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Power Politics and the Free Trade Bandwagon

Lloyd Gruber

Assistant Professor
The University of Chicago
Irving B. Harris Graduate School of Public Policy Studies
1155 East 60th Street
Chicago, IL 60637

tel: 773-702-3245
fax: 773-702-0926

email: gruber@uchicago.edu

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-- Abstract --

What explains the developing world's newfound enthusiasm for free trade? Are developing country leaders jumping on the NAFTA, EU, APEC, and WTO bandwagons in order to achieve Pareto-improving gains? Or might it simply be their desire not to be left behind while their neighbors "go it alone"? This article suggests that in many cases — and in direct opposition to the collective-action-based models of international cooperation we are accustomed to seeing in the comparative and international political economy literatures — it is the latter (defensive) motivation that has been driving much of the action. NAFTA, I argue, is a case in point: Without in any way being bullied or coerced, the Mexican and Canadian governments agreed to take part in a cooperative multilateral arrangement they genuinely, and intensely, disliked. Although hard to reconcile with conventional "positive-sum" theories of voluntary cooperation, this finding is perfectly consistent with the broader *power-politics* model I sketch out in the first part of the article.

Introduction

For specialists in comparative and international political economy, as indeed for much of the academic community, the notion that political institutions are mutually beneficial arrangements — that they would never come into existence, much less grow in size, stature, and assertiveness, were they not Pareto-improving — is today's conventional wisdom. But is it really true?

This article has a few basic purposes. The first is to suggest why I think this emphasis on the positive-sum consequences of political integration and institution building may be leading students of international cooperation — neoliberal optimists and realist skeptics alike — down the wrong theoretical path. While others may have subjected the political economy literature's "institutionalist" paradigm to critical theoretical scrutiny, thus far most critiques have focused on the paradigm's failure to fully integrate the role of ideas, identity formation, and culture (Goldstein & Keohane, 1993; Katzenstein, 1996; Wendt, 1994). While a source of concern, however, this is by no means a crippling defect. Nor is the problem that international institutions do not really "matter," in the sense of having a major independent impact on the flow of world events (cf. Mearsheimer, 1994/1995).

Insofar as the institutionalist paradigm is deficient, the fault lies primarily, I will argue, in its theoretical one-sidedness: Why assume that multilateral institutions always and everywhere facilitate mutual gains? To be sure, history records few examples of multilateral structures being foisted upon unwilling signatories. But the fact that membership in a cooperative arrangement is voluntary does not mean that that arrangement, be it an international agreement or a private "domestic" contract, necessarily works to everyone's advantage. Some cooperators may actually prefer the original, noncooperative status quo. The question, of course, is why these

participants — the losers — would ever be willing to assume membership in such an arrangement. After all, it is not as if their partners — the arrangement's beneficiaries — are *preventing* them from opting out. If the losers do not withdraw, one must conclude that it is because they *choose* not to withdraw. So why, then, would they ever make this (voluntary) choice?

Stripped to its essence, my explanation is that the losers know the cooperative arrangements they dislike are perfectly capable of functioning without them. While they themselves would like nothing more than to see these arrangements disappear, they realize that (1) there are other actors for whom cooperative decision-making structures really are beneficial and (2) these other actors would continue to benefit from these structures even if they, the winners, were to be their only members. The fact that the winners would still realize welfare gains relative to the initial status quo affords them a kind of "go-it-alone power" (Gruber, 2000), the importance of which — indeed, the very existence of which — has been overlooked by previous scholars.

This is not a trivial oversight. If I am right, a great deal of the multilateral cooperation we have seen in recent years — the continuing frenzy of interstate deal making, treaty signing, and institution building — is a product of just this sort of go-it-alone dynamic. Not that go-it-alone power is always present, of course. When exactly is it most likely to operate? And what precisely are its consequences? How, in short, does go-it-alone power work? These are some of the questions this article seeks to address.

If elucidating the theory of go-it-alone power is my first purpose, demonstrating how it works in practice is my second. To that end, I take a fresh look at the political origins of the North American Free Trade Agreement (NAFTA). When it comes to global economic relations, the forging of this trinational pact in the early 1990s would have to rate among the

postwar period's most consequential and far-reaching international developments. The prevailing view is that it was also among the most successful: Nearly everyone seems to think that NAFTA's entry into force made it possible for its Mexican, Canadian, and U.S. signatories to overcome collective action problems in the pursuit of "gains from exchange." But if the criteria for gains are defined in Pareto terms — did NAFTA's inauguration improve each of its members' welfare relative to the state of affairs that existed beforehand? — matters are not so simple. While it is true that the new arrangement did further the economic and political objectives of its enacting coalition, other NAFTA partners acceded to it, I will argue, only because they lacked a better alternative. Had it been within their power to restore the noncooperative status quo, they would have gladly, indeed enthusiastically, done so.

My argument unfolds as follows. The first section elucidates the concept of go-it-alone power, clarifying how it differs from conventional understandings of power and suggesting how these differences in turn point the way toward a broader, more balanced perspective on international cooperation. The second section examines the extent to which the entry into force of the Canada-United States Free Trade Agreement (FTA) in 1989 may have played a role in precipitating Mexico's own free trade U-turn one year later. Having inquired into the Mexican government's motivations for embracing NAFTA, I turn in the third section to the (analytically distinct) question of how the trilateral pact may have altered the utility of Mexico's ruling elite. Rather than viewing NAFTA as a political asset, Mexico's political establishment would in fact have preferred and, had it been within their capacity, would have gone to great lengths to restore North America's original (i.e., more protectionist) status quo — or so, in this section, I will argue.

Shifting the spotlight from Mexico to Canada, the fourth section of the article takes a closer look at the calculus underlying Canada's equally enthusiastic embrace of NAFTA in the

early 1990s. Often overlooked in discussions of Canada's involvement in the agreement is the fact that, when Canada ratified the accord in 1993, its government was led by the Liberal prime minister Jean Chrétien, whose historically anti-free trade party had only a few years earlier fought tooth and nail to prevent NAFTA's precursor, the bilateral Canada-U.S. pact, from taking effect. Although the Chrétien government did eventually agree to bring Canada into the trilateral regime, its decision was motivated less by any newfound appreciation for the political or economic benefits of free trade than by the fear of what might happen if Canada were to stand aside and allow its southern neighbor to become the hub in a U.S.-dominated hub-and-spoke system. The fifth section asks whether go-it-alone power might be propelling the extraordinary spread of free trade initiatives that has occurred — and is still taking place — throughout much of the world since NAFTA's entry into force in 1994. The final section concludes.

Power Politics and Collective Action: Rethinking International Cooperation

Is there a fundamental "logic" to international collective action and, if so, how does it operate? Few questions in the study of international politics are more basic or, indeed, more relevant to the concerns of today's heads of state. And yet even after years of research, we are still some distance from a completely satisfactory answer.

It is tempting to think that this is because our empirical base is too limited, as if the deficiencies in our theoretical understanding of recent international developments could be overcome by simply piling up more facts or locating new sources of data. In fact, scholars of comparative politics and international relations have already accumulated a vast amount of information about interstate cooperation and institution building in Western Europe and the Americas, the two regions of the world in which current trends toward multilateral cooperation

and supranational governance have made greatest headway. Much is known, too, about the emergence of global arrangements like the General Agreement on Tariffs and Trade (GATT), whose signatories recently established a new World Trade Organization (WTO) for the express purpose of mediating and resolving their future disputes. But while the literature is quite good at describing these momentous achievements (see, e.g., Kahler, 1995), it has been markedly less successful at explaining why they occurred. To this point, the newfound enthusiasm for supranational institutions — and for interstate collaboration more generally — has remained something of a mystery.

This article traces the problem to a widely overlooked conceptual bias in the political economy literature. Although questions about the role of power, distributional conflict, bargaining, and coercion have lately been rising toward the top of this literature's analytical agenda (see, e.g., Fearon, 1998; Garrett & Weingast, 1993; Grieco, 1990; Knight, 1992; Krasner, 1991; Morrow, 1994; Oye, 1992), most scholars — even self-proclaimed realists such as Grieco and Krasner — continue to embrace the view that voluntary multilateral regimes, though perhaps biased toward the interests of their more powerful member states, are ultimately conducive to the welfare (relative to the status quo ante) of all of their participants. Underlying this view is a simple two-step logic wherein international institutions facilitate multilateral cooperation (step 1), and multilateral cooperation in turn facilitates "utility gains" for each participating state or government (step 2). For well over a decade now, this positive-sum analytical orientation — most forcefully articulated in Robert Keohane's groundbreaking work *After Hegemony* (1984) — is what has guided empirical inquiry in the study of international cooperation.

Not that all has been sweetness and light, of course. Over the past few years, in particular, the disagreements among contributors to the "cooperation under anarchy" literature

have been numerous, their internecine controversies heated and intense. Thus far, however, the debate inspired by *After Hegemony* has focused almost exclusively on the first leg of the institutions → cooperation → mutual-gains two-step: How, exactly, do institutions help their signatories overcome obstacles to collective action? Is it by weakening their incentives to free ride (as Keohane himself proposed), or do institutions work their magic in other ways — by providing "focal points," for example, or by altering the identities, and hence the underlying preferences, of the state actors who participate in them?[1]

But what about the *second* link in the literature's causal chain? Must international cooperation always leave each actor better off than it was in the initial, pre-cooperation status quo? While most scholars see international institutions as efficient, Pareto-improving responses to collective action problems, this is not the only logical possibility.[2]

Imagine, for example, that two states — A and B — encounter an exogenous shock of some kind, be it a sudden shift in their relative structural positions or, more likely (since structural shifts tend to occur rather slowly), a sudden change in one of the state's preferences, perhaps itself a consequence of a recently held national election. In the wake of this shock, A and B — neither of which had previously been inclined to coordinate its policies with the other

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[1] The preference-altering "transformational" impact of European Union (EU) membership is explored in Sandholtz (1993). On the logic of focal points, see Garrett & Weingast (1993).

[2] Keohane and his followers are of course well aware that the formation of international regimes can worsen the utility of some actors. And yet when Keohane asserts in *After Hegemony* that "the results of voluntary bargaining will not necessarily be entirely benign" (1984, p. 72) or that regimes "do not necessarily improve world welfare" (p. 73), the losers he seems to have in mind are states located *outside* the cooperative regimes in question. One example here would be the OPEC-sponsored oil cartel of the 1970s, a regime that imposed untold losses on the United States and other nonparticipating countries but was most assuredly welfare enhancing for the regime's *insiders*.

— observe that they now have certain interests in common and thus could benefit, potentially a great deal, by structuring their future interactions in accordance with a common set of mutually agreed upon rules and procedures. In moving toward a more cooperative relationship, the two states (or, more accurately, their respective leaders) believe they will be able to pursue their joint interests more effectively than would otherwise be the case. What *are* their joint interests? Expanding the total pool of customers available to each other's domestic producers is one possibility. Alternatively, the two prime movers could be trying to reduce the probability of their subsequently becoming embroiled in a costly military conflict. For present purposes, however, what matters is less the specific nature of A's and B's common interests than the fact that the cooperative arrangement they devise — their new multilateral regime — permits these interests to be realized.

So much for the motivations of the regime's prime movers. Now it is time to ask why other actors might choose to take part in the regime that A and B have established. Note that the motivations of these other cooperators may be very different from those of its two "enactors." In contrast with the regime's original sponsors, who participate because they anticipate utility gains relative to the status quo, these other participants — call them C and D — may actually prefer the original, noncooperative state of the world. But why, then, would C and D ever agree to come on board? The answer "because A and B make them" is too simple. What we would like to know, of course, is *how* A and B make them. How, precisely, do our two enactors succeed in getting other states — some of whom would be perfectly content with the status quo — to agree to cooperate? The plot thickens.

One possibility is that A and B resort to brute force, threatening these other actors (i.e., C and D) with economic sanctions or other forms of direct coercive pressure. These days, however, one rarely finds states being compelled to take part in new multilateral ventures. To

the contrary, states often line up to be admitted into cooperative institutions whose current members do not even want them. Are we therefore to conclude that international cooperation and institution building really are mutually beneficial affairs, that (absent blatant acts of coercion) everyone involved really does expect to derive utility gains relative to the status quo ante?

Not necessarily. The fact that cooperation and institution building are matters of voluntary choice does not imply that the institutions in question raise (or even that their signatories expect them to raise) their baseline utilities.

Given the losers' preference for a world in which these arrangements did not exist, theoretical inquiry here should begin with the disruption of the initial, pre-cooperation status quo: how might the winners succeed in removing this status quo from the choice sets of the losers?[3] While engaging in coercive diplomacy is one way, there is often, I would argue, an easier alternative: *the new regime's beneficiaries can simply go it alone*. Once these beneficiaries resolve to cooperate among themselves — something they would do even if they were destined to be their new cooperative structure's only members — other actors conclude that staying out of that new structure would lead to (even) greater utility losses than they would incur were they to join it. The entry decisions of these other actors are, in this sense, purely voluntary; indeed, they may well plead to be admitted into the new arrangement. And yet, despite their unabashed enthusiasm for inclusion, these participants would actually be much happier if this arrangement had never been created.

While everyone who studies international cooperation is aware that power matters,

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[3] The notion that the status quo ante can "disappear" from the choice set during the course of multilateral negotiations is quite familiar to students of negotiation analysis and bargaining theory. On the importance of reversion points and outside options, see Oye (1992); Raiffa (1982, pp. 251-255); Rubinstein (1982); Sebenius (1983); and Sutton (1986).

most of the time it is either bargaining power (e.g., Fearon, 1998; Krasner, 1991; Oye, 1992) or coercive power (e.g., Martin, 1992; Young, 1983) that they have in mind. What I am talking about here, by contrast, is an altogether different kind of power, one that, unlike bargaining power, yields absolute — not just relative — losers and yet does not, like coercive power, require the winners to force their opponents into submission. At no point does anyone in the power-politics model I am putting forward coerce, or even attempt to coerce, anyone else. Nor, for that matter, do the beneficiaries of cooperation engage in "linkage politics" (cf. Martin, 1992; Sebenius, 1983). The winners do not get the losers to acquiesce by compensating them, via side payments, in some other sphere of interaction. The losers acquiesce because they know that the winners are in a position to proceed without them.

In a myopic sense, of course, the losers really are better off cooperating. Given their new baseline of comparison, a world in which the members of the go-it-alone coalition cooperate only with each other, it is only natural that the losers would want to enter the coalition's new regime. Yet — and this is the important point — their wanting to join is only natural (read: rational) because the winners have presented them with a fait accompli, that is to say, with a new status quo. The resulting move to a more inclusive cooperative regime is not, then, the Pareto-improving outcome it outwardly appears. On the contrary, even when all cross-issue deals and side payments are taken into account, the losers would still be happier if the *original* (noncooperative) status quo had continued without disruption. Faced with a choice between joining the winners' new cooperative system or being completely shut out, the losers enthusiastically submit their applications for membership. They do so, however, only because the winners' actions have had the effect of removing the status quo from their choice sets, leaving them with what they view as a bad option (cooperating with the winners) and an even worse alternative (incurring the costs of exclusion).

Is Free Trade Contagious?

To argue that go-it-alone power *may* be the driving force behind international cooperation and institutional choice is one thing; to demonstrate that it really *is* the driving force is of course quite another. I want now to take up this challenge by examining the origins of a particularly important recent multilateral initiative — the North American Free Trade Agreement. To date, the decision-making calculus of the United States has received far more scrutiny than the political and economic forces that propelled NAFTA's other two signatories into the agreement. This is unfortunate, for in many ways the Mexican and Canadian perspectives offer even greater insight into the political wellsprings of international collective action.

Methodological Caveats

Before proceeding with my empirical analysis, I should alert the reader to some of the methodological difficulties it presents. One is the need to determine, through counterfactual reasoning, how the actors I am calling "losers" would have behaved if the states included in the pivotal go-it-alone coalition had been unable, or perhaps just unwilling, to proceed on their own. My claim is that, if placed in this situation, the losers would not have chosen to take part in the cooperative regimes championed by these other states. But how do I know that I am right? After all, the situation at issue here is a hypothetical one. It never happened. In fact, even if I could prove that an actor had decided to cooperate after — and only after — being subjected to go-it-alone power, I would still need to determine whether that actor was made worse off as a result. Perhaps it had never been a particular fan of the status quo and had simply been holding out for strategic reasons, e.g., to enhance its influence in the initial bargaining process and thereby obtain a larger share of any ensuing collective gains. Here, once again, the

counterfactual problem looms large: what we would like to know — but never fully can — is whether the actor in question would have fared any better if the pre-cooperation status quo had counterfactually remained within its choice set.

Beyond these counterfactual problems, there is what might be termed the preference-specification problem. In order to perform the necessary welfare comparison between the status quo, on the one hand, and the cooperative outcome, on the other, the outside observer has to know (among other things) what the relevant government actors were originally seeking to accomplish during their time in office. At some point, therefore, the analyst is forced to specify the underlying preferences of these actors. This is admittedly a complicated task. On the other side of the coin, however, those scholars who embrace the conventional wisdom on international cooperation — that, as Keohane puts it in *After Hegemony* (1984, p. 88), "regimes are developed ... because actors in world politics believe that with such arrangements they will be able to make mutually beneficial agreements that would otherwise be difficult or impossible to attain" — seem to have no difficulty assuming (i.e., without even attempting to specify the underlying state or government preferences) that collective action, when it occurs, is in fact mutually beneficial.

In any event, the fact that this article's core hypotheses are difficult to test does not mean that they are impossible to test.[4] To the contrary, the empirical sections that follow offer a whole series of tests, albeit ones that are more suggestive than definitive. Thus, while the NAFTA story I flesh out below may not qualify as a crucial case for my theoretical argument, it would certainly have been possible for my empirical investigations to turn up no evidence that

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[4] On the prevalence of counterfactuals in theory testing, see Fearon (1991), and the contributions to Tetlock & Belkin (1996). On the preferences issue, see especially Frieden (1999), who notes that preferences may often be derived on the basis of preexisting theory.

either (1) defensive considerations, rather than any expectation of positive-sum gain or fear of coercive sanctions, were what motivated some of the participants in NAFTA to take part, or (2) these signatories would actually have been better off, in the sense of their governments' being less disadvantaged politically, had the pre-cooperation (i.e., pre-free trade) state of the world remained in effect. The fact that I do turn up such evidence, while it may not prove the empirical validity of my theoretical claims beyond any doubt, does at least lend them plausibility, which, given the counterfactual and preference-specification problems just noted, may be all one can reasonably expect at this stage of the game.

NAFTA and Beyond: An Introduction to the Puzzle

Rather than a radical disjunction in the history of Mexico-U.S. relations, NAFTA is widely viewed as the logical culmination of policies that Mexico's ruling party, the Partido Revolucionario Institucional (PRI), had been pursuing unilaterally — and, for the most part, successfully — since the mid-1980s (Baer, 1991, p. 131). In fact, Mexico's political establishment was deeply ambivalent about its earlier trade opening, a unilateral initiative that, moderate though it was by NAFTA standards, had greatly distressed many of the PRI's traditional constituencies (see, e.g., Cook et al., 1994; Weintraub, 1990b). And whereas in the past the opposition of anti-free-trade groups within Mexican society would have posed little threat to the PRI's dominant political position, by the late 1980s Mexico's authoritarian rulers were becoming increasingly vulnerable to expressions of societal disapproval and dissent (Klesner, 1994; Morris, 1992).

This is why the news that President Salinas was prepared to introduce Mexico into a formal free trade agreement with the United States came as such a surprise, even to veteran observers of Mexican politics. Only one year earlier, the notion that Mexico would be willing to

commit itself to a comprehensive agreement with the "imperial power" to its north had been dismissed as an idea too radical to be taken seriously. In 1989, for example, a highly-regarded study published by the Institute for International Economics concluded that "a U.S.-Mexico FTA or Mexican adherence to the Canada-U.S. FTA is not feasible in the short to medium term. A NAFTA will therefore remain an ideal, not a real policy option, for the next decade or more" (Schott, 1989, p. 44). At the time it was offered, this was not a particularly controversial assessment (see, e.g., Bueno, 1988, p. 118; Diebold, 1988, pp. 160-163; Weintraub, 1990b, pp. 15-23).

How could so many intelligent observers have failed to predict Mexico's 1990 overture to the United States? While the absence of any historical precedent may be part of the explanation, at least as important was the widespread perception that a NAFTA-like free trade agreement, by accelerating a liberalization process whose economic payoff had yet to materialize, would spell major trouble for Mexico's ruling elite. As the PRI's new leader, Salinas had to be especially concerned about maintaining support, or at least passive acquiescence, from his party's core constituencies, many of which had disapproved of his predecessor's earlier trade initiative, and all of which had the power to bring down the government — if not through the ballot box, then through labor strife, capital flight, demonstrations, even revolution. What the PRI wanted above all else, then, was time. Although willing to leave its earlier reforms intact, it was not about to escalate them — or so, again, nearly everyone (incorrectly) assumed.

Explaining Mexico's Scramble for Inclusion

Two years after assuming office, Salinas embraced a trade accord that went far beyond the liberalizing measures that his predecessor, Miguel de la Madrid — or, for that matter,

Salinas himself — had previously introduced. Something, therefore, must have changed between the final years of de la Madrid's tenure and Salinas's 1990 announcement, for otherwise Mexico would never have been willing to take the hitherto unthinkable step of signing a comprehensive free trade agreement with its northern neighbors.[5]

There are a number of plausible explanations for this "stunning political act" (Baer, 1991, p. 134). One possibility is that Mexico's domestic political coalitions and structures shifted in ways that made liberalization suddenly seem more attractive.[6] There is, of course, some truth to this *internal* (domestic politics) explanation for NAFTA. The financial wing of the Mexican state apparatus did in fact grow, both in size and, more importantly, in influence, over the course of the 1980s — a decade that saw a coterie of ambitious young economists and administrators emerge "as a major, well-trained business-oriented and outward-looking force in Mexican politics" (Castañeda, 1990, p. 408). Many of these individuals played a direct role in formulating de la Madrid's liberalization program and so, presumably, wished to see it continue.

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[5] Note that my claim here presumes that Salinas and other top Mexican officials knew exactly what they were getting themselves into. In contrast, Yarbrough and Yarbrough (1992, p. 45) attribute NAFTA to a combination of ignorance and wishful thinking on the part of the Mexican government: "The deliberate fostering of dependence that can be exploited requires an asymmetry of information between the parties about the relation. The intended victim must be either unaware of the danger being plotted or so desperate to trade with the opportunist that the potential danger is ignored." Likewise, Pastor and Wise, although sharing my view that NAFTA exacted a heavy toll on Mexico, maintain that Mexican policy makers were taken by surprise; hence, the stated purpose of their study is to demonstrate "[how] 'rational' actors and policymakers could settle on strategies that subsequently produce *unexpectedly* high political costs" (Pastor & Wise, 1994, p. 471, emphasis added).

[6] Those who take this view note that it was Salinas, not Bush or Mulroney, who initiated the NAFTA negotiations. From this they conclude that the origins of Mexico's trade opening — the catalyst that ultimately triggered NAFTA — must be found "*inside* the Mexican political economy" (Pastor & Wise, 1994, p. 471, emphasis added; see also Centeno, 1994; Poitras & Robinson, 1994).

But while Salinas could not afford to ignore the preferences of his technocrats, even less could he afford to disregard the demands of Mexico's anti-free trade "popular" sectors, without whose support (or at least passive acceptance) his party stood little chance of retaining office in the coming years.

A different and, I think, more compelling account of Salinas's behavior would put the spotlight on large-scale changes in his country's *external* environment. More than any purely domestic development, the real impetus for Mexico's decision to seek a free trade agreement with the United States was his party's concern that, were Mexico to continue on its present (pre-NAFTA) trajectory, ongoing shifts in the world economy could play themselves out in ways that would end up diminishing the country's access to long-term investment capital.[7] But this merely moves the analysis back a step: Why did Mexico's leaders believe that negotiating a free trade agreement with the United States would help their country attract the requisite amounts, and right kinds, of foreign investment?

While the question admits no simple answer, much of the evidence, including a policy paper written at the time by Jaime Serra Puche, the PRI official who would later become Mexico's chief representative at the NAFTA negotiations, and a similar analysis drafted by the president himself, points to one reason in particular: a free trade agreement with the United States would mitigate the negative trade and investment discrimination that Mexico might

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[7] Attracting foreign capital had been one of the PRI's major priorities when Salinas took office, as indeed it had been throughout much of the 1980s. It was with this goal in mind that Mexican officials engineered a debt restructuring agreement with the commercial banks in 1989. When it went into effect the following year, the so-called Brady Plan precipitated an enormous — and, to observers at the time, quite surprising — inflow of foreign capital. As I point out later, however, a disappointingly small share of this capital consisted of new, long-term investments.

otherwise experience as a result of its exclusion from the large regional trading blocs that were just then beginning to appear in Asia, Europe, and North America (Salinas de Gortari, 1990; Serra Puche, 1990). This desire not to be shut out of the world economy, dominated as it was (or so it seemed likely soon to become) by a handful of outwardly protectionist regional "fortresses," has emerged as a central explanation for the regional initiatives that have proliferated since NAFTA made its debut in 1994 (see, e.g., Bouzas & Ros, 1994; Frankel, 1997). So far, however, there has been relatively little attention paid to the role of defensive considerations in the formation of NAFTA itself.

This is surprising given that, as just noted, Salinas himself cast his 1990 decision in defensive terms. As the president reflected at the time, "the changes in Europe and East Asia and an apparent reliance on blocs convinced me that we should also try to be part of an economic trading bloc with the United States and Canada" (quoted in Pastor, 1990, p. 32). This rationale is consistent with the observations of Jesus Silva-Herzog, Mexico's minister of finance from 1982 to 1986 and a leading contender for the presidential nomination in 1988:

> A year ago [1990] everybody in Mexico rejected the idea of a free-trade agreement with the U.S. on the grounds of disparity — in per capita income, size of economy and degree of development. Today, almost everybody accepts the idea of a free-trade agreement, but mainly because they see the challenges faced by individual nations as regional economic blocs begin to form in Japan and Asia, Europe, and North America. Not to join with other nations in trade agreements would be to risk marginalization, to remain spectators on the world scene. (Silva-Herzog, 1991, p. 29)

But while Silva-Herzog and Salinas both refer to the construction of regional blocs in Asia and Europe, the emergence of a regional bloc in Mexico's own backyard was surely a more immediate cause for concern, for as Serra Puche (1990, p. 529) noted at the time, Mexico's commercial ties with Canada and, particularly, with the United States had "a special importance." Why? For one thing, well over half of Mexico's new and accumulated foreign

direct investment came from U.S. sources (Lustig, 1992, p. 125). Nor is it any great mystery why U.S. investors were attracted to Mexico. Particularly after the mid-1980s downturn in the oil industry, Mexico's most promising long-term investment prospects were to be found in its burgeoning (non-oil) export sector. As promising as they were, however, the long-term profitability of Mexico's new export-oriented businesses — their expected earnings potential — was almost entirely contingent on their ability to attract customers within the United States. In short, Mexico's access to markets in Europe and Asia was not nearly as consequential, in terms of luring new foreign direct investment, as was its access to the U.S. market — a market that, in 1989, purchased nearly three-quarters of Mexico's total exports (Lustig, 1992, p. 136, table 5-6).

So what, then, was threatening this access? It was almost certainly *not* the increasing use of administrative trade remedies by the United States, though some scholars have suggested as much (see, e.g., Kahler, 1995, p. 21). Over the previous decade, authorities in the United States had shown an increasing willingness to retaliate against U.S. trading partners deemed to be using "unfair" means of penetrating the American market. In the case of Mexico, however, U.S. antidumping and countervailing duty actions — never very significant to begin with — had been on the decline for several years prior to 1990, the year the PRI went public with its decision to begin negotiating a free trade pact with the United States (Table 1).

-- Table 1 about here --

The Impact of the Canada-U.S. Agreement

What was not on the decline, by contrast, was Mexico's concern that, as Serra Puche (1990, p. 530) himself put it, "our exports to [Canada and the United States] will be

Table 1
U.S. Antidumping and Countervailing Duty Investigations Initiated , 1979-1990

	Antidumping cases		Countervailing duty cases	
Year	Total	vs. Mexico	Total	vs. Mexico
1979	26	1	40	0
1980	21	0	14	1
1981	15	0	22	1
1982	65	0	140	9
1983	46	1	22	6
1984	74	1	51	7
1985	66	3	43	5
1986	71	2	27	0
1987	15	0	8	0
1988	42	0	11	0
1989	23	2	7	0
1990	43	1	7	0
Total	*507*	*11*	*392*	*29*

Source: Compiled from Destler (1992, apps. B and C).

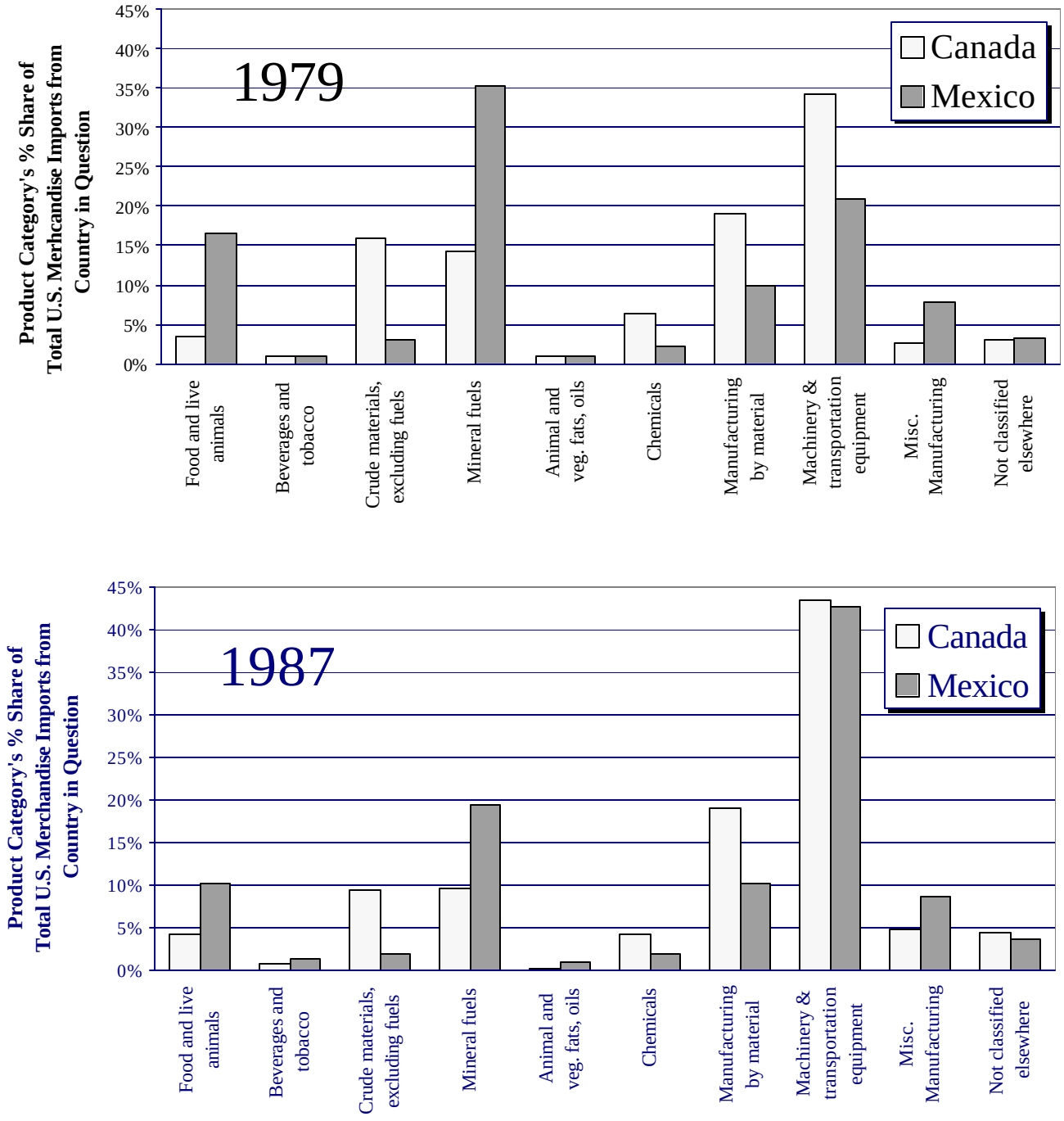
shut out as a result of the preferential treatment they give each other." Indeed, the Canada-U.S. Free Trade Agreement reduced Mexico's access to the U.S. market, and thus Mexico's attractiveness as a site for foreign investment, by its very existence. It did so by (among other things) lowering the tariffs on nearly all U.S. imports from Canada. True, these tariff reductions posed a threat to Mexico only insofar as U.S. imports from Mexico competed directly against those from Canada. And yet, as the following tables and figures make clear, head-to-head competition between Canadian and Mexican suppliers to the U.S. market was remarkably intense, and getting more so all the time.

Consider the sector-by-sector breakdowns displayed in Figure 1. The big lesson to take away from this figure is that, by 1987, Mexico's export structure had largely converged with that of Canada, with both countries relying on just one product category — machinery and transportation equipment — for nearly half of their total U.S. exports. Table 2 presents a more fine-grained picture. U.S. tariffs in many of the product lines depicted in this table were initially in the range of 4 or 5 %.[8] After the Canada-U.S. free trade pact entered into force, however, the tariffs on Canadian exports to the United States began to decline (eventually to zero), while tariffs on Mexican exports remained unchanged.

-- Figure 1 and Table 2 about here --

[8] Trade in some of these product categories was relatively trivial. Yet even if one restricts attention to product categories for which U.S. imports from Mexico and Canada exceeded $100 million, the proportion of Mexican exports to the United States facing tough competition from Canadian concerns falls only slightly, from 87.7 to 61.8 % (United Nations, 1989).

Figure 1
U.S. Merchandise Imports from Canada and Mexico, 1979-1987



Source: IMF (1992).

Table 2
Areas of Intense Competition between Mexican and Canadian Manufactured Exports to the United States, 1987

SITC[a]	Product	U.S. Imports from Mexico[b]	U.S. Imports from Canada[b]	Range of U.S. MFN Tariff[c]
5000	*Chemicals*			
5122	Alcohols, phenols, etc.	22	98	0-20
5133	Inorganic acids, etc.	61	69	0-4
5135	Metallic oxide for paint	25	51	na
5141-3	Metal composed of inorganic acid	34	140	0-17; median 3
5811	Product of condensation, etc.	43	99	0-12.5
5812	Product of polymerization, etc.	73	314	20
6000	*Manufactured Goods Classified Chiefly by Material*			
6291	Rubber tires, tubes	38	530	0-5; median 4
6318	Wood simply worked, nes	60	70	0-5
6412	Other printing paper, nes	32	514	0-17; median 5
6419	Other paper, etc., nes, bulk	22	230	0-17; median 5
6429	Paper, etc., articles, nes	183	76	0-17; median 5
6516	Yarn of synthetic fibers	26	28	9-15; median 12
6569	Other textile products	70	41	0-30
6612	**Cement**	**157**	**159**	**0-$0.22/ton**
6647	**Safety glass**	**109**	**157**	**5-6**
6651	Bottles, etc., of glass	23	39	6-38
6742	Iron, steel medium plate	36	247	6.5
6748	Iron, steel thin-coated, nes	54	133	6.5
6783	Iron, steel tube, pipe, nes	48	250	1-8
6811	**Silver unworked, partly worked**	**277**	**123**	**0-6**
6821	Copper alloys, unwrought	56	356	1-6
6822	Copper alloys, worked	45	88	1
6851	Lead, alloys unwrought	29	62	3.5
6861	Zinc, alloys unwrought	42	302	2-19
6922	Mil transport boxes, etc.	23	37	0-6; median 5
6952	Tools, nes	24	55	4-8
6981	Locksmiths' wares	73	246	2-7.5; median 6
6986	Springs and leaves	36	187	4-6
6989	Other base metal manufactures	54	291	0-6
7000	*Machinery and Transportation Equipment*			
7115	**Piston engines, nonair**	**973**	**1,639**	**0-4; median 3.7**
7143	**Statistical machines, computers**	**150**	**477**	**na**
7149	**Office machines, nes**	**317**	**674**	**0-5; median 3.7**
7184	Construction mining machinery,	30	225	0-3.7
7191	**Heating, cooling equipment**	**124**	**132**	**2-4**
7192	**Pumps, centrifuges**	**103**	**291**	**0-3**
7193	Mechanical handling equipment	76	262	0-6
7195	Powered tools, nes	25	81	2.5-4.5
7199	Machine parts, accessories, nes	64	330	0-6; median 4
7221	**Electric power machinery**	**538**	**286**	**3**
7222	**Switchgear, etc.**	**516**	**313**	**5-6**
7231	**Insulated wire, cable**	**1,001**	**223**	**5-8; median 5.3**
7241	Television receivers	293	32	6-15
7242	Radio broadcast receivers	604	15	4-8; median 5
7249	**Telecomm. equipment, nes**	**813**	**567**	**5-8; median 5**
7250	**Domestic electric equipment**	**156**	**111**	**0-5**
7291	Batteries, accumulators	56	30	5.1-5.3
7292	Electric lamps, bulbs	27	32	0-8; median 3.7
7293	**Transistors, values, etc.**	**318**	**533**	**0**
7294	**Automotive electrical equipment**	**107**	**105**	**0-8; median 3**
7295	Electrical measuring, control	55	223	4-10; med. near 10
7299	**Other electrical machinery**	**299**	**193**	**3-5; median 4**
7321	**Passenger motor vehicles, excl.**	**1,178**	**10,257**	**2.5-8.5; near 8.5**
7323	Lorries, trucks	89	3.700	na
7328	**Motor vehicles parts, nes**	**651**	**5,143**	**0-4; median 3**
8000	*Misc. Manufactured Products*			
8124	Lighting equipment	38	27	0-8; median 3.7
8210	**Furniture**	**311**	**1,031**	**2.5-9; median 6**
8411	Textile clothes, not knit	307	96	median 17
8414	Clothing, accessories knit	66	35	above 20
8510	Footwear	105	35	2-48; median 37.5
8619	**Measuring, controlling**	**106**	**202**	**0-8; median 5**
8912	Sound recording tapes, discs	74	57	4.2
8930	Articles of plastic, nes	80	555	2-14; median 5
8942	Toys, indoor games	88	27	0-12; median 7
8944	Outdoor sporting goods, nes	31	62	0
8960	Works of art, etc.	89	136	0-11; near 11

Source: Weintraub (1990a, table 1). Trade data originally compiled from tapes of United Nations trade statistics. The original source for tariff and non-tariff measures was U.S. International Trade Commission, *Harmonized Tariff Schedule of the United States*, 1st ed., supp. 3 (Washington, D.C.: United States Government Printing Office, 1988).

[a]Standard International Trade Classification category. Table reports data only on product categories for which U.S. imports from Mexico and Canada exceeded $20 million. **Boldface denotes product category for which imports from Mexico and Canada were, in both cases, in excess of $100 million.**

[b]Value in millions of U.S. dollars. [c] The MFN tariff was the tariff normally levied on imports from Mexico and Canada in 1987 — figures are percentages.

na = not applicable; nes = not elsewhere specified

But if the tariff preferences embedded in the FTA posed a threat to established export-oriented firms in Mexico, they posed an even greater threat to Mexico's emerging markets. Table 3 displays data on Mexico's 20 fastest-growing manufactured U.S. exports between 1985 and 1987. By 1987, many of these industries had already begun to make inroads into the United States. In several cases, however, these product lines had only recently gained a foothold in the U.S. market and (with very few exceptions) these industries, including fledgling upstarts such as tires and newspaper, faced stiff competition from Canadian suppliers. And that was in 1987. With the inauguration of the FTA, the duties imposed on U.S. imports from Canada began to decline, thus further weakening the price competitiveness of (dutiable) imports in some of Mexico's most promising export-oriented industries.[9]

-- Table 3 about here --

This is not to suggest that the discriminatory effects of the FTA were only a product of its tariff provisions; also important was the agreement's dismantling of numerous nontariff impediments to Canada-U.S. trade. To be sure, the nontariff impediment of greatest concern to the Canadians — the "harassment" potential created by America's administrative trade remedy legislation — was of relatively little concern to Mexican exporters, who, as noted earlier, were infrequent targets of U.S. antidumping and countervailing duty actions. The fact that Chapter 19 of the FTA provided authorities

[9] Mexican exporters also stood to lose market share in Canada, in this case because of increased post-FTA competition from duty-free U.S. exports. Most analysts rightly downplay the importance of this second diversionary effect, however, owing to Mexico's small share in Canada's total imports and exports. In 1987, the volume of Mexico-U.S. trade was some 15 times larger than that between Mexico and Canada.

Table 3
Areas of Greatest U.S. Import Growth from Mexico between 1985 and 1987

SITC	Product Category	U.S. Imports from Mexico *(value in millions of U.S. dollars)* 1985	1987	Avg. annual growth rate (%)
7143	*Statistical machines, computers	6	150	1,177.4
7321	*Passenger motor vehicles, excl. buses	111	1,178	479.8
6822	Copper, alloys, worked	6	45	319.9
6291	*Rubber tires, tubes	6	38	283.2
6412	*Other printing paper, nes	5	32	258.5
6742	*Iron, steel medium plate	8	36	179.7
7191	*Heating, cooling equipment	30	124	157.5
7294	*Automotive electrical equipment	27	107	146.1
7241	Television receivers	88	293	116.0
6748	*Iron, steel thin-coated, nes	16	54	113.9
6821	*Copper, alloys unwrought	19	56	96.8
7192	*Pumps, centrifuges	38	103	86.6
6981	*Locksmiths' wares	29	73	77.9
8971	Real jewelry, gold, silver	26	64	71.7
8617	Medical instruments, nes	47	110	67.2
8414	Clothing, accessories knit	29	66	63.6
7250	*Domestic electric equipment	81	156	46.8
8210	*Furniture	168	311	42.7
6612	*Cement	87	157	39.7
7231	*Insulated wire, cable	618	1,001	31.0

Sources: Adapted from Weintraub (1990a, tables 1 and 2). Data originally compiled from tapes of U.N. trade statistics.

nes = not elsewhere specified

SITC items marked by an asterisk (*) are those for which, in 1987, U.S. imports from Canada exceeded $100 million.

in Canada with a vehicle for challenging the legality of U.S. trade remedy actions was thus of lesser consequence to the Mexican side than were the supranational dispute settlement procedures set forth in Chapter 18 of the agreement (the provisions for which were subsequently carried over into NAFTA). The FTA's formalizing of these procedures had already gone some distance toward mitigating the nuisance caused by U.S. border controls, quotas, technical standards, health and safety measures, preferential public procurement policies, and the like, all of which had served to disrupt Canada-U.S. trade in the years before the FTA came into force and were threatening to do the same for Mexico-U.S. trade in the years to come.

Was Mexico a Victim of Coercion?

To claim that Mexico sought a free trade agreement with the United States in order to mitigate the potential diversionary effects of the Canada-U.S. FTA is not to say that Mexico was *coerced* into taking this action. To describe NAFTA as an example of "deep integration through leverage" is to fail to appreciate the voluntary nature of Salinas's decision (Haggard, 1995). At no point was Mexico's ruling elite ever subjected to coercive pressure. Quite the contrary, neither of the Canada-U.S. Free Trade Agreement's two sponsors had any intention of modifying Mexico's behavior, even if their go-it-alone initiative was to have precisely that effect.

Does this mean that authorities in Canada and the United States were indifferent to Salinas's overture? Not at all. In the United States, NAFTA was immediately hailed by George Bush as a way of insulating the market-oriented reforms of de la Madrid and Salinas from the vagaries of Mexican politics. And by providing the United States with a "regional fall-back," NAFTA may also have strengthened Bush's bargaining position in the Uruguay Round

negotiations of the GATT (Hurrell, 1995, p. 271). But to say that the president welcomed NAFTA is not to say that he pressured the Mexican government into signing the accord. Though Bush viewed the pact as an improvement over the earlier bilateral agreement, he did not regard it as a top priority. Nor, given Mexico's marginal role in the overall U.S. economy, is this particularly surprising. In short, though NAFTA was ultimately signed by the U.S. president and (after a prolonged and stormy debate) ratified by both houses of Congress, the impetus for the accord did not come from the U.S. side.

Nor did it come from Canada, which was decidedly unenthusiastic about the whole affair. As I argue later in this article, it is virtually inconceivable that Prime Minister Jean Chrétien, whose Liberal government ratified the pact shortly after taking office in 1993, would have been willing to "trilateralize" the Canada-U.S. agreement had it not been for the prospect of a separate Mexico-U.S. bilateral agreement. In the end, therefore, Salinas's 1990 decision to seek a free trade agreement was made freely — the product of voluntary, albeit constrained, choice rather than of bullying by the United States or (least of all) Canada.

Mexico's Preference for the "Noncooperative" Status Quo

Even if this is correct, it does not automatically follow that the inauguration of the Canada-U.S. agreement, by prompting Mexico to seek a free trade agreement of its own, undermined the latter country's interests. To the contrary, the notion that NAFTA was somehow "bad" for Mexico might seem to fly in the face of basic economic theory. Given the complementarities between the labor-abundant Mexican economy, on the one hand, and the capital-abundant U.S. and Canadian economies, on the other, the potential for trade creation is quite large. Nor are the resulting gains for Mexican citizens likely to be offset by the effects of trade diversion from non-NAFTA countries, since Mexico was already obtaining well over half

of its imports from Canada and the United States before NAFTA was ever instituted.[10]

Assessing the Economic Effects of Mexico's Participation in NAFTA

In recent years, however, mainstream economists have begun to question whether the task of distinguishing free trade winners from free trade losers is as straightforward as the traditional trade-creation-versus-trade-diversion approach would suggest (Bhagwati & Panagariya, 1996; Wonnacott, 1996). One problem is that NAFTA does more than eliminate "at-the-border" barriers; as noted earlier, it also provides for the establishment of an elaborate system of supranational governance. This is problematic insofar as the rules and standards that issue forth from this new arrangement may not work to the advantage of all three member states (Haggard, 1995; Lawrence, 1996). NAFTA's side accords on labor issues and the environment are a case in point. Inasmuch as the labor accord calls for Mexico to align its labor standards with those of the United States and Canada, its principal effect might well be to raise production costs in the export-oriented industries in which Mexico would otherwise enjoy a comparative advantage. By compelling Mexico to raise its domestic environmental standards (or to more strictly enforce those it has already adopted), the environmental accord could have much the same effect.

Another problem with conventional economic arguments is their neglect of economic geography. The fact that NAFTA promotes economies of scale is normally seen as a desirable

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[10] On this basis, NAFTA stands to improve the long-term economic health of all three partners. To be sure, some analysts (e.g., Ros, 1992) suggest that the anticipation of these traditional trade gains was less important to Mexican decision makers than were the agreement's anticipated effects on capital flows. Yet, as I discussed earlier, inflows of long-term investment capital into Mexico were unlikely to be forthcoming unless prospective investors could be assured of maintaining their access to customers in the United States. In practice, therefore, the two aims were inextricably linked.

feature of the agreement. Yet, as businesses move to exploit the cost advantages facilitated by larger production runs, they may also decide to shut down their Mexican operations and concentrate production in the United States, the member of NAFTA with the largest domestic market. As Bouzas and Ros (1994, p. 12) point out, the size and direction of these dynamic effects "will ultimately rest upon the uncertain balance of 'virtuous' as opposed to 'vicious' circles of investment, productivity, and growth, about which economic analysis provides all but precise answers."

Most importantly, however, the real question is not whether NAFTA will encourage a more efficient allocation of Mexico's economic resources; it is whether Mexico's opening to world markets might have been accompanied by less economic and political upheaval if the country's leaders had not been "forced" to deviate from their pre-NAFTA trajectory. Had it not been for the world's devolution into regional trade blocs, a more gradual transition to open markets would have been well within Mexico's reach. Since 1986, the country's rulers had been liberalizing under the auspices of the GATT. Aside from permitting members to protect infant industries through higher tariffs, the GATT's multilateral trade regime — which Mexico joined on August 24, 1986 — afforded certain exports from developing countries special tariff preferences in the markets of the United States and other advanced countries. In 1989, Mexico became the largest beneficiary of this Generalized System of Preferences (GSP), which eliminated duties on 9.3 % of its total exports (Krueger, 1993, p. 230 n. 52). For Mexico to continue down this multilateral path, however, would have been to risk losing access to its all-important U.S. market. Instead, Mexico entered into negotiations for a free trade agreement with the United States, thereby committing itself to speeding up — not merely preserving — the trade reforms it had initiated in accordance with its GATT obligations.

In response, it might be argued that NAFTA, though it posed a threat to Mexico's more

vulnerable economic sectors, was unambiguously positive in its *net* effects. Analysts who take this position often view the agreement, along the lines suggested earlier, as a device for binding future Mexican governments to the free trade policies that the country had been pursuing since the late 1980s. Had it given "credibility, permanence, and prominence" (Lawrence, 1996, p. 67) to Mexico's domestic economic reforms, NAFTA would have markedly increased the propensity of multinational corporations and the global financial markets to invest in Mexico over the long haul, and it is quite likely that the society's net welfare under the agreement would have been enhanced. There is little evidence, however, that officials within the PRI expected NAFTA's lock-in effects to precipitate a dramatic inflow of long-term investment (Ros, 1992, p. 72). Nor, in the end, did they actually do so (see below). This should not be surprising inasmuch as Mexico's ability to attract foreign direct investment was contingent on the maintenance of domestic political stability, and NAFTA, rather than quelling popular opposition to the government's market-based reforms, seemed more likely to exacerbate Mexico's political turmoil, introducing new tensions into an already volatile political environment. In this sense, liberalization through the GATT, precisely because it would have been less sweeping, might well have provided a more effective device for entrenching Mexico's outward-looking economic policies.

It is true that negotiators from Canada and the United States agreed to lengthen the phase-out time for the scheduled elimination of Mexican tariffs on particularly sensitive items. Another concession to Mexican concerns was the treatment of PEMEX, Mexico's enormous state-owned oil industry.[11] Conciliatory though these measures were, it is important to keep

[11] In a departure from the terms of the original FTA, Annex 602.3 of the trilateral agreement allowed Mexico to retain its ban on foreign ownership of oil and natural gas reserves.

things in perspective. While NAFTA did lengthen the phase-out time — in some cases up to 15 years — for the elimination of some tariffs, these were the exceptions. In fact, the schedule was to be "virtually completed in ten years, with the bulk of the tariffs ... substantially reduced or eliminated in earlier years" (Lipsey et al., 1994). And while PEMEX may have been allowed to retain its monopoly on oil exploration, NAFTA opened the bidding on contracts for energy-related goods and services to all North American firms, thereby ensuring that Canadian and American drilling companies would have an opportunity to share in any future profits the Mexican oil industry might generate.

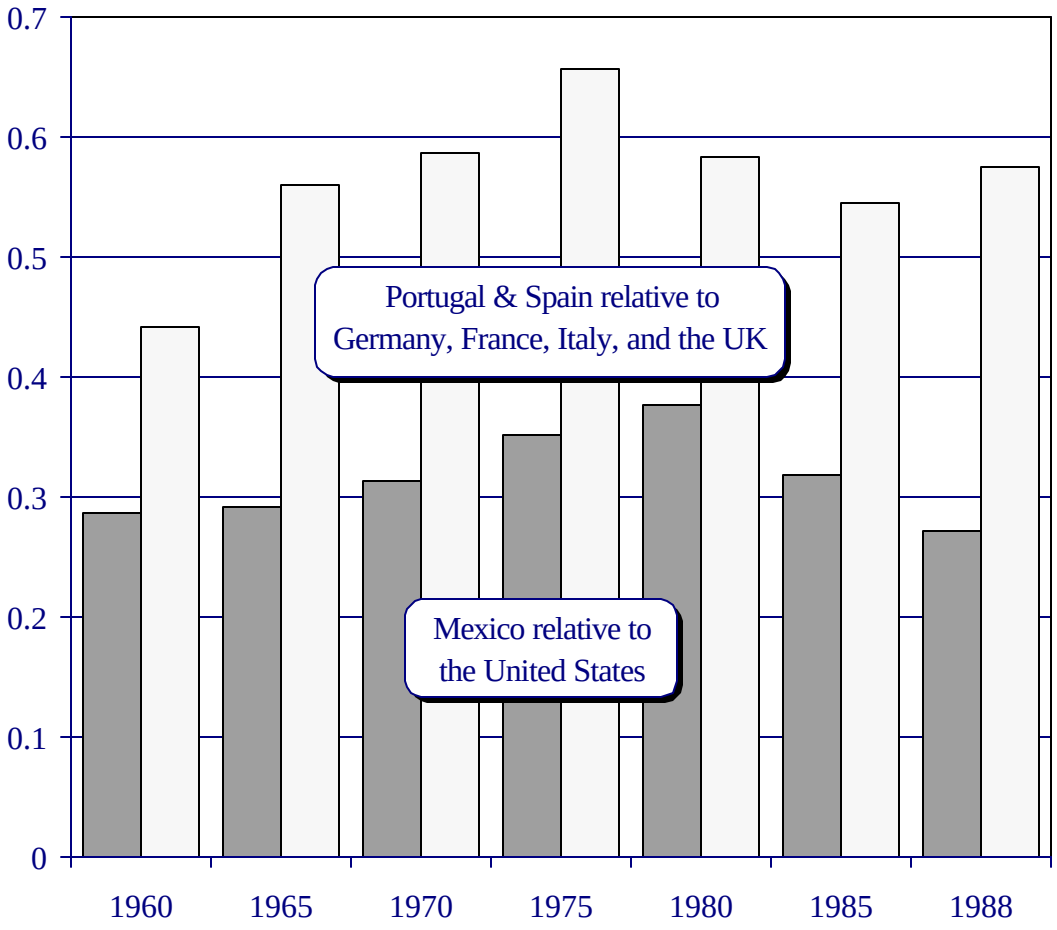
The fact that Canada and the United States did not substantially tone down the liberalizing thrust of their 1988 agreement is all the more striking when one considers that Mexico, as a developing country, was likely to experience far greater dislocations as a consequence of its entry into NAFTA than would its NAFTA partners, both of which possessed the institutional and financial wherewithal to compensate displaced workers. Yet despite the fact that the per capita income gap between the United States and Mexico was substantially greater than the gap between the wealthiest and poorest members of the European Union (Figure 2), the United States never once seriously considered the idea of establishing a North American equivalent of the EU's Structural Funds. When President Salinas announced in 1992 that he would be asking the incoming Clinton administration to establish a (considerably smaller) economic support fund, the U.S. response was tepid at best.

-- Figure 2 about here --

From NAFTA to Chiapas and the Demise of One-Party Rule

While it is too early to say precisely what effect NAFTA will have on Mexico over the long run, the years between the announcement of the agreement in 1990 and its entry into force

Figure 2
Ratio of Real Incomes per Capita in Mexico, the United States, and Western Europe, 1960-1988



Source: Adapted from Conroy & Glasmeier (1992/1993).

in 1994 were marked by a rapid deterioration in the Mexican political economy.[12] This is significant insofar as the liberal reforms undertaken during this period were relatively moderate by NAFTA standards. And while the news that Mexico was prepared to participate in a free trade agreement with Canada and the United States may have mitigated the diversionary consequences of the Canada-U.S. agreement, long-term investors — as opposed to those buying pesos to acquire Mexican stocks and bonds that could be sold again quickly and easily — continued to be circumspect (Castañeda, 1993, pp. 63-65; Peres Núñez, 1990, p. 20; Ros, 1992, p. 67). Revealingly, net long-term foreign investment showed only a slight increase after 1990 (Figure 3).

-- Figure 3 about here --

Already tenuous, Mexico's economic and political situation deteriorated further in 1994, the year NAFTA was officially inaugurated. It is not at all clear that either of the PRI's two main rivals — the Democratic Revolutionary Party (PRD) or the National Action party (PAN) — would have handled things differently had they, and not the PRI, been in power. But that did not stop NAFTA from becoming a rallying point for popular opposition to the Mexican government's new market-oriented approach; indeed, by 1994, opposition demands for radical political reform had begun to resonate with large elements of the Mexican public (Cook et al., 1994; Cornelius, 1996).

A major blow to the Mexican government came when, on the very day NAFTA was scheduled to take effect, a peasant insurgency erupted in the southern province of Chiapas. Precipitating the uprising was a group calling itself the Zapatista Army of National Liberation, or

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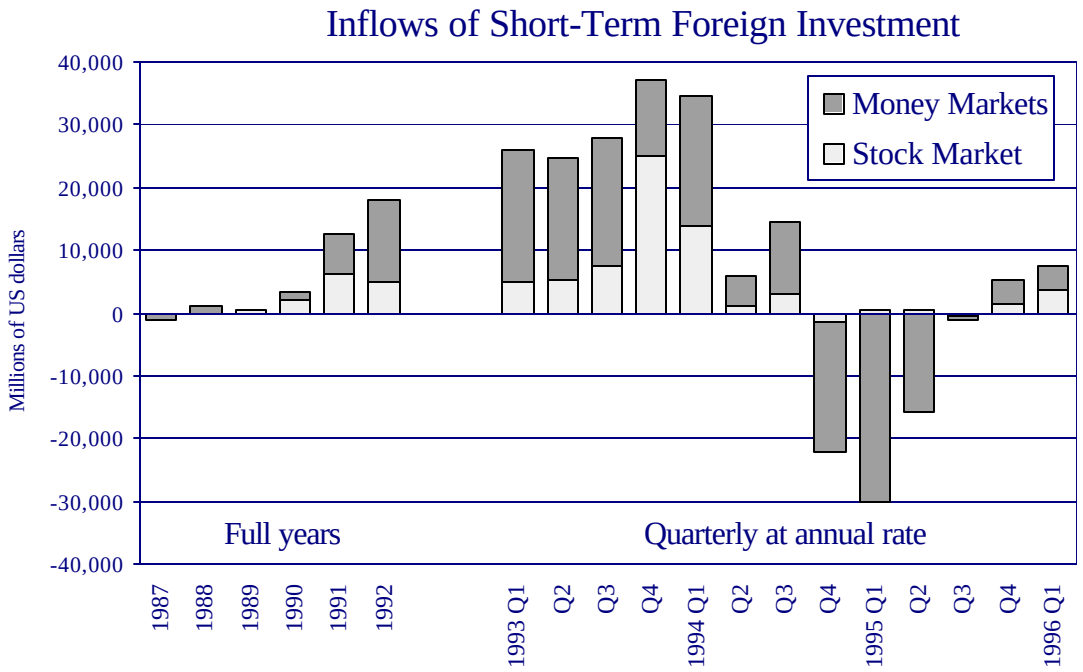
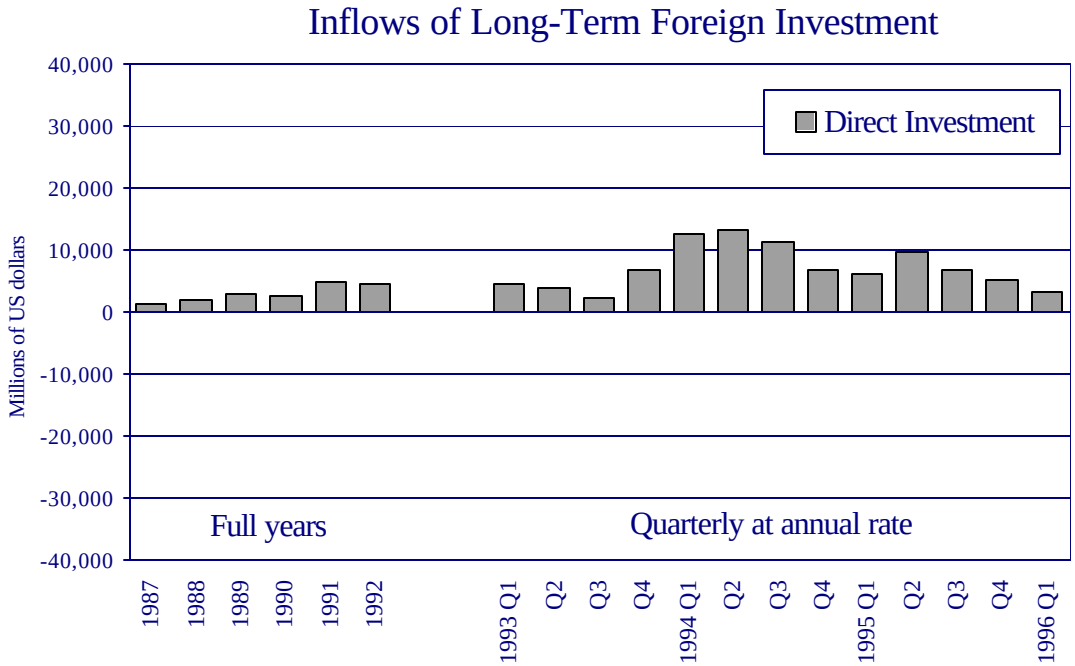
[12] Not only did the Mexican economy fail to take flight during this period, but the benefits of what little growth there was — about 2.5 % a year on average — were very unevenly distributed. On the distributional effects of Mexico's trade opening, see Pastor & Wise (1997).

Figure 3
Mexico's Attractiveness as a Site for Foreign Investment, 1987-1996





EZLN. While EZLN fed off the anxieties and frustrations that the government's previous agricultural reforms had generated among the province's largely rural population, NAFTA itself also played a role, providing as it did a convenient target for Mexican peasants concerned about their economic future. Hoping to exploit these concerns and, in so doing, fan the flames of rural discontent, the EZLN military leader, Subcommandante Marcos, declared NAFTA a "death certificate for the Indian peoples of Mexico" (Cook et al., 1994, p. 25 n. 34).

From the standpoint of the Mexican government, the upsurge of revolutionary activity in Chiapas was a major problem, less because of Chiapas itself than because of the possibility of the unrest spreading. With Mexico's pre-NAFTA liberalization efforts having failed to bring about an immediate improvement in the lives of ordinary Mexican workers (not just rural peasants), long-term foreign investors began to fear that Chiapas was only the beginning. Already apprehensive about the prospect of a resurgence in U.S. protectionism, the financial markets now had to factor in the possibility of domestic upheaval and social unrest on an unprecedented scale. Adding to these fears was the assassination a few months after the outbreak of the Chiapas rebellion of Luis Donaldo Colosio, the cabinet official whom Salinas had tapped to be his successor. Not surprisingly, inflows of foreign direct investment into Mexico began to decline at that point, and the picture has not improved much since then.

In retrospect, the political turmoil following the Chiapas uprising and the peso crisis of 1994 thus appears to have had a direct, and deleterious, impact on the political standing of the country's ruling elite. Although it remains to be seen whether Mexico's "official" party will be able to right itself in the wake of its historic defeat in the 2000 presidential elections, one thing is clear: the once-hegemonic PRI is no longer invulnerable.

Sideswiped: Canada's New Leadership Faces a Dilemma

Although it has not been subjected to close scrutiny by institutionalist scholars, the decision by Canada's newly elected Liberal government to ratify NAFTA in 1993 presents another explanatory conundrum for proponents of institutionalist theory's collective action paradigm. As mentioned earlier, the Liberals vehemently opposed the signing of the Canada-U.S. agreement in 1988, with their leader, John Turner, swearing that the party would "tear up" that agreement as soon as the voters returned it to power. By 1993, it would have been economically and politically imprudent for the Liberals to follow through on Turner's earlier pledge; by the time the Liberals reclaimed a majority of seats in the Canadian House of Commons, the FTA had already been in effect for several years. NAFTA, however, was a different story. Because it had not yet been ratified when the new Liberal leader, Jean Chrétien, took office as prime minister, the Liberals had an opportunity to veto NAFTA and just stick with the FTA. Instead, they ratified the larger agreement just in time for it to take effect on January 1, 1994. The question is why.

Canadian Accession to NAFTA: A Collective Good?

One possibility is that by the time the Canadian Liberals recaptured a parliamentary majority in 1993, their deep-rooted attachment to protectionism had been supplanted by a newfound enthusiasm for free trade. In this view, the underlying preferences of Liberal constituencies shifted dramatically over the course of the late 1980s and early 1990s: the same Liberal party whose leadership had once regarded support for free trade as an electoral liability now viewed it as a political asset.

If such a sea change in Liberal voters' attitudes had occurred, it would have begun with the 1988 election — the so-called free trade referendum — in which the Liberal party was

crushed by the pro-free trade Conservatives. As superficially compelling as it is, however, the "enlightenment" explanation for the Liberals' support of NAFTA requires us to believe that the Liberals lost the 1988 election because of widespread opposition to the FTA within the Canadian electorate. The reality is much less straightforward, however, for if the 1988 election had been a true referendum on the free trade question, the governing Conservatives would almost certainly have been defeated — and rather soundly at that. In this respect, the Conservative 1988 victory was achieved "as much in spite of the free trade issue as because of it" (LeDuc, 1991, p. 363; see also Doern & Tomlin, 1991, pp. 238-240). It is, of course, quite likely that the government's earlier support for the FTA bolstered the Conservative party's support among its core constituencies. In the general population, however, the enthusiasm for free trade was not nearly strong or widespread enough to cause members of the Liberal party to rethink their long-standing aversion to it. On the contrary, whenever the 1988 campaign addressed the free trade issue directly, the Liberals encroached on the Conservatives' head start in the polls.[13]

Even if we dispose of the notion that the Conservatives owed their 1988 victory to a nationwide resurgence of enthusiasm for free trade, that is hardly the end of the story. Another possibility is that there was in fact such a resurgence, but that it came *after* the free trade "referendum" of 1988 during what was to become the Conservative government's last term in office. Yet while calls for abandoning the Canada-U.S. FTA continued to enjoy little political

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[13] Within a matter of days after accusing Brian Mulroney of "reducing [Canada] to a colony of the United States" — one of many such charges Turner leveled against the prime minister during the second of their three campaign debates — Turner saw his party's public support soar from 32 to 43 %, moving the Liberals from last to first place in the polls. In the history of its polling in Canada, the Gallup organization had never before recorded such a large week-to-week shift (LeDuc, 1991, p. 362).

support during these years, many Canadian voters, particularly those on the left of the political spectrum, became progressively less, not more, enamored of free trade. Even if the FTA was not solely responsible for the job losses and lower earnings in Canada's manufacturing sector, a large segment of the Liberal party's support base — and, indeed, of the Canadian electorate as a whole — nonetheless continued to feel victimized by the pact.[14]

Nor, finally, can the Liberals' receptivity to NAFTA be ascribed to the fact that the trilateral accord substantially improved Canada's position in the U.S. market relative to the original FTA. Whatever its political drawbacks in the eyes of Liberals, the FTA at least had afforded Canadian exporters preferential access to U.S. consumers and suppliers. Under NAFTA, by contrast, Mexican and Canadian exports *both* enter the United States duty-free. Insofar as Canadian and Mexican industries square off against each other in the U.S. marketplace, NAFTA has thus had the effect of diluting Canada's competitive advantage.

Choosing the Lesser Evil

In the end, however, the Liberals concluded that they were better off ratifying NAFTA anyway. And, indeed, they were not wrong about this. For one thing, had the Canadians opted out of the trade talks between Mexico and the United States, it is quite possible that the Americans would have afforded better treatment to Mexican contractors than that which Canadian contractors had been getting under the FTA.[15] Yet even if the Americans had not

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[14] And not entirely without reason: the free trade pact precipitated a surge of U.S. imports in some sectors, as well as the highly visible departure of a number of U.S.-owned plants built to service the Canadian market. A 1995 study reports that Canadian manufacturing industries with high tariffs in 1988 experienced a disproportionate share of job losses over the 1988-1993 period compared with low-tariff industries, as did more heavily unionized industries (Gaston & Trefler, 1995, p. 8).

[15] Mexico might well have won greater access to America's lucrative public procurement market, for example. While the FTA had lowered the government procurement

afforded Mexico any better treatment, it would still have been in Canada's interest to agree to NAFTA, since by refusing to trilateralize the trade talks, the Canadian government would have given the United States a green light to establish itself as a hub in a new, U.S.-centered hub-and-spoke system (Aggarwal, 1995). Had this been allowed to happen, economic theory tells us what the result would have been: an immediate decline in the competitiveness of Canadian exports to the United States (and, less importantly, to Mexico), followed in all likelihood by an outflow of Canadian capital to the newly advantaged American hub (Lipsey, 1990; Wonnacott, 1996).

Why, exactly, would Canada's "demotion" to a spoke economy have produced such deleterious effects? The answer is that Canada's U.S.-based competition would have been able to acquire duty-free (and therefore lower-priced) inputs not just from Canada, as had been the case since 1989, but from Mexico as well. Canadian producers would also have been at a competitive disadvantage because of their restricted access to Mexican consumers. Only U.S. producers would enjoy preferential (i.e., duty-free) access for their exports in both the Canadian and Mexican markets. And if the Liberals had opted out of NAFTA *and* the FTA, Canada's export competitiveness — and its attractiveness as a site for long-term productive investment — would have deteriorated even further. Why? Because now, instead of Canada's sharing a preference with Mexico, Mexico alone would get special treatment. And if the United States had then gone on to sign separate bilateral agreements with other countries, Canada's competitive position within its American and overseas markets would have eroded even more.

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threshold below which bids from Canadian contractors had to be accepted from $171,000 to $25,000, the renegotiated terms still left ample room for discrimination against Canadian bidders by agencies of the U.S. government.

After NAFTA: The Global Response

One might think that Mexico's economic and political travails in the years following NAFTA's implementation would have put an end — at least temporarily — to any consideration of a more expansive Free Trade Agreement of the Americas (FTAA). Rather than losing momentum, however, the NAFTA bandwagon gained important new ground during these years. Today, as a consequence, the notion of a free trade area spanning the entire hemisphere no longer seems, as it did before NAFTA, "too eccentric even to merit consideration" (Bouzas & Ros, 1994, p. 1).

Latin America's Newfound "Enthusiasm" for North-South Integration

As we have seen, the launching of the Canada-U.S Free Trade Agreement in the mid-1980s put Mexico under enormous pressure to negotiate a bilateral accord of its own. In turn, the prospect of a separate Mexico-U.S. bilateral agreement compelled the Canadian government to trilateralize the arrangement, lest Canadian exporters lose their competitive advantage in the U.S. marketplace. But Mexico and Canada were hardly the only born-again free traders in the region. Just as the earlier Canada-U.S. agreement served to limit Mexico's choice set, so, too, has NAFTA "shifted the status quo" for the export-oriented nations of Latin America and the Caribbean. Not wishing to be left behind, and concerned in particular about NAFTA's restrictive rules of origin concerning trade in automobiles and textiles, a number of these countries responded to North America's free trade initiative by clamoring to be next in line.[16]

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[16] "All we are asking is to be put on a level playing field with Mexico" is how Jamaica's Minister of Industry, Investment and Commerce put it. "We are not seeking a handout, but only the opportunity not to be prevented from taking full advantage of the North American market" (Rohter, 1997, p. A1).

This post-NAFTA outpouring of Southern support for a new, preferential partnership with the North is perfectly consistent with the go-it-alone logic discussed earlier. Indeed, it would have been surprising if President Bush's 1990 Enterprise for the Americas Initiative, which would have created a hemispheric free trade area by the year 2000, had *not* been embraced by the Southern (i.e., Latin American and Caribbean) countries, many of whose exports competed directly against Mexican exports for market share in the United States. Even so, the EAI's warm reception, like Mexico's earlier embrace of NAFTA, came as a shock to many observers, including, once again, a number of the world's foremost authorities on Latin American politics and economics (Bouzas & Ros, 1994; Saborio, 1992).

In 1994, the end-of-the-century deadline for launching the hemispheric free trade zone that Bush had envisaged was postponed until the year 2005. Significantly, however, the impetus for extending the timetable came not from the Latin American or Caribbean side, but from the United States and Canada (Feinberg, 1997). In the meantime, NAFTA outsiders have been working to offset the costs of exclusion by striking separate *bilateral* deals with Mexico, Canada, and (especially) the United States. At the same time, a number of Latin American countries, led by Chile, Brazil, and Colombia, have also been making a concerted effort to secure new markets and sources of supply closer to home. As a result of these twin developments, the Western Hemisphere has come to resemble a "patchwork quilt" of regional — and, increasingly, subregional — trade arrangements (Whalley, 1992, p. 126). Globally, meanwhile, some have argued that we are moving rapidly toward a three-bloc world, with preferential trading arrangements centered around the United States (the American bloc), Germany (the European bloc), and Japan (the Asian bloc).

What is striking about this transformation is not simply that new regional trade blocs are expanding; it is that, in contrast with the empires of ancient times, membership in these new

"unipolar formations" has been strictly voluntary (Kupchan, 1998). Initially, to be sure, some regional partners were more willing than others. Over time, however — and, again, for reasons that flow directly out of the theoretical analysis elaborated in the first part of this article — the pressures on outsiders have intensified. And with more and more countries rushing to join the nearest bloc (so as to avoid losing access to the markets of other countries in their region), the empire-building process has started to take on a sort of organic momentum of its own. It thus comes as little surprise that nearly one-third of all regional integration agreements notified to the GATT between 1948 and the end of 1994 were signed after 1990 (Frankel, 1997, p. 4).

Bandwagoning in Europe: The Ever-Expanding EU

It is important to emphasize that this free trade contagion has not been confined to the Western Hemisphere. In addition to the spread of subregional agreements throughout the Americas (e.g., Mercosur), the 1990s also witnessed the accessions of Austria, Finland, and Sweden to the European Union. Why did this expansion happen? What exactly did the EU have to offer its three new entrants?

The conventional answer is a "for-members-only" basket of benefits, both material and nonmaterial. Note, however, that this depicts EU expansion as a positive-sum game, the widening of the organization boosting the utilities of the new entrants no less (and perhaps even more) than those of the EU's already affiliated member states. But are matters really so simple? After all, the citizens who populate the newly admitted countries bring with them distinct — some would say incongruous — values and traditions.[17] As for the strictly economic

[17] Not only do most Austrians, Swedes, and Finns disagree with their European neighbors on matters of security policy, but, for both historical and cultural reasons, they also maintain a deeper commitment to social equality (see, e.g., Michalski & Wallace, 1993).

"privileges" of membership — the material benefits that will accrue to Austria, Sweden, and Finland now that they have joined the EU's internal market, legal system, and monetary union — these, too, are open to debate.[18]

Why, then, if not in the anticipation of individual or collective gains, might the governments of Austria, Sweden, and Finland have found it in their interests to break ranks with Norway, Switzerland, and other members of the ever-shrinking European Free Trade Area (EFTA)? Let me suggest a simple explanation: just as the countries of Latin America and the Caribbean felt they could not afford to be excluded from NAFTA, so, too, did the Austrians, Swedes, and Finns feel they could not afford to be excluded from the EU. In this view, the incorporation of much of EFTA's membership into the EU represents another case in which defensive motivations outweighed the offensive considerations that take center stage in the political economy literature's standard collective-action-based accounts. More than the prospect of mutual gain, what prompted the Austrian, Swedish, and Finnish defections was the pending "completion" of the EU's internal market — a market whose very existence would raise the relative costs of doing business within the union for non-EU firms, including those located in countries that were at that time members of EFTA.[19]

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[18] Having decided to come aboard, for example, Austria, Sweden, and Finland are now required to support the poorer regions of the EU through what strike many observers as disproportionately large financial contributions.

[19] Though he does not draw out the "absolute" utility implications of EU membership as I do here, Baldwin (1995) has made a persuasive case that Austria's application to the EU in 1989 was indeed prompted (provoked?) by the EU's Single Market initiative. In turn, Baldwin argues, the prospect of Austrian accession amplified the already high costs of exclusion for EFTA's remaining members, thus tilting the balance in favor of EU membership for countries like Finland and Sweden, whose exporters were less heavily dependent on the EU market. Although Austria, Finland, Sweden, Norway, and Switzerland all put in applications, Baldwin likens the process to a "domino effect," with Austria as the first mover.

A similar dynamic would now appear to be playing itself out in Central and Eastern Europe. In preparation for entry into the EU sometime after the turn of the century (the earliest possible entry date is 2002), the governments of Hungary, Romania, and Slovakia recently agreed to settle a series of long-standing disputes over minority issues, while in 1995 Slovenia committed itself to joining the Czech Republic, Hungary, Poland, and Slovakia in a Central European Free Trade Area (CEFTA). Were governing parties in these formerly Communist countries happy about all of this? Might their political "utilities" have been higher before the EU's (unilateral) action than after? These, too, are empirical questions ripe for further study.

Defensive Motivations for APEC

Although interventionist government policies were certainly not the only factor, it would be hard to explain the stellar economic performance enjoyed by many Asian countries over the past two decades without acknowledging the role played by targeted state subsidies, controlled credit, and the like in stimulating export-led growth. At their 1993 summit meeting in Seattle, however, the leaders of these same countries resolved to dramatically scale back the degree of government involvement in their economies. The centerpiece of what came to be called the Asia-Pacific Economic Cooperation (APEC) forum, this agreement commits all APEC members to eliminating virtually all barriers to trade with one another by no later than the year 2020.

In seeking to explain this unprecedented achievement, a number of analysts point to Asian concerns about the potential diversionary effects of NAFTA and, to a lesser extent, the European Union (Aggarwal, 1995; Crone, 1993; Krueger, 1993). More than anything else, say these analysts, it was the specter of a future, NAFTA-induced decline in their terms of trade that attracted APEC's Asian member states to the new scheme. In this sense, the politics of the

APEC initiative can be said to offer yet another case of go-it-alone power at work: by shifting the status quo, the formation of a comprehensive regional trading arrangement by governing elites in one set of Pacific Rim nations (namely Canada and the United States) prompted governing elites in other Pacific Rim nations (Mexico, Japan, China, Malaysia, etc.) to pursue a course of action that they would not otherwise have taken. Although membership in APEC was strictly voluntary — none of its signatories was actively coerced into joining — some APEC participants might well have preferred the noncooperative (but no longer available) protectionist status quo.

From Regionalism to Globalism: The Reinvigoration of the GATT

Might the passage of NAFTA and, in turn, APEC have played a role in reviving multilateral trade talks in 1993, thus paving the way for the completion of the Uruguay Round the following year? Suggestive evidence to this effect comes from Lorenz Schmerus, the European trade negotiator who, when asked in 1994 why the European Union had decided to abandon its long-standing, go-slow approach toward GATT negotiations, responded: "The chief determination of the successful conclusion of the Uruguay Round was the APEC summit in Seattle; they sent us a clear message. You [North America] had an alternative, and we did not" (quoted in Funabashi, 1995, p. 107; see also Wolf, 1996, pp. 135, 138). The notion that Western Europe's concerns about being shut out of regional trade groupings in other parts of the world are what prompted its turnaround argues for viewing these groupings, in the words of Robert Lawrence (1991, p. 27), as "the building blocks of an integrated world economy [rather] than stumbling blocks which prevent its emergence." For Lawrence, it is only a matter of time before the process of regional fragmentation gives way to "an expansionary dynamic."

Was Schmerus correct in thinking that the European Union would be better off pushing

for multilateral free trade than suffering a deterioration in its preferences within the U.S. and Asian markets? Almost certainly yes. Will EU welfare be higher under the newly installed GATT regime than it was under the "old" (i.e., pre-NAFTA, pre-APEC) status quo? Here the issue is much less clear, and more extensive empirical work would be needed before one could confidently make such a judgment. There is, at any rate, no reason to *assume* that because the new WTO was embraced by governing parties throughout Europe, its creation was therefore conducive to their distinctive political and economic interests.[20]

Conclusion

By introducing the concept of go-it-alone power, this article has sought to broaden, and thereby reinvigorate, current debates about the nature and dynamics of interstate cooperation. What is needed, I have argued, is a fundamental shifting of the institutionalist literature's theoretical center of gravity. Among other things, this reorientation will require students of "cooperation under anarchy" to take a harder look than they have to date at the winners-and-losers dimension to international politics. This is not to imply that all cases of international collaboration and institution building look like NAFTA; I am not suggesting that cooperation is always and everywhere about power and domination. Nor, insofar as power *is* involved, must it always operate in the hidden ways I have suggested. Sometimes the winners' power over the losers will be overt, though even here — as in many recent cases of security and environmental

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[20] Nor, by the same token, is there any logical or necessary reason for assuming that the demise of the pre-1994 GATT — with its exclusions for poorer countries in the area of services, intellectual property, trade-related investment measures (TRIMs), and technical standards — was in the interests of the *developing* world (see, e.g., Kahler, 1995, pp. 35-42). Once the advanced countries of Europe and North America had resolved to reform the GATT, however, there were strong incentives for developing nations to take part in the new regime.

cooperation (see Gruber, 2000, Chap. 10) — power's influence is all too easily overlooked.

There is an interesting parallel here to a debate that took place in the 1950s and 1960s between the original proponents of pluralist theory — most notably Robert Dahl — and critics of pluralism such as E. E. Schattschneider, Peter Bachrach, and Morton Baratz. At the heart of that debate was the same question that is at issue here (cf. Dahl, 1957): how do powerful actors get weaker actors to do things they would not otherwise do? To scholars on the anti-pluralist side of the debate, the notion that A's power over B depends solely on its ability to defeat B in head-to-head contests between each other's preferred alternatives, as Dahl's model seemed to imply, was unnecessarily restrictive (see esp. Bachrach & Baratz, 1962; Schattschneider, 1960). These critics never claimed, however, that Dahlian (i.e., overt) power could not exist or was somehow irrelevant. Their point was simply that there were other, less transparent — but not necessarily any less effective — ways of exercising power, and hence that power was potentially even more pervasive than Dahl and his followers, having embraced an overly narrow theoretical conception, had been led to believe.

To be sure, there are differences between the understanding of power presented in this article and the one advanced by Dahl's critics. For one thing, Dahl's critics tended to assume that "creating or reinforcing social and political values" was the primary means by which the powerful actor exerted its will (Bachrach & Baratz, 1962, p. 948; cf. Lukes, 1974). As we have seen, however, changing the underlying preferences of weaker actors may not actually be necessary for the stronger one to get its way. Indeed, the NAFTA story provided little evidence of an emerging ideational consensus, and yet the case's Canadian-American "enacting coalition" was still able to act as a de facto agenda setter, removing the status quo ante from the range of choices available to other actors. There are other differences as well. For example, the agenda setters in Bachrach and Baratz's model use their agenda-control power to keep new

legislative initiatives from coming up for a vote (cf. Shepsle & Weingast, 1981). Their objective, in other words, is to *preserve* the initial status quo and not (as it is for the agenda setters in the model here) to *remove* it from the set of feasible alternatives.

These differences aside, however, the basic point that Bachrach and Baratz were making — that power can influence political behavior (in fact, all behavior) even when actions appear uncoerced and voluntary — is certainly correct. And though applications of Bachrach and Baratz's insights have until now concentrated on decision making within domestic political settings, these same insights apply with a vengeance to the world of contemporary international relations — a world in which, on the surface at least, the use of intimidation and bullying is no longer as prevalent as it once was. To be clear, I do not believe this qualifies as grounds for discarding the dominant mutual-gains theories of international cooperation, much less for abandoning the attempt to anchor the study of international cooperation in rational choice foundations. The conclusion I draw is not that I am right and "they" (i.e., Keohane and other proponents of the mainstream paradigm) are wrong. Rather, it is that we should all begin working aggressively to *supplement* this paradigm, elaborating its rational choice logic in ways that can encompass the kinds of power dynamics that would appear to be at work in the real world and yet have, to this point, been largely absent from scholarly analysis and debate.

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