, Monterrey. In a chapter entitled, "the Northern Offensive," Oppenheimer describes the significance of the newspaper, Reforma, funded by the prosperous Junco family from Monterrey. It started publishing in Mexico City less than three years ago in November, 1993, and now has a circulation of over 100,000. Prior to Reforma, the media in Mexico City was highly dependent on government revenues and thus unlikely to be overly critical of the source of its funding. In 1995, investigative reporting by Reforma revealed extensive resume embellishment by high government officials which then led to the resignation of the Education Minister, Fausto Alzati. The Reforma is not just the beginning of a genuinely independent press in Mexico City, but it also represents a major cultural offensive. In discussing the resume padding scandal, Oppenheimer quotes its publisher, Alejandro Junco, as follows:

The scandal is somewhat illustrative of Mexico City's culture of make-believe where appearances are what counts the most. Northern Mexico, on the other hand, is more result-oriented. There is a tradition of hard work. When we were preparing to come to Mexico City, a politician close to Colosio called me aside and gave me some advice after he saw me arriving in a taxi, "Look, Alejandro, he told me, Mexico City is different: You can't be a newspaper publisher and arrive in a taxi. Nobody will take you seriously unless you have guards, assistants, and somebody to announce by telephone that you are about to arrive." The trouble with Mexico City is that people take themselves too seriously. There is growing influence of Northern Mexico over the center and the south. The culture of Monterrey is much more attuned to the culture of an economically and politically open Mexico. We are more used to the new buzzwords of competitiveness, productivity, hard work. In Mexico City, it's who you know, who is about to get what government job, how you can make a contract with whom. It's two different cultures. (pp. 280-281)

Another way in which Northern Mexico is different from Mexico City is its close proximity to the United States. The American example has created a desire in Northern Mexico that local, state and federal governments in Mexico should govern in a way that benefits the masses with a minimum of corruption. This expectation has helped fueled the election successes of Mexico's major opposition party, the National Action Party (PAN). The real test of political change will be whether the PRI will allow the PAN to win elections throughout Mexico including control of the Federal Congress and the Presidency.

Central to this is continuation of election reforms that are centered around the Federal Electoral Institute (IFE). Although their activities are currently bogged down in disputes between the PAN and the PRI, the IFE did contribute to a reasonably honest election in 1994 and 17 peaceful elections in 1995. Hopefully, despite slow and difficult negotiations the IFE will achieve permanent democratic reforms helping foster a fast evolution away from the authoritarian legacies of Mexico. Importantly, the IFE discussions are being actively monitored by a free press which in turn puts pressure on the PRI to make reforms, even if they find them uncomfortable. An example of a free press reporting on Mexican progress towards a more vigorous civil society is reflected in the April 1996 issue of Mexico Business. The cover article is an independent critique of the Mexican Postal Service discussing its strengths and weaknesses and making recommendations for improvements in order to reach modern standards. In the middle of the magazine are five articles: one by a leading academic on Mexican crime; the second is an interview with the Governor of the Northern State, Nuevo Leon from the PRI who mentions that his government has put people in jail for corruption, and the third features an interview with Santiago Creel who is a "citizen counselor" appointed to the Federal Electoral Institute. He very openly critiques the lack of progress towards reform in a three page article. The fourth article is headlined "Civil Disobedience" in Michoacan, and the fifth is entitled "Checks and Balances" and discusses democratic reforms in the Mexican Congress. For a business

publication to have five consecutive articles examining the pace of government reform in Mexico is one example of the pressures pushing for democratic modernization.

#### NAFTA and Technocratic Decision-Making

NAFTA has one overriding dimension--it has challenged all Mexican institutions to meet new standards. Mexican businesses must prepare for competition from American and Canadian companies. Government agencies must contend with North American corporations who can now pressure various agencies to meet NAFTA standards with the potential backing of the American and Canadian governments. At a meeting in New York to discuss the energy sector in Mexico, an American executive said that his company had pursued new projects in Mexico optimistically but not fully certain that the new NAFTA regulations would be developed and implemented in a fair and evenhanded manner. He said his company has been delighted with the quality of Mexican government decisions and he looked forward to further investments, particularly in view of the tremendous untapped natural gas potential in Mexico. The confidence generated by the NAFTA approach to business in Mexico is perhaps not yet fully appreciated. In The New York Times of May 23, 1996, it is reported that Samsung moved its manufacturing operations from New Jersey to Tijuana, Mexico in 1991 but waited until NAFTA began in 1994 before making aggressive investments. It now plans to invest \$581 million in a TV factory. Daewoo Corporation has also announced plans for a \$250 million picture tube investment in Baja California. NAFTA has provided not only a source of low cost manufacturing for the North American market, but it has made companies more confident that future Mexican governments will not suddenly make sweeping changes that could jeopardize their investments. Prior to NAFTA, the government could easily raise the specter of American capitalistic imperialism and use the Mexican flag to shield itself from further scrutiny of its decisions. It is now more difficult to do so.

Another element that must be reformed is the Mexican judicial system. One of the key objections raised in the NAFTA debate prior to the ratification by the American Congress was the lack of an independent court system in Mexico to ensure fair enforcement of treaty provisions. This is not just an American issue because many Mexicans have also called for better law enforcement both among the police and in the judicial system.

#### The Hopeful Mexican Future

Mexico has been dominated for decades by the PRI which has led to wealth for those who have been well connected to government ministers. Perhaps the PRI will now be reformed so that it becomes solely a vehicle to elect public officials with an arms length relationship to the government similar to the Republican and Democratic parties in the United States. The internal reform of the PRI has been and can be expected to be strongly resisted from within the party by those who have a vested interest in the current modus operandi. Perhaps the only way to transform the PRI is for opposition parties to win elections throughout Mexico which would create a democratic society with alternation of governing parties monitored by a free press. In states where the PAN have won gubernatorial elections, a democratic process of give and take between PAN governors and the PRI legislatures has ensued which has resulted in better government for the masses. Achieving this throughout Mexico will require reforms that lead to

relatively honest elections. Pressures from human rights activists in conjunction with healthy opposition parties supported by a free press should result in continued democratic progress. A genuine political competition should hopefully lead to political parties seeking votes by providing electricity, safe drinking water, and widespread public education as opposed to past practices where the PRI party officials enriched the well-connected knowing they could not lose elections.

Much of NAFTA now revolves around implementation of the framework created by the NAFTA treaty. A series of rational decisions will inspire greater business confidence and generate a virtuous cycle of growing prosperity that could lead to further industrialization and economic growth. An emphasis on technocratic decision-making will minimize the ability of the elite to secure unwarranted government support. North American corporations in the pursuit of their economic interests will be in a position to aggressively seek evenhanded decisions and if they feel the government is unfair, they can use new media like the Reforma to highlight misdeeds. NAFTA, in effect, has forged a partnership between North American corporations and Mexican reformers to insist on a more transparent technocratic government which rules by law instead of on behalf of who is best connected. A vigorous free press enhanced by the American spotlight could help foster an overall Mexican climate of intelligent government and market decisions that fuels an expanding economy and greater tax revenues. Democratic elections should then result in a better standard of living for Mexican citizens, especially for the working class and the poor.

#### The Three Models of Rational Actor, Organizational Process, and Government Politics and Their Applicability to International Development Agencies

Elites throughout the world have always pursued their vested interests, often by dubious means. Furthermore, extensive corruption has existed in even great success stories such as South Korea with its widely shared improvements in living standards for most of its people. But in contrast, corruption in the Phillipines enriched wealthy families, while the masses suffered. To evaluate the overall quality of decision-making in developing countries, the three models of Graham Allison can be utilized. For example, if one compares the Phillipines and Mexico with South Korea and Singapore, the well-connected benefited in all four countries from government politics. However, South Korea and Singapore have relied more on rationality and the utilization of strong government agencies who have emphasized technocratic criteria in their decision-making in comparison to the Phillipines and Mexico.

In the Phillipines, the rationality of President Fidel Ramos and his emphasis on decisions that advance economic progress has largely overcome the political paralysis of President Cory Aquino which was apparently bogged down in government politics. Hopefully, the administration of President Zedillo in Mexico will go beyond the government politics of previous Mexican governments and put more emphasis on rationality and the technocratic decision-making associated with Organizational Processes. Another perspective on Mexican decision-making comes from

Roderic Camp in his analysis of the sociological backgrounds of Mexican government officials during this century. His research showed that senior officials in Mexican governments until the last year of the Portillo administration in 1982 had been largely educated in European schools with heavy doses of legalistic and Marxist training, but that subsequent administrations have been dominated by American educated economists. A shift in mindset has occurred culminating in the NAFTA treaty that has essentially reversed the prior system of government decrees built around extensive tariffs and licenses in pursuit of an import substitution economic policy. In contrast, the economic reasoning behind the NAFTA treaty has institutionalized free market policies favored by American educated Mexican officials. In effect, Presidents De La Madrid and Salinas have served as transition figures during a decade-long shift into a new economic era for Mexico that according to plan should have begun smoothly on January 1, 1994 before Chiapas and the peso devaluation upset the free market applecart. But 1994 and 1995 can be viewed as two years of awful thunderstorms which are possibly on the verge of clearing. The NAFTA construction site is now almost free of major weather delays and economic work can now fully resume. A shift from too much Model III government politics to more Model I and Model II rational organizational processes may have occurred in both Mexico and the Philippines.

The implications for development agencies is that countries should be evaluated on the basis of the three models, particularly the balance among them. As Graham Allison has emphasized, no model should be used alone, but that all three have analytic value. Hopefully, Mexican reformers beginning with President De La Madrid have shifted Mexico towards economic rationality and organizational processes that will lift more of the poor into a middle class standard of living. NAFTA and the positive influences north of the Rio Grande may not only encourage genuine democratic improvements for the citizens of Mexico but also serve as a strong barrier preventing the return of the worst kinds of elite exploitation.