4

North America's Journey

In 1990, when President Carlos Salinas of Mexico proposed a free trade agreement with the United States, the US gross domestic product was about 20 times larger than Mexico's and 10 times larger than Canada's. Asymmetry, whether in size of the economy or of the military, is the defining characteristic of the relationship of North America's three nation-states.

In contrast, the principal members of the European Union have economies that are closer in size. It is true that Germany's economy is 183 times larger than Luxembourg's, but the four largest economies—Germany, the United Kingdom, France, and Italy—all are much closer in population and per capita GDP than are the countries in North America. Between the richest and poorest EU member-states, the per capita GDP ratio has varied from 2.4:1 in 1960 to 3.3:1 in 1997—quite modest as compared with the 8:1 ratio between the United States and Mexico in 1960 and 1997, with some variations in between because of an overvalued exchange rate in Mexico (table 4.1).

Distances within North America

It is not just the asymmetry; history also counts. Europe's traumatic 20th-century history has been a unifying force since the Second World War. In contrast, North America has been divided by its history and, more precisely, by its memory of 19th-century conflicts.

Lacking a unifying or traumatizing motive, the governments of North America were reluctant to consider a framework that could advance inte-

Table 4.1 Ratio of GDP per capita between richest and poorest country in the European Union and NAFTA, 1960-97

Group	1960	1970	1980	1990	1997
European Community/ European Union[a] (1957)	2.37 (Luxembourg/ Italy)	1.82 (Luxembourg/ Italy)	2.33 (Luxembourg/ Ireland)	2.43 (Germany/ Greece)	3.31 (Denmark/ Portugal)
NAFTA (1994)	8.01 (United States/ Mexico)	7.25 (United States/ Mexico)	4.07 (United States/ Mexico)	5.97 (United States/ Mexico)	8.20 (United States/ Mexico)

NAFTA = North American Free Trade Agreement.

a. Considers only those nation-states that were members of the organization for each year.

Sources: World Bank, *World Development Indicators*, CD-ROM, 1999; United Nations, *Compendium of Social Statistics* (New York, 1980 and 1988).

gration. "Americans do not know, but Canadians cannot forget," writes Seymour Martin Lipset, "that two nations, not one, came out of the American Revolution." The United States of America emerged confident and proud of its revolution, and Canada defined itself to a considerable extent as "that part of British North America that did not support the [American] Revolution."[1] In 1812, the United States tried, but failed, to annex Canada, and the fear that the formidable Union army in 1865 might trek north to try once again to expel the British was the principal reason why Canadians sought independence, and why the British accepted it in 1867 in the form of a dominion within the British Empire. (Both judged correctly that the United States was less likely to make war against an independent Canada.)[2]

Canadians remained wary of a close relationship with the United States. In 1911, the Canadian prime minister lost an election for concluding a free trade agreement with the United States. Thirty-seven years later, Prime Minister William Lyon McKenzie King refused, at the last minute, to approve a free trade agreement with the United States, evidently fearing a similar political result.

Mexico's history has some similarities to Canada's, but its anxieties about the United States are more intense. Having lost its war and a third of its territory in the 19th century, and having suffered several military interventions in the early 20th century, Mexico's distrust of the United States was deeper than Canada's. Because it has been less stable, prosper-

1. Seymour Martin Lipset, *Continental Divide: The Values and Institutions of the United States and Canada* (New York: Routledge, 1991), 1, 42.

2. Michael Howlett, Alex Netherton, and M. Ramesh, *The Political Economy of Canada: An Introduction*, 2d ed. (New York: Oxford University Press, 1999), 163.

ous, and democratic, Mexico also bears a heavier sense of inferiority. For this reason, any proposal from the United States to reduce trade or investment barriers was usually met with a curt rejection—when officials deigned to respond.[3]

The rationale for a more distant relationship with the United States was most clearly articulated by a young intellectual in the 1980s. ''In the case of two nations as disparate in size, power, and wealth as Mexico and the United States,'' wrote Jorge G. Castañeda, ''the weight of economic superiority can be crushing and can lead to a permanent loss of significant attributes of sovereignty and cultural identity.'' Castañeda, who would become Mexico's foreign minister under the Fox administration, then felt that integration could lead to ''political subservience in foreign policy and domestic affairs, as well as a progressive fading of the country's heretofore vigorous cultural personality.'' Mexico, he feared, could become ''less Mexican,'' and therefore the best foreign policy was to keep Washington at arms' length.[4]

Given the history and the imbalance in power, perhaps the only way to have reached a North American Free Trade Agreement was for the United States' neighbors to lead. And, of course, that is what occurred in the mid-1980s—first in Canada, and then in Mexico. In the 1970s, the Liberal Party under Pierre Trudeau had given Canadian nationalism an edge that made many Canadians proud and others very uneasy. New laws promoted by Trudeau discouraged foreign investment and raised tensions with the United States, and when a deep recession struck Canada in 1982, businesses realized that the Canadian market was not large enough to permit them to grow. A Canadian observer wrote: ''They [Canadian businessmen] wanted to become more export-oriented, but were reluctant to make the necessary investment in the face of continued trouble in the Canada-US relationship.''[5] In 1984, a national election brought the Progressive Conservative Party under Brian Mulroney to power with a large majority. Although his party had also opposed free trade with the United States, Mulroney recognized a change in the public mood in favor of experimenting with more open trade with the United States. Reagan responded positively, and both governments negotiated a free trade agreement and signed it in 1988.[6] In the same year, Mulroney

3. In the 1970s, the US administration of Jimmy Carter proposed a number of possible agreements to minimize trade disputes, and Reagan, during his campaign and his administration, proposed a ''North American Accord,'' a free trade agreement.

4. Robert A. Pastor and Jorge G. Castañeda, *Limits to Friendship: The United States and Mexico* (New York: Alfred A. Knopf, 1988), 241.

5. Michael Hart, *Fifty Years of Canadian Statecraft: Canada at the GATT, 1947-1997* (Ottawa, Canada: Centre for Trade Policy and Law, Carleton University, 1998), 168. Hart is a Canadian scholar and trade negotiator.

6. For two analyses of the issues and the agreement, see Paul Wonnacott, *The United States and Canada: The Quest for Free Trade* (Washington: Institute for International Economics, 1987); and Jeffrey J. Schott and Murray G. Smith, eds., *The Canada-United States Free Trade Agreement: The Global Impact* (Washington: Institute for International Economics, 1988).

called an election, and the free trade agreement was heatedly debated, with the Liberals expressing determined opposition. Mulroney won re-election, but by a narrower margin. There was uncertainty in Canada about the new trade agreement.

The reversal on free trade by Mexico and its president, Salinas, was even more startling than Mulroney's. Mexico had a history of defensive nationalism, particularly aimed at its northern neighbor, which was always more strident than Canada's. In the mid-1970s and the early 1980s, Mexico sharply restricted foreign investment and increased the state's role in the economy. When the debt crisis threatened to bankrupt the country in 1982, its leaders underwent a period of self-examination and emerged with the help of the International Monetary Fund and others to embark on a more export-oriented policy. This meant that the government sharply reduced tariffs and limitations on foreign investment; introduced fiscal discipline; and privatized state-owned corporations.

When Salinas took office in December 1988, he understood that the success of the Mexican economy depended on whether it could attract large sums of private investment. He went first to Western Europe, but found the governments focused on incorporating Eastern Europe after the end of the Cold War. Still interested in diversifying its relationships from excessive reliance on the United States, he went next to Japan. There, he was distressed to find the Japanese very cautious about challenging the United States in its neighborhood. He pondered his next step, realizing that the opening of Mexico's economy in the previous 5 years had left it vulnerable to arbitrary acts of protectionism by the United States, and that the Canadian Free Trade Agreement, which had just been concluded, had addressed that concern adequately. He therefore turned to Washington for a free trade agreement and for the key that would presumably unlock the door of foreign investment.[7] The United States had always been *the* problem and *an* opportunity for Mexico, but no one grasped the opportunity quite like Salinas did.

NAFTA: Description and Evaluation

NAFTA aimed to eliminate all trade and investment barriers and level the playing field in procurement, telecommunications, banking, services, and other sectors.[8] To secure the market, the three governments created a state-of-the-art dispute settlement mechanism. Instead of trying to estab-

7. This summary of Salinas' views on trade is derived from numerous interviews that the author had with Salinas from 1979 through 1994, particularly during the period 1989-92, when his views on NAFTA took shape.

8. For a description and preliminary analysis of NAFTA, see Robert A. Pastor, *Integration with Mexico: Options for U.S. Policy* (Washington: Twentieth Century Fund, 1993); and see Gary C. Hufbauer and Jeffrey J. Schott, *NAFTA: An Assessment*, rev. ed. (Washington: Institute for International Economics, 1993).

lish an institution to negotiate the reduction or harmonization of policies, as the European Union had done, NAFTA selected a few sectors and harmonized the policies in the agreement. The agreement was a minimal one that reflected the Canadian and Mexican fear of being dominated by the United States and the US antipathy toward bureaucracy and supranational organizations. It was an ''invisible hand,'' a classical liberal framework whose principal shared goal was to eliminate impediments to trade.

Except for a few objective analyses of NAFTA's effect on the three economies, most assessments of its progress resumed the debate that had been fought over the original agreement.[9] In a letter to Congress transmitting a mandatory 3-year assessment, President Clinton naturally defended the agreement: ''NAFTA has already proved its worth to the United States during the three years it has been in effect.'' The Office of the US Trade Representative concluded in that report that NAFTA had had a ''modest positive effect'' on the US economy, and that it had helped Mexico to recover after the peso crisis much more quickly than it had after its 1982 debt crisis. Curiously, the report does not discuss NAFTA's effect on Canada, perhaps because that was less controversial in the United States. The report also describes some of the cases heard by the labor and environmental commissions and sees progress in both areas.[10]

On the other side, a coalition of opponents to NAFTA, including the Economic Policy Institute, the International Labor Rights Fund, Public Citizen, and the Sierra Club, produced a report entitled ''The Failed Experiment: NAFTA at Three Years.'' The report concluded that US business had used NAFTA as a threat to reduce wages, that the United States had sustained major trade deficits with its neighbors, that NAFTA had contributed to Mexico's peso crisis and Canada's recession, and that NAFTA had been ineffectual on labor rights and silent as ''an already heavily polluted border region [became] much dirtier and more dangerous.''[11] Another assessment 2 years later by Public Citizen concluded that conditions had deteriorated further.[12]

In an astute review of the debate on NAFTA, Weintraub shows how many of the arguments used by advocates and opponents circle around

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9. For an excellent assessment of the original agreement, see Hufbauer and Schott, *NAFTA: An Assessment*; George Grayson, *The North American Free Trade Agreement: Regional Community and the New World Order* (Lanham, Md.: University Press of America, 1995); and William A. Orme, Jr., *Understanding NAFTA* (Austin: University of Texas Press, 1996).

10. Office of the US Special Trade Representative (USTR), *Study on the Operation and Effects of the North American Free Trade Agreement*, July 1997.

11. Economic Policy Institute et al., *The Failed Experiment: NAFTA at Three Years* (Washington, 1997).

12. Public Citizen, Global Trade Watch, ''NAFTA at Five: A Failure,'' December 1998, http://www.citizen.org/pctrade/nafta/reports/5years/htm.

similar criteria—related to the balance of payments or the gain and loss of jobs. He argues persuasively that these criteria are misleading and that a more useful assessment of NAFTA's progress would be based on its effect on total trade, productivity, intraindustry specialization, industrial competitiveness, environmental effects, and institution building.[13]

With regard to NAFTA's principal goals on trade and investment, the agreement has been a resounding success. In 1993, Mexican tariffs averaged about 10 percent, 2.5 times those of the United States. By 1999, Mexican tariffs had fallen to 2 percent, and import licensing and other nontariff barriers had been eliminated. Today, two-thirds of all US exports enter Mexico duty-free. Nearly all goods that were traded between Canada and the United States now enter duty-free. Agricultural products are the most sensitive, and thus free trade in this area has been delayed until 2008.

As barriers declined, trade and investment soared in all three directions during the 1990s. If we take its goal as aiming to reassure businesses in all three countries of a secure continental market, then we can use 1990, when negotiations began, as one benchmark. From that year to 1999, exports among the three North American countries climbed from $229.9 to $585.1 billion—an average annual rate of growth of 10.9 percent—double the rate of growth of the three countries' exports to the world.[14] Mexico's exports to the United States leaped from $18.4 billion in 1990 to $111 billion in 1999; and its imports from the United States, from $20 to $87 billion (see table 1.3).

Just from the moment NAFTA came into force in January 1994 until 1998, trade more than doubled among the three, and in 1997, Mexico leapt over Japan to become the second most important market for US goods and services—behind Canada. By then, the triangle was completed; Mexico and Canada had become each other's third largest trading partners, after the United States and the European Union.[15] The effect on Mexico is even more profound if one looks back to 1985 when it began reducing its trade barriers. That year, Mexico's total trade with the United States was $33 billion; 14 years later, it had expanded nearly sixfold, and in the process had transformed its economy. In 1981, oil accounted for 72 percent of Mexico's exports; by 1998, only 5.5 percent of Mexico's $117 billion worth of exports were oil, and 90 percent were manufactured goods.[16]

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13. Sidney Weintraub, *NAFTA at Three: A Progress Report* (Washington: Center for Strategic and International Studies, 1997), chap. 2.

14. Inter-American Development Bank, *Integration and Trade in the Americas: Periodic Note* (December 2000), 115.

15. For Mexican-Canadian data, see Naomi Adelson, ''About Face: The Move to Export-Led Growth,'' *El Financiero International Edition*, 14 June 1999, 3.

16. United Nations Economic Commission on Latin America and the Caribbean, *Economic Indicators*, table 18A, http://www.eclac.org/index1.html.

Even before Canada and the United States negotiated a free trade agreement, both countries were each other's most important trading partners. Still, from that sturdy base, from 1985 to 1998, total trade more than doubled—from $122 to $329 billion.[17] Of course, NAFTA is not alone responsible for this expansion, and it is difficult to estimate precisely how much the reduction in barriers due to NAFTA, as opposed to the Uruguay Round, accounts for the growth in trade. DRI/McGraw-Hill concluded that NAFTA had boosted trade between Mexico and the United States by $17 billion, which represented a $7 billion net US export increase from 1993 to 1996. Using a different model, the International Trade Commission concluded that there was "a strong statistical link between the increase in bilateral trade between the United States and Mexico and the implementation of NAFTA."[18]

Another study by a group of scholars from the University of California at Los Angeles (UCLA) showed that US imports from Mexico increased at an average rate of 6.4 percent in the 3 years before NAFTA and 20 percent in the years after it, but they also found that the imports of those commodities liberalized by NAFTA grew much less than those that were not affected by NAFTA liberalization. The expansion in Mexican exports was mostly in manufacturing and was due primarily to industrial integration by North American firms.

That same UCLA study examined the effects of NAFTA on jobs. Using a partial-equilibrium model that deliberately exaggerated an adverse effect on jobs by assuming that demand and productivity were fixed, the report indicated that as many as 300,000 jobs were lost during the period of 1990-97 due to import competition from Mexico and 458,000 due to imports from Canada. This is an average of 94,000 jobs lost *each year*. That figure, however, should be juxtaposed with the roughly 200,000 jobs that were being created *each month* during the 1990s. But those estimates of job loss were based on a model. The US Department of Labor actually certified that 46,826 workers lost their jobs due to Mexican imports from the date of NAFTA's approval in 1993 until July 1999, and about half as many (23,250) jobs were lost due to imports from Canada. The number of workers actually certified as unemployed because of NAFTA is less than 25 percent of the numbers estimated by the UCLA model. The point is that *the total number of jobs lost was trivial* in comparison with the more than 20 million jobs created from 1993 to 1999.[19]

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17. For trade statistics, see http://www.ita.doc.gov; or http://www.wto.org/english/res_e/statis_e/stat_toc_e.htm.

18. For a summary of these and other studies, see USTR report, 4-28.

19. Raul Hinojosa et al., *The U.S. Employment Impacts of North American Integration After NAFTA: A Partial Equilibrium Approach* (Los Angeles: University of California at Los Angeles, 2000, http://naid.sppsr.ucla.edu). For the number of jobs, see *Economic Report of the President* (Washington: US Government Printing Office, 2000), 26.

Indeed, that simple comparison suggests that the entire debate about trade's effect on jobs may have been misleading. President Clinton had argued that NAFTA would create jobs; Ross Perot, that it would destroy jobs. Both were correct but missed the point. Trade, though a growing part of the US economy, was still relatively small, and thus the creation and destruction of jobs was more closely related to business cycles than exports and imports.

NAFTA's impact on Canada may have been as consequential as on Mexico. Although two-way trade between Canada and the United States had always been high, it had stagnated for the decade before the Free Trade Agreement; then it doubled. An econometric analysis of the data by Canada's Department of Foreign Affairs and International Trade concluded that two factors explained the growth: economic expansion in the United States and trade liberalization due to FTA and NAFTA.[20] This conclusion was supported in a study by Schwanen, who showed that the sectors liberalized by the FTA had grown fastest, and the composition of its exports shifted from raw materials to manufactured goods and automotive products. Most of the growth in trade has been intrafirm and intraindustry, just as has occurred in Mexico and the United States.[21]

On the issue of foreign direct investment (FDI), all three countries were ambivalent, although in different ways. About the only thing that Canada and Mexico feared more than having too much investment by the United States was that they would have too little foreign investment. Both were concerned that a free trade agreement would exacerbate their dependence on US multinationals. To the extent that the US public followed the debate on NAFTA, the one issue that seemed to preoccupy them the most was the one popularized by Perot—that US businesses would move to Mexico to take advantage of cheap labor. In fact, a number of unusual patterns can be detected that are quite different from these fears and predictions.

Salinas's fear that foreign investors would not come even if he built NAFTA proved unfounded. From 1990 to 1998, FDI in Mexico nearly tripled—from $29.9 to $83.3 billion. What was surprising was that the share of that investment owned by Americans declined from 64.2 to 61.8 percent. To what extent was this due to NAFTA? Graham and Wada argued that most of the decisions by US firms to locate in Mexico were made before NAFTA was even announced. They believe the triggering event for the first round of major investments was the decision in the mid-1980s to open Mexico's economy and in particular to reach agree-

20. Shenje Chen and Prakash Sharma, Department of Foreign Affairs and International Trade, "Accounting for Canadian Export Growth: 1983-1997," Trade and Economic Policy Paper 97-01, http://www.dfait-maeci.gc.ca.

21. Daniel Schwanen, *Trading Up: The Impact of Increased Continental Integration on Trade, Investment, and Jobs in Canada*, Commentary 37 (Toronto: C.D. Howe, 1992) and *A Growing Success: Canada's Performance under Free Trade*, Commentary 52 (Toronto: C.D. Howe, 1993).

Table 4.2 Flows of foreign direct investment to Mexico, 1990-98 (millions of dollars)

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998
Flows to Mexico	2,634	4,762	4,393	4,389	10,973	9,526	7,619	12,830	10,238

Sources: Inter-American Development Bank and Institute for European-Latin American Relations (IRELA), *Foreign Direct Investment in Latin America: Perspectives of the Major Investors* (Madrid: IRELA, 1998), 36; United Nations Economic Commission on Latin America and the Caribbean, *Indicators* (Santiago, 2000), table C18.

ments with the United States on trade issues and on eliminating restrictions on foreign investment.[22] No doubt, this led to an important surge in foreign investment, but the decisions of the mid-1980s do not explain sufficiently two surges that occurred after 1990—first, in 1991 after trade talks began; and second, in 1994 after the agreement was approved (see table 4.2). From 1991 to 1993, average annual flows of foreign investment to Mexico increased by $4.5 billion, or 71 percent above that of 1990. During the period 1994-98, after implementing the agreement, the average annual level of FDI rose to $10.2 billion, or 127 percent above that of the previous period. The promise of NAFTA and then the reality affected those investment decisions at least as much, if not more, than the liberalization of the investment laws in the 1980s.

Canada's primal fear was that US corporations would purchase their national treasures, especially their oil.[23] The free trade agreement did stimulate major new investments, but the US share declined from 75 percent before the agreement to 68 percent in 1998.[24] The sharpest reduction was in the petroleum and mining sectors. Forty percent of US investments in Canada in 1966 were in those two sectors; by 1995, only 18 percent of US investments were in them. In contrast, during the past two decades, Canadian FDI in the United States has grown at an annual rate of 11 percent, which is more than twice the rate of growth of US investment in Canada.[25] By 1998, 53 percent of Canadian investment abroad, amounting to $126 billion, was located in the United States.[26]

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22. Edward W. Graham and Erika Wada, "Domestic Reform, Trade and Investment Liberalization, Financial Crisis, and Foreign Direct Investment in Mexico," *The World Economy* 23, no. 6 (June 2000).

23. See, e.g., Kari Levitt, *Silent Surrender: The Multinational Corporation in Canada* (Toronto: Macmillan, 1970).

24. Department of Foreign Affairs and International Trade of Canada, *Opening Doors to the World: Canada's Market Access Priorities, 2000* (Ottawa, 2000); the data are also available at http://www.dfait-maeci.gc.ca or http://www.exportsource.gc.ca.

25. Gary C. Hufbauer and Jeffrey J. Schott, *North American Integration: 25 Years Backward and Forward*, Paper 3 (Ottawa: Industry Canada, 1998), 14-17.

26. Department of Foreign Affairs and International Trade of Canada, *Opening Doors to the World*.

The US-Canadian Free Trade Agreement, and subsequently NAFTA, triggered a veritable avalanche of foreign investment into and out of Canada. FDI in Canada averaged Cn$11.5 billion annually between 1993 and 1997, and then in 1998, the rate doubled to $22.9 billion—to a bring total FDI in Canada to Cn$217 billion in 1998, more than double the level before the free trade agreement went into effect a decade before. This investment transferred new technology and increased Canadian productivity. But the unusual dimension was that Canadian FDI abroad surpassed the incoming flow. By the end of 1998, total Canadian FDI abroad amounted to Cn$240 billion—more than three times the level before the FTA.[27] The connection between expanded trade and investment could not be demonstrated in a more compelling way.

One of the objectives in the preamble of NAFTA is to ''enhance the competitiveness of their [Canadian, Mexican, US] firms in global markets.'' The automotive sector is the largest group of manufacturing industries in all three countries, and it constitutes roughly 40 percent of North American trade. Auto production is now continental. In 1962, with a highly regulated, protected auto sector, Mexico's automobile industry produced 67,000 cars. By 1997, after a series of decrees that liberalized trade in auto parts, Mexico produced 854,809 cars. It reserved 303,577 for the local market, and sold most of the rest to its two northern neighbors. By 1999, Ford was making its Escorts, General Motors its Silverados, and Chrysler its Ram Chargers in Mexico. Integration is a source of efficiency, but also of vulnerability. When autoworkers struck in Flint, Michigan, in 1998, General Motors plants in Silao, Saltillo, and Ciudad Juarez halted, and about 84,000 Mexican workers were idled.[28] Although Mexico's automaking capacity has been elevated, it still represents a relatively small proportion of total North American car production (8.2 million) and sales (9.3 million); the US proportion of the first was 73 percent, of the second, 89 percent.[29]

The auto industry is the most important and integrated in North America, but it is hardly unique in the way it has reorganized itself. In an analysis of surveys of the views of managers of US firms that have operations in Canada and Mexico, Blank and Haar concluded that NAFTA ''intensified trends already underway toward the development of continental-wide strategies and the creation of North American production,

27. *Ibid.*

28. Brendan M. Case, ''The United State of Mexico: Mexico Is Annexing Sectors of the U.S. Economy,'' *Latin Trade*, August 1999, 48-54.

29. For the data on production and sales and for analyses of the auto industry, see Sidney Weintraub and Christopher Sands, eds., *The North American Auto Industry under NAFTA* (Washington: Center for Strategic and International Studies, 1998), tables 1.2 and 1.3, 6-7; and Maureen Appel Molot, ed., *Driving Continentally: National Policies and the North American Auto Industry* (Ottawa: Carleton University Press, 1993).

marketing, and sourcing networks.''[30] Many US multinationals have reorganized themselves as North American companies, with plants in all three countries that use the comparative advantage of each plant and that respond to a continental market rather than three separate national markets. The term ''maquiladora,'' which was used to refer to assembly plants in Mexico, no longer captures the diversity and the advanced state of the new investments. Most of the new trade and nearly half of the total trade between Mexico and the United States is now intraindustry, which is just one more indication of the accelerating pace of integration in North America.[31]

The one foreign investment story that few anticipated was the growth of Mexican multinational corporations. In just one decade, beginning with fewer than 2,000 workers overseas in 1990, Mexican companies ventured into two dozen countries, employing about 70,000, with annual revenues of about $8 billion. CEMEX, the world's third largest cement company, and the Mexican food company Grupo Industrial Bimbo were the largest, but numerous Mexican auto parts companies were also exporting and investing in the United States and all over the world.[32] Corona replaced Heineken as the number one beer imported in the United States.[33]

Institutions and Flank Issues

The signatories of NAFTA deliberately wanted to avoid establishing any bureaucratic or supranational institutions. The core of the agreement was therefore self-executing or designed to be implemented by *each* government. Still, the dispute-settlement mechanism obviously needed some structure. The modus operandi was to create a ''NAFTA Free Trade Commission,'' which was a ''virtual'' structure; that is, it was simply a phrase to describe periodic meetings among the trade ministers of the three countries, ''with no permanent location or staff.'' Their meetings were intended to assess the implementation of the agreement, resolve any new disputes, and oversee the work of numerous committees established to

30. Stephen Blank and Jerry Haar, *Making NAFTA Work: U.S. Firms and the New North American Business Environment* (Miami: North South Center Press, 1998), 17, 23.

31. For the data on intraindustry trade, see ''Mexican Economic Integration,'' *Banamex Review of the Economic Situation in Mexico* 76, no. 900 (December 2000), 500-06.

32. Joel Millman, ''The World's New Tiger on the Export Scene Isn't Asian: It's Mexico: NAFTA Prodded Firms to Think Globally to Meet U.S. Challenge,'' *Wall Street Journal*, 9 May 2000, 1, 10.

33. Kenneth N. Gilpin, ''In Mexico, Stocks Rise as Growth Slows,'' *New York Times*, 3 June 2001, 8.

address specific issues described in each chapter in the agreement.[34] Each government maintains a ''NAFTA Secretariat,'' which technically assists the trade ministers, but in the case of the United States, the secretariat is a low-level staff person in the Department of Commerce. Weintraub described the Free Trade Commission as ''completely a creature of the three trade ministries,'' with no independent authority. Indeed, he views this and the other structures established by NAFTA as ''quite primitive.''[35]

To settle trade disputes, the governments deliberately established a ''mechanism'' rather than a permanent court. The ad hoc procedure has the advantage of avoiding a permanent bureaucracy. But by hiring experts on a case-by-case basis rather than permitting judges to accumulate experience and expertise, each new set of ''experts'' may repeat mistakes, rediscover after a period of trial-and-error expeditious procedures, or simply find themselves outmaneuvered by corporate counsel with vastly more experience than themselves.

There are three distinct mechanisms for settling trade or investment disputes, and each country has used all of them to initiate complaints. Between 1994 and 2000, the largest number of cases (76) were handled under ''Chapter 19,'' dealing with countervailing duties and antidumping. There were 16 ''Chapter 11'' cases dealing with investor disputes, and 4 cases of ''Chapter 20'' on other aspects of the agreement.[36]

From a Canadian perspective, Davey evaluated the process and the decisions and concluded: ''The dispute settlement mechanisms of the [FTA/NAFTA] have worked reasonably well . . . the basic goal of trade dispute settlement . . . is to enforce the agreed-upon rules. By and large, these dispute-settlement mechanisms have done that.''[37]

Among the concerns that have been raised about the dispute-settlement mechanisms, the most important relate to Chapter 11 on investment. Because one of the purposes of NAFTA was to encourage foreign investment, this provision was originally drafted to calm US investors' fears of expropriation by Mexico. No one had anticipated that it would be used in all three countries, in some cases to penalize the application of a more rigorous standard on chemical emissions than had existed when the corpo-

34. For a straightforward description and implicitly a defense of the dearth of staff and bureaucracy of the new institutions, see US General Accounting Office, *North American Free Trade Agreement: Structure and Status of Implementing Organizations*, GAO/GGD-95-10BR (Washington: US Government Printing Office, 1994).

35. Weintraub, *NAFTA at Three*, 69.

36. A full list of the cases was compiled by Antonio Ortiz Mena L.N., ''Dispute Settlement Under NAFTA: The Challenges Ahead,'' appendix 1, Division de Estudios Internationales, Centro de Investigación y Docencia Económicas, Mexico City, photocopy (24 May 2001).

37. William Davey, *Pine and Swine: Canada-United States Trade Dispute Settlement—The FTA Experience and NAFTA Prospects* (Ottawa: Centre for Trade Policy and Law, 1996), 288-89.

ration first made the investment but that is what happened. The NAFTA side agreement on the environment encourages the upgrading of environmental standards, but Chapter 11 turned this provision on its head, by permitting companies to sue governments for any changes, including new environmental rules, that could diminish or harm their investment. These decisions were criticized not just because of the outcome but because the court proceedings were confidential.[38] Certainly, more transparency is essential, but the three governments should also take steps to narrow the scope of this provision.

The center of NAFTA is trade, investment, and global competitiveness, but on the flanks of the agreement are the issues of labor and the environment. These side agreements were grafted onto the core at the initiative of President Clinton, who was inaugurated after NAFTA was signed. The Canadian and Mexican governments did not share his concerns about the need to address labor or environmental issues, but both acquiesced because the United States did not press for any supranational authority to regulate common standards. Instead, the negotiations produced relatively innocuous commissions for cooperation among officials responsible for each area in the three governments. Both the Commission for Labor Cooperation (CLC) and the Commission for Environmental Cooperation (CEC) provide citizens, corporations, unions, and nongovernmental organizations (NGOs) with an avenue for presenting their complaints. In the case of the labor agreement, since 1994, the CLC received 23 complaints—14 directed against Mexico, 7 against the United States, and 2 against Canada.[39]

Both commissions have done some useful work, and nongovernmental organizations from Canada and the United States have helped their counterparts in Mexico to develop and pursue complaints. But both commissions reflect the caution of their governments. No one has criticized them for being too aggressive or trying to forge common responses on difficult questions such as pollution on the border or labor rights in the apparel industry.[40] The International Labor Rights Fund, an NGO advocate on labor rights, which has petitioned the CLC several times, viewed the labor agreement as ''wholly inadequate to deal with the complex issues of cross-border labor regulation since it did nothing to correct the verified record

38. See Anthony DePalma, ''NAFTA's Powerful Little Secret: Obscure Tribunals Settle Disputes, but Go Too Far, Critics Say,'' *New York Times*, 11 March 2001, III, 1, 13.

39. For the submissions, see http://www.dol.gov/dol/ilab/public/programs/nao; also see http://www.naalc.org.

40. See Jacqueline McFadyen, ''NAFTA Supplemental Agreements: Four Year Review,'' Working Paper 98-4, Institute for International Economics, Washington, photocopy (1998); and Gary Hufbauer, Daniel C. Esty, Diana Orejas, Luis Rubio, and Jeffrey Schott. *NAFTA and the Environment: Seven Years Later*, Policy Analysis 61 (Washington: Institute for International Economics, 2000).

of nonenforcement of labor laws in Mexico, particularly in the maquiladora plants.''[41]

The mandate of the commissions have transnational goals—for example, to improve working conditions, living standards, and labor principles in a cooperative way in all three countries. The commissions could do more if the three governments decide to expand the mandates and increase their autonomy and resources.

The two fears raised by environmentalists during the debate on NAFTA—that Mexico would become a ''pollution haven'' and that this would lower environmental standards in Canada and the United States—were not borne out by subsequent events. NAFTA did not worsen environmental conditions in the three countries, but it did not do as much as many had hoped to improve the intolerable conditions on the US-Mexican border. Two studies of the impact of the CEC concluded that it has ''developed credibility in its nearly eight years as a North American policymaking body.'' Canadian and US environmentalists both in and outside government have worked closely with their Mexican counterparts to increase Mexico's capacity to monitor and enforce its environmental standards. Environmental officials in Mexico have noted that international support has helped them gain additional resources from their own governments. The CEC has also undertaken important projects on airborne pollutants and migratory species.[42]

During the debate on NAFTA in the US House of Representatives, President Clinton approved the proposal of Congressman Esteban Torres to establish a North American Development Bank (NADBank). The idea and the name had more weight than the mandate or the resources. It took considerable time before the NADBank became operational, but even then, its bilateral mandate limited its work to market-based loans for environmental projects on the border. On a parallel track, Mexico and the United States negotiated the establishment of a Border Environment Cooperation Commission (BECC) to assist border states and local communities to design and coordinate environmental infrastructure projects on the border area. The BECC, based in Ciudad Juarez, Chihuahua, involves local communities in the development of projects and then seeks financing from the private sector and NADBank, which is based in San Antonio, Texas. Mexico and the United States have each contributed $225 million

41. Cited in Latin American Working Group, Legislative Update, 6 February 1998, 5.

42. Gary C. Hufbauer, Daniel C. Esty, Diana Orejas, Luis Rubio, and Jeffrey J. Schott, *NAFTA and the Environment: Seven Years Later*, Policy Analysis 61. (Washington: Institute for International Economics, 2000); Jan Gilbreath, *The Environment and Trade: Predicting a Course for the Western Hemisphere Using the North American Experience*, joint publication of Mexico Project, Americas Program, Center for Strategic and International Studies, and Sustainable Americas Project, Yale Center for Law and Environmental Policy (Washington: Center for Strategic and International Studies, 2001), 46, 10.

of paid-in capital, which gives the bank a lending capacity of $2 billion. The combination of chronic poverty and rapid urbanization and industrialization on the border have created a multiplicity of health problems, involving water and waste treatment, solid and toxic wastes, and air pollution. The two institutions were very slow in getting organized, but by 2000, 29 projects had been started or completed.

There are varying interpretations of the effectiveness of these institutions. The Clinton administration in its 3-year evaluation in July 1997 defended the two institutions for improving the lives of border citizens, and the National Wildlife Foundation saw "promising potential" in the way the twin institutions were approaching the issues. Most everyone else has been critical. Public Citizen (an NGO) and the US General Accounting Office in 1996 found little evidence of improvement of the environment in the area. Researchers from UCLA and the National Council of La Raza also concluded that both organizations had done little.[43]

The most telling critique of these two border institutions was done by the staff of the NADBank at the request of its board in a draft paper that was posted on the World Wide Web. The report agreed that the health and sanitation of the border should remain the principal mission, but it acknowledged that "the Bank's lending capacity remains virtually untapped." Even in the 29 projects, the bank's loans were a minimal component. The report goes further: "The Bank's current lending capacity will *never* be fully utilized by water, wastewater, and solid waste projects" [*emphasis added*].[44]

The problem is twofold. First, the NADBank has a mandate to lend at market rates of interest for "sustainable" projects, but few communities in Mexico can afford to incur the kind of debt needed to fund these projects. They do not have the revenue to repay, and their residents could not afford higher utility prices. The interest rates are competitive but not affordable in Mexico, but the rates are not competitive in the United States because of the tax-exempt municipal finance market. Second, the bank

43. Public Citizen, *NAFTA's Broken Promises: The Border Betrayed* (Washington: Public Citizen Publications, 1996); US General Accounting Office, "Environmental Infrastructure Needs in the U.S.-Mexican Border Region Remain Unmet," Report to the Ranking Minority Member, Committee on Commerce, House of Representatives, GAO/RCED-96-179; USTR, Study on the Operation and Effect of NAFTA, July 1997; Angela Acosta et al, *A Latino Review of President Clinton's NAFTA Package: Part 2: The North American Development Bank, the Border Environment Cooperation Commission, and the U.S. Community Adjustment and Investment Program.* (San Antonio, TX: William C. Velasquez Institute, 1997); and Mark J. Spaulding and John J. Audley, *Promising Potential for the U.S.-Mexico Border and the Future: An Assessment of the BECC/NADBank Institutions* (Washington: National Wildlife Federation, 1997).

44. North American Development Bank, *Utilizing the Lending Capacity of the NADB*, draft, 20 June 2000, 4-5, see http://www.nadb.org/english/about_bank/overview/Overview_Text.htm.

has been reluctant to broaden its mandate and fund general infrastructure projects in the communities.

The NADBank's board of directors met on 16 November 2000 to consider the report. They decided that the bank should continue its focus on water pollution and wastewater treatment, but it also should consider financing other types of environmental infrastructure projects, including those outside the border region.[45] President Fox subsequently visited the bank and encouraged it to do more. These are important steps, but it is too soon to say whether the bank will be able to expand its capacity and improve significantly the quality of life on the border.

During the US debate on NAFTA, questions were raised about its impact on Mexico's political development. Some opposed NAFTA because they feared that the Institutional Revolutionary Party—which had governed the country since its revolution—would be so strengthened that it would postpone indefinitely any possibility of political liberalization. Others argued that rejecting NAFTA would encourage PRI hardliners to rebuild the walls—economically and politically—around Mexico, setting back the prospects for democracy. Mexico's subsequent political evolution proved a resounding rejection of the first argument. Through the course of the 1990s, as a result of new laws, Mexico's electoral institutions—primarily the Federal Election Institute and the Electoral Court—grew more independent, impartial, and professional. Gradually, public confidence in these institutions increased. In the 1997 national elections, the PRI lost its majority in Congress for the first time. And the first election for mayor of Mexico City was won by the leader of the leftist Democratic Revolutionary Party, Cuauhtémoc Cárdenas. This merely set the stage for the astonishing national contest on 2 July 2000. Vicente Fox Quesada, the presidential candidate of the Alliance for Change, whose core was the National Action Party (PAN), defeated the PRI candidate by a margin of 6 percent.[46] Few Mexicans would have predicted such a fundamental yet peaceful change.

How did it happen? The first breach in the armor of the hegemonic party-state occurred before the 1988 election with the defection of Cuauhtémoc Cárdenas, the former PRI governor of Michoacan and son of the revered president, Lázaro Cárdenas. Cárdenas' decision to contest the presidency opened the PRI's hitherto internal debate to the public and made criticism of the PRI and the government permissible. A second reason was the persistent demand for basic voting rights by the PAN and

45. See North American Development Bank, ''Expansion of NADB Sectors of Activity, Board Resolution 2000-10,'' San Antonio, photocopy (16 November 2000).

46. See the following three articles on the Mexican election in *Journal of Democracy* 11, no. 4 (October 2000): Andreas Schedler, ''The Democratic Revelation; Robert A. Pastor, Exiting the Labyrinth: Mexico's Path Toward Democratic Modernity;'' and Sergio Aguayo Quesada, ''The 'External Factor'.''

Mexican NGOs.[47] Third, the opening of Mexico's economy put pressure on the government to open the political system. The international costs of domestic political repression or even manipulation increased, as portfolio investors seemed to be greatly influenced by rumors or signs of political instability. Mexico could not secure a stable flow of foreign investment or join the modern world with an authoritarian political system. In that larger sense, NAFTA, the culmination of Mexico's economic opening, had a decisive effect in encouraging the political liberalization of the country.

In assessing the overall impact of NAFTA, Mexico probably has been affected the most. Its economy suffered a severe recession in 1995 primarily because its government mismanaged its foreign exchange in the face of a number of political crises, but a contributing factor was its increased dependence on foreign capital. Mexico, however, recovered quickly from that setback, and through the remainder of the decade, it sustained annual growth rates averaging about 5 percent. Trade and investment, particularly with its two northern neighbors, increased, although much of the investment was concentrated on the border area, where it also exacerbated social and pollution problems.

Mexico's economic transformation began before NAFTA, but it was consolidated, and in some ways accelerated, by the trade agreement. The country's dependence on trade (exports plus imports as a percentage of GDP) tripled from 19.7 percent in 1983 to 58.7 percent in 1999. It changed from an oil-dependent economy to one based on manufactured exports. Labor moved out of the rural areas at an exceptionally fast pace. Indeed, in 1960, more than half of Mexico's labor force was in agriculture, accounting for only 16 percent of GDP. By 1999, 22 percent of the population was on Mexico's farms, but they only produced 5 percent of the country's output.[48] NAFTA delayed the reduction in agricultural barriers, and so very little, if any, of this migration can be attributed to the agreement. Nonetheless, in the long term, the movement of workers from rural areas to cities will have as big an effect on Mexico's capacity to adapt to industrial-world competition as any other part of the agreement.

Except for its farms in the north—mostly growing fruit and vegetables—which are geared to the US market, most of Mexico's farms are small, obsolete, or lack any credit. Under Salinas, the Constitution was changed to permit the sale of land in *ejidos* (Indian cooperatives), but the government had scarce funds for credit or assistance to the small farmers. Privatization of the sugar industry permitted new investment. Mexico

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47. For an excellent description and analysis of this process, see Vikram K. Chand, *Mexico's Political Awakening* (Notre Dame, IN: University of Notre Dame Press, 2001).

48. For the data, see Michele Veeman, Terrence Veeman, and Ryan Hoskins, "NAFTA in the Next Ten Years: Issues and Challenges for Agricultural Trade and Policy," University of Alberta, Edmonton, photocopy (May 2001).

was a net importer of sugar at the time of NAFTA, but by 2000, it had a capacity to export considerably more than the quota the United States allowed—116,000 metric tons. That represented a fivefold increase in its quota at the time that NAFTA was approved, but the Mexicans had hoped for a 500,000-ton quota. While the United States protected its sugar industry, Mexico restricted imports of high-fructose corn syrup from the United States. Both governments took the other to a NAFTA panel.[49]

The impact on Canada was also quite pronounced. NAFTA deepened Canada's dependence on the US market, but it also helped diversify and internationalize its economy. With a history that has reflected considerable uncertainty as to whether it wanted to join its economy to the world's, Canada, since FTA and NAFTA, has made a clear commitment. Canada's trade as a percentage of GDP expanded from 52.4 percent in 1990 to 74.2 percent in 1999—making it the most trade-oriented country in the Group of Seven (or Eight).[50]

As for the United States, its total trade as a percentage of GDP increased by 25 percent during the 1990s—from 16 to 20 percent. Given the size of the US economy and the longest period of growth and job creation in its history, most analysts would say that NAFTA contributed to this success, but only marginally. Perhaps the greatest accomplishments of NAFTA were the least visible—the growing competitiveness and continentalization of industry, the social integration with its neighbors, the acceleration of economic integration, and the coalescence of the three countries more than at any moment in history.

The dispute settlement mechanism has managed trade-related problems satisfactorily, reducing the politicization of trade disputes. The other institutions—on labor, the environment, and border cooperation—have performed modestly, as the times demanded. From the perspective of the most populous, prosperous, and powerful of the three countries, NAFTA has already succeeded in establishing a framework that could lead to greater cooperation among the three North American countries and enhanced competitiveness in the world community.

What's Left? What's Wrong?

An evaluation of NAFTA should not be confined just to trade and investment criteria or the side agreements. One needs to view NAFTA as the

49. See US International Trade Commission, *The Year in Trade 2000: Operation of the Trade Agreements Program*, Publication 3428 (Washington, June 2001), 4-14-18 (also see http://www.usitc.gov); and Ginger Thompson, "Farm Unrest Roils Mexico, Challenging New President," *New York Times*, 22 July 2001, 1.

50. Department of Foreign Affairs and International Trade of Canada, *Opening Doors to the World: Canada's Market Access Priorities, 1999* (Ottawa, 1999), 1. See also table 1.1.

center of a unique social and economic integration process and of an effort to redefine the relationship between two industrial countries and a developing one. The most compelling form of integration not mentioned in NAFTA is that of people.

The flow of people, cultures, food, music, and sports across the two borders has surged even more than the trade in goods and services. In 1996, the first destination for most US tourists abroad was Mexico; 20 million Americans went. The second most popular destination for US tourists was Canada; 13 million traveled there. Third was the United Kingdom, with only 2.3 million US tourists. Of the millions of tourists who visit the United States each year, the vast majority (20 million) come from Canada. The next largest source is Mexico (7.5 million), and then Japan (3.7 million).[51]

The greatest impact, however, is not by the people who visit the other country for a few weeks, but by those who remain. Although Americans immigrate to Canada and Mexico, and Canadians immigrate to the United States and Mexico, the heaviest movement of people in North America has been from Mexico to the United States. Except during the violence of the revolution, the flow was hardly noticeable in the early part of the century. When Congress debated the first law to limit immigration to the United States, a majority voted to allow Mexicans to come without restriction. Congress thought Mexico deserved special treatment as a neighbor, but they also did not think many would come. ''Remember,'' Senator Alva Adams said in 1924, ''Mexico is not a populous country. It is not teeming with millions of people eager to leave . . . There will be no great influx if the border is left open.''[52] The Mexican population explosion after the Second World War combined with a liberalization of US immigration policy in 1965 to make Adams' words seem ironic, at best. Most Mexicans living in the United States have arrived in the past two decades. More than 3.5 million Mexicans have legally migrated to the United States since 1981, representing roughly a fourth of all US immigrants arriving during this period (table 4.3).

The increase in numbers of immigrants understates their social impact. Whereas the total population of the United States grew by 13.2 percent in the last decade of the 20th century, its Hispanic population increased 57.9 percent (from 22.4 to 35.3 million) and its Mexican population by 52.9 percent (from 13.5 to 20.6 million). The new immigrants have transformed Southern California, Texas, and parts of the Southwest, but the 2000 census suggests that the immigrants have spread much more widely than ever

51. Barbara Crosette, ''Surprises in the Global Tourist Boom,'' *New York Times*, 12 April 1998, IV5; and Earl H. Fry, *Canada's Unity Crisis: Implications for U.S.-Canadian Economic Relations* (New York: Twentieth Century Fund Press, 1992), 78.

52. *Congressional Record*, Senate, 18 April 1924, 6625.

Table 4.3 Legal immigration to the United States, total and North American, 1901-98 (thousands of people)

Period	World	From Mexico (percent of world)	From Canada (percent of world)	From North America (percent of world)
1901-20	14,531.2	268.6 (1.8)	921.4 (6.3)	1,189.6 (8.2)
1921-40	4,635.6	481.6 (10.4)	1,033.0 (22.3)	1,514.6 (32.7)
1941-60	3,550.5	360.4 (10.2)	549.7 (15.5)	910.1 (25.6)
1961-70	3,321.7	453.9 (13.7)	413.3 (12.4)	867.2 (26.1)
1971-80	4,493.3	637.2 (14.2)	114.8 (2.6)	752.0 (16.7)
1981-90	7,338.1	1,653.3 (22.5)	119.2 (1.6)	1,772.5 (24.2)
1991-98	7,605.1	1,929.7 (25.4)	112.5 (1.5)	2,042.2 (26.9)

Sources: US Bureau of the Census, *Statistical Abstract of the United States*, 1999, 1986, 1968, 1948, www.ins.usdoj.gov/graphics.

before. Although half of all Hispanics live in California and Texas, during the past decade the Hispanic population of Oregon has doubled; of Minnesota, tripled; of Georgia, quadrupled; and of North Carolina, quintupled.[53]

In July 2001, the Mexican government published a report, ''Mexico's Population in the New Century,'' which gives estimates of the Mexican-origin population in the United States that are comparable to the data in the US census report—about 21 million people, of which 8.5 million were born in Mexico, and about 3 million are undocumented. Like the US census as well, the Mexican report concludes that the Mexican-origin population was concentrated in just four states with half in California. But signs of dispersal to other states, particularly in the south, were evident and, more interesting, that they were also coming from a broader cross-section of Mexico. Indeed, the Mexican census, on which much of the report was based, found that residents from more than 96 percent of all Mexican municipalities have contact with relatives in the United States, many of whom send remittances. The Mexican report expressed concern that an increasing percentage of its best educated people—about 6 percent of those who received college or postgraduate degrees—have moved to the United States.[54]

Remittances have played a more and more important role in the relationship between Mexicans in the United States and their relatives. The Central Bank of Mexico has been refining its techniques for estimating

53. Betsy Guzman, US Bureau of the Census, US Department of Commerce, ''The Hispanic Population: Census 2000 Brief,'' C2KBR/01-3, May 2001.

54. See Consejo Nacional de Poblacion, ''Migracion Mexicana hacia los Estados Unidos,'' http://www.conapo.gob.mx/RELEVANTE/migracion.htm. For a summary of this study, see Susan Ferriss, ''An Altered View of Mexican Immigrants,'' *Atlanta Journal-Constitution*, 12 July 2001.

the total amount of remittances since the 1980s. In 1996, it estimated that $4.2 billion was remitted.[55] Mexico's National Statistics Institute (INEGI) estimated that the total amount of remittances sent by immigrants since 1994 was $29.2 billion. However, more than 80 percent is used for consumption. The most recent Mexican government report estimates that Mexican workers send their families about $17 million a day, and in 2000, that amounted to $6.2 billion—in the past decade, $45 billion.[56]

When the US economy declines, some Americans react negatively to new immigrants. In 1994, Californians strongly approved Proposition 187 to deny illegal migrants schooling or social services. This was not an unreasonable proposition, because illegal migrants were not supposed to be in the United States. But to deprive children of health services or education because of their parents' transgression is both socially and morally mistaken. Moreover, the campaign to secure the approval of the proposition was widely perceived in the Hispanic community as racist. The violence by Arizona ranchers against undocumented workers is still one more symptom of the social tensions that accompany a large movement of people. These crimes provoke an understandable and harsh reaction in Mexico. The social integration of the two countries raises many difficult and awkward questions that need national understanding and leadership. A true NAFTA ought to provide an umbrella under which many of these issues should be addressed. At the moment, it does not.

Let me introduce six dimensions of NAFTA's inadequacy. Then, in the next two chapters, I will develop proposals to respond to them.

- *Hijacking NAFTA:* To sustain any complicated agreement requires that its partners accept their respective obligations, but NAFTA has *not* been strong enough to preclude special interests, acting through a government, from violating its provisions (e.g., trucking, sugar, magazines).
- *Beneath NAFTA:* Eliminating legal barriers to trade also facilitated the illegitimate side of integration (e.g., smuggling, drugs, money laundering, undocumented workers, and illicit arms). NAFTA did not address this contradiction.
- *Beyond NAFTA:* The premise of NAFTA is that its members would consult and develop a strong relationship that would permit them to forge common policies—on the environment and labor and perhaps

55. For an explanation of the problems in estimating the amount of remittances and a summary of existing estimates for Mexico and other countries in Latin America, see Deborah Waller Meyers, *Migrant Remittances to Latin America: Reviewing the Literature* (Washington: Inter-American Dialogue and Tomas Rivera Institute, 1998), 4-5.

56. "Remesas de Migrantes Equivalen a 83 percent de la Inversion de EU en México," *La Jornada*, 30 October 2000. For the more recent estimate, see Ferriss, "Altered View of Mexican Immigrants."

on foreign and trade policy. There has been little, if any, progress in this area.

- *Disintegrative pressures:* As we have seen in Europe, the process of integrating diverse economies also generates countervailing disintegrative pressure—accentuating economic volatility, deepening regional disparities, and widening income inequalities—which can erode support for integration. NAFTA has not begun to address these problems.
- *Coalescing pressures:* Integration affects the debate in neighboring countries on issues that are seemingly unrelated to trade, such as taxes, health care, and even gun control. Sometimes, the debate is framed so that the differences between countries are accentuated and the relationship suffers. The question is whether a framework for consultation could influence the debate so that the countries would want to borrow policy ideas from each other.
- *Missed opportunities:* The incentive system of NAFTA encourages governments to look after their own interests, and it lacks any institutions that could help the governments forge *North American policies* or define a common agenda.

Hijacking NAFTA

The purpose of NAFTA was to expand trade, and it certainly accomplished that, but the increased competition led powerful, but embattled, interest groups to try to escape the agreement's restraints. Each government faced these pressures. By and large, the dispute-settlement mechanisms served to deflect many of these groups into litigation, but a few cases endangered the agreement. The most significant involves transportation.

Trucks carry 75-80 percent of the trade among the three countries.[57] To accommodate the increase in traffic and to try to obviate bottlenecks at the border, NAFTA set a date—18 December 1995—when Mexican and US trucks would be allowed to deposit their cargo within 20 kilometers of the other side of the border. Then, on 1 January 2000, Mexican and US trucks were supposed to be able to travel in each other's country without impediment. The United States did not meet either deadline. The US Teamsters Union pressured the Clinton administration to deny access to Mexican trucks, and the Mexicans retaliated by denying access to US trucks.

The Teamsters were trying to avoid competition, though they claimed they were primarily concerned about lax Mexican safety standards. The US General Accounting Office found that fewer than half of the Mexican

57. US General Accounting Office, *Commercial Trucking: Safety and Infrastructure Under the North American Free Trade Agreement* (Washington: US Government Printing Office, 1996), 16.

trucks met US safety conditions, but the Mexican government agreed to meet US standards. With the onset of the 2000 election campaign, and the importance of securing political support from the Teamsters, the Clinton administration refused to implement the NAFTA agreement on trucking. In January 2000, the Mexican government requested an arbitration panel to finally rule on the issue, and on 29 November 2000, a five-person panel (two Mexicans, two Americans, and a Briton) ruled unanimously that the United States had violated the agreement.[58] The United States then appealed, but the appeal was rejected on 7 February 2001.

The Bush administration promised to comply with the ruling. The Federal Motor Safety Carrier Administration devised and announced a plan on 1 May 2001 whereby Mexican trucks have to apply for permission to drive on US roadways. If they are approved, they will not be inspected each time they cross the border, but they will still be subject to spot and roadside inspections and an 18-month audit. The Teamsters pledged to fight, and in June and July 2001, they succeeded in persuading a substantial majority of both Houses of Congress to pass a bill that would prohibit Mexican trucks from using US highways, except under highly discriminatory safety standards. The Bush administration had pledged that Mexican trucking would have unimpeded access to the United States by the end of 2001, but it was uncertain whether it would be able to fulfill that promise.[59]

Transportation problems extend beyond the problem of trucks crossing the border. US shipments are stopped at the US side of the border, where a Mexican forwarding company arranges the paperwork and fees. Then a Mexican ''drayage'' (''cost of carrying wagon'') company secures the trailer and transfers it to its final destination. But the procedure can include as many as seven tractor and trailer transfers for a single shipment. The same applies to Mexican trucks going north.[60] Whatever savings might have accrued as a result of the diminution of trade barriers have been more than offset by the staggering inefficiency of the drayage system, which may remain even if the trucking problem is resolved.

Were the Teamsters the only interest group compelling a government to deny its obligations under NAFTA, one would be less concerned about the agreement's integrity. But each of the three countries has powerful interest groups that seek ways to sidestep or sideswipe NAFTA. These groups tend to represent agricultural groups or industries that fear competition and can use their political leverage to compel the government to offer it some protection. Such groups represent a range of agricultural

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58. ''Mexico Wins Trucking Ban Dispute,'' *Houston Chronicle*, 30 November 2000.

59. Philip Shenon, ''Teamsters May Stall Bush Goals for Mexican Trucks and Trade,'' *New York Times*, 30 July 2001.

60. Todd Drennan, ''Where the Action's At: The U.S.-Mexican Border,'' US Department of Agriculture, Washington, photocopy (1999).

interests in the United States (sugar, fruit and vegetables, and softwood lumber), in Canada (dairy products, magazines, and cultural ''products''), and in Mexico (agriculture, petroleum, and electricity). Some of these groups succeeded in excluding their products from NAFTA entirely; others are fighting rearguard actions. The principal instrument that these groups use to impede trade is Chapter 19 of the investment-dispute mechanism dealing with antidumping and countervailing duties.

The proliferation of these claims, and the fact that they occupy nearly 90 percent of all disputes, suggest that some review of the issues is necessary. Exporters assert that these claims are frivolous and protectionist, but there are two sets of legitimate issues that reside within Chapter 19 claims and that deserve a new approach: surging exports that are due more to undervalued exchange rates than to efficiencies or new technology, and divergent regulatory structures. In the first group of issues would be included Canadian steel or hog exports; in the second set, softwood lumber. The old system is not working. The three governments have a broad continental interest in preventing any single group from trying to escape the treaty's obligations, because whenever one succeeds, it encourages others. A new approach is necessary to deal with these issues.

Beneath NAFTA: Illegal Transactions and Unilateral Reactions

A decline in trade barriers means that it is easier for businesses to buy and sell goods across the borders, but it is also easier for smugglers. Illegal transactions—drugs, money laundering, illegal arms transfers, undocumented workers—increased proportionately with the legal trade. This is the dark side or the underbelly of integration, and it poses two challenges for the governments of North America, neither one of which has been mastered. The first problem is to identify a set of procedures that could inspect, detect, prevent, interdict, or seize the illegal item *without* creating too heavy a transaction cost on the legal exchanges. One study estimated that the cost in time delays, paperwork, and other surveillance adds approximately 7 percent to the cost of cross-border shipments.[61] Because this amount exceeds most tariffs that were eliminated, one might ask whether a tariff-free border is necessarily a less expensive one.

The agenda is not new—drugs, illegal migration, illegal arms transfers, or illegal transfers of prescription drugs—but the problems of interdiction are exacerbated as other barriers come down. Many of these problems cannot be solved, but they could be better managed, and that brings us to the second challenge. Old habits die slowly, and the United States has long approached each of these problems from a unilateral direction.

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61. Cited by Michael Hart, ''Disarming the 'Undefended Border' in Order to Preserve It: Canada, the United States, and Deepening Economic Integration,'' Ottawa, photocopy (February 2000), 38-39.

The United States has failed to learn that unilateralism is not only ineffective in dealing with a transnational problem; it also undermines a spirit of comity or partnership, which is the essence of NAFTA and of a more effective solution. The US Congress's insistence that it grade Mexico and other drug-producing or -transit countries each year on their cooperation is demeaning and precludes a change in the relationship from paternalism to partnership. Congress has continued to treat Canada the same way. That has not changed with NAFTA, but it should have.[62]

Beyond NAFTA: Third-Country Issues

One of the arenas in which Canada and Mexico have defined their identities has been in pursuing foreign policies that were different from those of the United States. Despite disagreements, the US government understood why Canada and Mexico needed to define themselves by their distance. A tacit understanding was reached during the Cold War: Canada and Mexico would not confront the United States in areas that were of vital importance—for example, both supported the United States during the Cuban Missile Crisis in 1962. And the United States would not make a big issue out of the differences—for example, Canada's and Mexico's close relations with Cuba. This understanding worked reasonably well over the years. Mexico's policies in Central America in the 1980s angered the Reagan administration, but Congressional Democrats were pleased that those policies made possible a negotiated settlement. Canada, more recently, took the leadership in negotiating the Treaties on Landmines and on the International Criminal Court. The United States opposed both initially and was miffed at Canada's aggressiveness. But by the end, the United States not only reconciled with Canada; the Clinton administration accepted both agreements.

On the other side of the equation, Canada and Mexico have been very upset by ''third-country'' or ''extraterritorial'' applications of US policies. The passage by the US Congress of the 1996 Cuban Liberty and Democratic Solidarity Act (''Helms-Burton'') was severely criticized by both Canada and Mexico for provisions that bar the executives of companies that purchased property in Cuba once owned by US citizens (including those Cubans who subsequently were naturalized) from entering the United States and which allows US citizens to sue these companies in US court. US legislation to prevent any investments or trade with Iraq and Libya also contained third-country sanctions that disturbed the United States' two neighbors.

Such differences are natural among states, even friendly ones. The issue is whether the three governments of North America can or should

62. Robert A. Pastor and Rafael Fernandez de Castro, eds., *The Controversial Pivot: The U.S. Congress and North America* (Washington: Brookings Institution, 1998).

continue to define themselves differently in international forums while trying to forge closer relationships. At some point, these differences might make it difficult to construct a community. Therefore, the governments might want to consult on trade and foreign policy issues more systematically than they have in the past. To the extent that they can forge common policies, the prospects for a community would improve.

Disintegrative Pressures

When Europe decided on enlargement in the 1970s and 1980s, concerns were raised about the effect on poor countries, particularly over whether integration could provoke economic oscillation, inequalities, and regional disparities. Let us address the same question for North America.

It was a sad but potent coincidence that shortly after the US-Canadian trade agreement came into effect, in 1991, Canada suffered its worst recession since the 1930s. More than 450,000 jobs were lost, dissatisfaction with free trade increased, the value of the Canadian dollar fell, and the Progressive Conservative Party lost all but two seats in a humiliating defeat in the 1993 elections. The FTA did not cause the recession, nor did it lead to the defeat by the Conservative Party. But it was harmed by the same factors that caused these two—the combination of tight monetary and fiscal policies, the overvaluation of the Canadian dollar, the US recession, and the unpopular Goods and Service Tax introduced at the time.

The Canadian debacle was bad, but the peso shock was worse. In 1995, the Mexican economy declined 6.2 percent. Because of NAFTA and the expansion of an export-oriented manufacturing sector, the impact of the contraction of the economy was very uneven. Exports grew, but the domestic side of the economy, which represented 70 percent of GDP, declined by 14 percent.[63] Although manufacturing grew by 29.5 percent from 1993 to 1998, and manufacturing exports expanded by 154 percent during that period (from $41.6 to $105.9 billion), the number of jobs for skilled and unskilled workers actually declined, and their wages suffered. Skilled workers (according to INEGI) saw a decline in real wages during this period of 13.2 percent, and unskilled workers of 17.1 percent.[64] NAFTA, as we have noted, did not cause this crisis in Mexico, except in the sense that the reduction of investment barriers might have given Wall Street more encouragement than was deserved. But the absence of a sufficiently resilient and credible foreign exchange safety net made the crisis possible.

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63. For an excellent analysis of the impact of the 1994 crisis, see Mauricio A. Gonzalez Gomez, "Crisis and Economic Change in Mexico," in *Mexico under Zedillo*, ed. Susan Kaufman Purcell and Luis Rubio (Boulder, CO: Lynne Rienner Publishers, 1998), 37-66.

64. Tom Philpott, "Boom and Gloom: Manufacturing Rises as Wages Fall," *El Financiero International Edition*, 14 June 1999, 3.

There is some evidence that NAFTA has contributed to regional disparities—which were already quite bad—in Mexico. About half of all domestic production is concentrated in Mexico City and the states of Mexico, Jalisco (Guadalajara), and Nuevo Leon (Monterrey). On the other side of the ledger, 25 of 32 states accounted for less than 3 percent of total domestic production. After the 1994 crisis, the disparities between regions became even more pronounced. Per capita income in the southern states of Chiapas, Guerrero, and Oaxaca is 62 percent of the per capita income of Nuevo Leon—roughly proportional to Southern Europe's income in relation to the EU average. An analysis of the eight regions of Mexico by the Confederation of Industrial Chambers of Commerce (CONCAMIN), using data from INEGI, concluded that the social and economic gap between the regions has widened since NAFTA. CONCAMIN called on the government of Mexico to develop regional policies and plans,[65] but the government did not respond, in part because austerity measures *reduced* the government's spending to about 16 percent of GDP, which is by far the lowest of any OECD nation. (In comparison, Argentina's expenditures amount to about 20 percent of GDP, the US proportion is about 40 percent, and Canada's is above that.)[66]

Another analysis of the geographical impact of NAFTA on Mexico found that it ''expanded the gap between Southern and Northern states.''[67] That study by Tamayo suggested that the gap was due to the impact of trade and investment on faster growth in the northern states. In the southern state of Oaxaca, Tamayo finds slower growth, but no growth in areas that were bypassed by NAFTA. He also notes that the railroad and road networks ignored the southern states and reinforced the power of the rich states. He finds an interesting dynamic in which the income per capita in the South increased somewhat because of illegal outmigration, whereas the sizable inflow of labor in the North resulted in a much more modest increase in income.[68]

Another study on foreign investment by Mexico's Center for Economic Teaching and Research (CIDE) found that 90 percent of the $54 billion in foreign investment in the country from 1995 to 2000 went to just four

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65. Gonzalez Gomez, ''Crisis and Economic Change,'' 55-56; Elvia Gutierez,'' Disturbing Trend Haunts Economic Development: Regional Disparities Are Alarming, *El Financiero International Edition*, 31 May 1999, 15.

66. Tom Philpott, ''Cash Strapped: Tax System Flounders in Neglect,'' *El Financiero International Edition*, 5 July 1999, 3.

67. Rafael Tamayo-Flores, *The Differential Impact of International Integration on Local Economies: How Are Lagging Mexican Regions Performing?* Documento de Trabajo AP-77 (Mexico City: Centro de Investigación y Docencia Económicas, 2000), 21.

68. Rufino Tamayo, ''Mexico in the Context of the North American Integration: Major Regional Trends and Performance of Backward Regions,'' *Journal of Latin American Studies* 33 (2001): 377-407. The rising income per capita was due to fewer people.

states—three in the North (Monterrey, Nuevo Leon, and Baja California) and one in the West (Jalisco). Conversely, six southern states received about 0.7 percent of the investment.[69] Luis Ernesto Derbez, Mexico's economy minister, estimated that during the 1990s, the export-oriented North grew at an annual rate of 5.9 percent, while the South barely grew at 0.4 percent.[70]

Income inequalities in Mexico are far more severe. Using its standard-of-living measurements, the World Bank estimated that in 1996, ''roughly two out of every three Mexicans were poor, and one in three was extremely poor.'' Moreover, the 1994 crisis reversed the 10 percent reduction in poverty that Mexico had achieved in the previous decade.[71]

Canada's trade dependence on the US market increased from 75 percent in 1990 to 86 percent in 1999, and it also widened disparities between its provinces.[72] Newfoundland has been dependent on a declining fishing industry, and its per capita income is only about two-thirds of Ontario's. Unlike Mexico, however, Canada has an extensive system of transfer payments (welfare, social security, and federal tax transfers to provincial governments) and regional policies (development grants and subsidies) that together have narrowed differences in income and employment opportunities between the provinces.[73] The problem of volatility is more and more focused on the Canadian dollar, and the question is whether a unified currency with the United States would mitigate the swings.

Like Canada, the United States has an elaborate system of federal transfers that reduces the differences between the states. In addition, labor mobility is very high in the United States, as is evident from the large movement of people in the past two decades to the South and Southwest and the economic growth in those regions.[74] Both federal transfers and the labor movement smooth the disparities between regions.

From the early 1970s until 1993, the gap between rich and poor in the United States widened, and questions were raised as to whether this was

69. ''NAFTA Heightens North-South Divide,'' *Latin American Weekly Report*, 5 April 2000, 4.

70. Henry Tricks, ''Free Trade Still Rules in Mexico,'' *Financial Times*, 27 February 2001, 6.

71. Marcelo M. Guigale, Olivier Lafourcade, and Vinh H. Nguyen, *Mexico: A Comprehensive Development Agenda for the New Era* (Washington: World Bank, 2001), 13.

72. Hufbauer and Schott, *North American Economic Integration*, table 2, 5; Department of Foreign Affairs and International Trade, *Opening Doors to the World*.

73. See Michael Howlett, Alex Netherton, and M. Ramesh, *The Political Economy of Canada: An Introduction*, 2d ed. (Oxford: Oxford University Press, 1999), 107-08, particularly table 4 on provincial per capita incomes and transfers, and 309-11 on the government's regional development measures.

74. In one year, about 16 percent (43 million) of Americans moved from one home to another. This has remained relatively constant since the 1950s. Most move within the same state, although 6.4 million move to a different state. US Department of Commerce Bureau of the Census, ''Moving Rate Among Americans,'' *News*, 19 January 2000, http://www.census.gov/Press-Release.

a consequence of increased dependence on trade. Most studies attributed the widening gap to technological improvements and disparities in education. The thesis that trade widened the gap between rich and poor was impugned by data in the mid-1990s. Between 1993 and 1998, as trade began to ascend, the income gap began to close. Family incomes in the lowest quintile rose at an annual rate of 2.7 percent, slightly faster than the 2.4 percent rate recorded by the top quintile. Similar evidence can be found in the broadly based growth in earnings since 1994. Moreover, of the new jobs created in the 1990s, 81 percent paid wages above the median. Finally, the proportion of Americans living in poverty declined from 15.1 percent in 1993 to 12.7 percent in 1998.[75]

So the evidence on the diverging effects of integration is mixed, but not inconsistent with what was learned from the European Union. The strongest economic power in North America experienced the least effect. The weaker countries suffered the most volatility, although this was also due to mistaken macroeconomic policies. The widest disparities in income and between regions was in the weakest country. Canada's policies—and, of course, those of the United States—demonstrate that income transfers among regions can mitigate these disparities and lift the country as a whole. That offers an important lesson for Mexico.

Coalescing Pressures

Governments that adopt public policies similar to those of their neighbors usually do so for two reasons—to improve competitiveness or to experiment with a better idea. As trade expands, and investment and jobs move in both directions, governments become more sensitive to their level of competitiveness. The principal way this concern plays out in the national debate is through taxes. Canadian taxes have been substantially higher than those in the United States, and businesses have long complained about that. As the conservative opposition began to gain support in Canada for its tax-cutting philosophy, in the fall of 2000 Prime Minister Chrétien gained Parliament's approval for a sharp reduction in taxes and then called for general elections, which he won.

During the health care debate in the United States in 1993-94, both those who wanted a universal system and those who opposed one men-

75. *Economic Report of the President 2000* (Washington: US Government Printing Office, 2000), 26-28. A Congressional Budget Office report suggests that the distribution of income among households grew more unequal between 1979 and 1997, but the tax code—particularly after the rise for upper-income levels in 1993—ameliorated that. The top 20 percent of households paid 57 percent of all taxes in 1979 and 65 percent in 1997. See Richard W. Stevenson, "Study Details Income Gap Between Rich and Poor," *New York Times*, 31 May 2000. Jagdish Bhagwati argues that trade may actually have reduced inequality in the United States. See his *The Winds of the Hundred Days: How Washington Mismanaged Globalization* (Cambridge, MA: MIT Press, 2001).

tioned the Canadian National Health system as an example. In that way, the policy of one country enters the debate in another. Still another example is gun control laws. Canadians have long expressed pride in their society's low level of violence as compared with the United States, and both Canadians and many Americans have attributed this to Canada's more restrictive gun control laws. In a study of Vancouver and Seattle—cities only 140 miles apart, but across a national divide—crime rates were similar in all respects except homicide. The risk of being killed was 65 percent higher in Seattle than in Vancouver, and the reason was the prevalence of handguns, which caused five times as many deaths in Seattle as Vancouver, where gun control laws were quite strict.[76] The irony is that a new conservative party emerging from the western part of Canada sought to repeal the restrictive gun control laws, believing that the right to own a gun so often asserted in the United States was one that they also wanted. They lost the election badly, and the 1998 Gun Control Act was implemented rigorously.

Nations rarely adopt the exact same policy of their neighbor, but groups within a democratic nation might very well seek ideas from across the border and insert it into their national debate. The federal experiment, in brief, can expand in a North American community.

The most expensive purchase of public policies, of course, occurred by Mexico. Salinas and his successors were well aware that their government's protectionist policies had led to economic stagnation and social injustice. They did not need to look to Asia for a model; they could have looked north of their border. They did not need to replicate the model of Canada or the United States, nor would it have been desirable to do so, but the government accepted the broad outlines of a deregulated, privatized, export-oriented democratic state.

Missed Opportunities

Despite the enormous growth of trade and investment in North America—and the consequent increase in the movement of goods and services—investment in transportation and infrastructure connecting the countries has lagged. The result is evident between Canada and the United States, but mostly on the Mexican-US border, where long lines—in both directions—spew increasing pollution and generate higher transaction costs. The problem is that Mexico invested in extravagant and often poorly designed toll roads during the Salinas administration (1988-94). These 23 roads charged such high tolls that few used them. After the 1994 peso crisis, they went bankrupt, and the government had to assume their debt of $7.7

76. John H. Sloan, Arthur Kellerman, Donald Rey et al., ''Handgun Regulations, Crimes, Assaults and Homicide: A Tale of Two Cities,'' *New England Journal of Medicine* (1988), 319, cited in a study that elaborated on the causes of violence in the United States by Derek Bok, *The State of the Nation* (Cambridge, MA: Harvard University Press, 1996), 228-30.

billion.[77] To pay off its own mounting debt, Mexico has had to reduce its investment in infrastructure from a level of about 10 percent in the 1980s to less than 2 percent in 1998. As a result, every means of transportation—roads, rail, air, and ports—is beset with serious problems.[78]

The privatization of rail lines has permitted some new investments in Mexico, and the Canadian national railway proposed merging with one of the largest railroad companies in the United States. Instead of consulting with its Canadian and Mexican counterparts on how such a merger would relate to a continental plan on railway transportation, the US Surface Transportation Board simply imposed a 15-month moratorium on this and all rail mergers.[79]

None of the three countries has developed national plans for infrastructure and transportation, let alone North American plans. As we have seen, Mexico and the United States have been fighting over whether to permit their trucks to drive into their neighbor's territory. They have spent little or no time negotiating uniform standards on safety, inspections, braking systems, weights and dimensions of trucks, or limits on the time spent driving. To compound the problem, their regulatory agencies do not consult with each other.

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There are many other areas in need of serious "North American" consideration. The three governments could negotiate a larger "swap" arrangement with Mexico and possibly Canada to prevent a run on their currencies. They could negotiate long-term programs on immigration, energy, competition policy, and a plan to reduce disparities within the entire area. These ideas will be developed in the next two chapters.

The brief review above of the challenges leads one to conclude that the problem with NAFTA is not what it was designed to do, but what it omitted. A North American Community is emerging at the social and economic level, but the governments are not leading. Indeed, most leaders in the three countries seem either fearful of or uninterested in the forces of integration that are reshaping the continent.

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77. Jeff Ruster, *A Retrospective on the Mexican Toll Road Program (1989-94)* (Washington: World Bank, 1997), 1-3, http://www.worldbank.org/html/fpd/notes/125/125ruste.pdf; Economic News and Analysis on Mexico, "Federal Government Acquires 23 Financially Troubled Toll High Highways from Three Engineering Companies," Dow Jones Interactive Library, 3 September 1997.

78. World Bank, *Comprehensive Development Agenda for Mexico: Synthesis* (Mexico City, 2000), 1.

79. Anthony DePalma, "U.S. Regulators Impose 15-Month Moratorium on All Rail Mergers," *New York Times*, 18 March 2000, B1, 2.