

# NAFTA: The Trump card of the United States?

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Incomplete mergers (regimes of preferential duties in contradistinction to free customs unions) are decidedly undesirable, both from a selfish economic point of view of the countries concerned and because they contain a serious threat of discrimination. (Haberler, 1943)<sup>1</sup>

**T**he North American Free Trade Agreement, (NAFTA) aims to create a unified North American market. Whether or not such a project is to be beneficial to the participating countries<sup>2</sup> and to the world economy as a whole<sup>3</sup> is a controversial issue. Much of the present debate surrounding NAFTA focuses on the uncertainty of NAFTA's viability, appropriateness, and benefits.<sup>4</sup> Is NAFTA part of a general process of trade liberalization or conducive to the construction of an economic bloc which, as Bergsten<sup>5</sup> suggested, could provoke economic rivalry between the great powers?<sup>6</sup>

In the economic literature as well as within the international community, there has always been some unease surrounding regional economic agreements.<sup>7</sup> Agreements like NAFTA, represent important departures from the most-favoured-nation and non-discrimination principles; they are potentially detrimental to third countries through their discriminatory effects;<sup>8</sup> they introduce additional elements of administered trade and protectionism into international economic relations; and they have the potentially perverse

effect of favouring regional visions of international relations. However, since such agreements also favour trade liberalization and economic cooperation between neighbouring countries, the international community has always tried to take a pragmatic approach towards regional economic integration;<sup>9</sup> and has opted to integrate regional economic agreements into the GATT framework to ensure that they remain non-discriminatory.

Article XXIV of the GATT views regional agreements as piecemeal approaches to world trade liberalization. While economists generally take the same view, they tend to view regional agreements as *second best* solutions.<sup>10</sup> However, such agreements can become counter-productive for international economic cooperation when they have political aims. Such is the case with Europe,<sup>11</sup> but it is also the case with NAFTA, which also has some geo-strategic objectives. Under these circumstances, regional considerations may tend to supersede multilateral interests, and this raises the possibility that the emergence of aggressive economic blocs will threaten the basic principles of coexistence and cooperation.

It must be underlined that neither the United States, nor Mexico, nor Canada intend to create an economic bloc. The main arguments in favour of NAFTA lie in the advantages offered to the three countries by the creation of a regional community of interests in a tripolar world, and those offered to enterprises, by the consolidation of a large and integrated market allowing them to achieve a more competitive position on international markets. It must also be recognized that for the three governments, NAFTA is not seen as a substitute for multilateralism or as a fallback strategy. On the contrary, regional free trade is intended to promote the openness (of other great international markets) and a new vision of international liberalism.

However, NAFTA has some particular characteristics which suggest that we are in the presence of a new type of regionalism, altogether different from other postwar patterns and highly ambiguous in its objectives. Not only is this example of economic integration dominated by one country, the United States, but the creation of a North American community of interests is openly outward-oriented and geo-strategic.

From this perspective, NAFTA represents a new generation of regional economic agreement, characterized by its strategic and competitive focus. While it can certainly lead to the intensification of regional ties, the possibility that NAFTA could lead to the creation of an economic and political bloc and generate a new era of economic rivalry must be taken seriously.

This paper argues that NAFTA does not constitute a "classical" regional agreement in that it does not aim at bringing member countries closer together without causing rivalry with the rest of the world. Rather than emphasizing the internal gains which can be derived from NAFTA, we focus on the significance of the agreement in a world economy that is increasingly fragmented and shaped by three regions competing for market shares and struggling to achieve sustainable growth. Partly because this task is especially challenging for North America, NAFTA is more than a regional agreement. It is part of a strategic response to the changing world economy and is designed to alter the relative position of the United States and the North American region in the emerging global economy.

Our argument rests on three points:

- 1) The intra-regional trade gains from NAFTA are limited. Closer integration of the three North American economies constitutes only a partial solution to the adjustment problems occasioned by international competition. As it is outward-oriented, NAFTA must be evaluated less in terms of those intra-regional trade gains than in terms of potential trade gains on international markets.
- 2) Since Canada and Mexico wish to ensure easy access to the American market, and since the US has a global perspective, NAFTA could foster the emergence of an economic bloc in which the scope for nationalist development and interventionist strategies is eliminated. It could thus become a powerful instrument through which the United States could promote its preferred economic policy both in North America and worldwide. This underlines the political aspects of NAFTA, under which Canada and Mexico would lose the economic and political sovereignty necessary for the elaboration of coherent development strategies. This points to the creation

of a regional community of interests formulated and directed by the United States.

3) In a tripolar international economic context, it is possible that such a community of interests might collide with other regional visions of the global economy. The US attempt to use NAFTA as a trump card to reassert its global power could therefore backfire as its vision of international economic relations is challenged by the different visions held by Europe and Japan. Incapable of relying solely on market forces to assert its economic leadership, the United States must increasingly take those other regional interests into account, and improve its position vis à vis the external constraints that this imposes on it. The failure to do so might increase North America's vulnerability and intensify tripolar economic rivalry.

### **North America in the World Economy**

**Intra-regional Trade: A Comparison** Officially, the principal objective of NAFTA is the integration of the three national economies into a single economic space. However, due to the size of the United States and the development gap between the three countries, that integration process is essentially biased towards the United States. Rather than creating a new economic space in which complementarity prevails, two economies are being asymmetrically tied to a third one. In this section, we will investigate the main characteristics of North American economic integration and compare it to the apparently similar processes of integration in the EEC and Asia.<sup>12</sup>

North American integration has strong historical foundations. The large share of each country's domestic market held by imports from the other countries of the region, and the large share of each country's domestic output that is exported to the region illustrate the depth of the linkages with each other. Yet, it is difficult to talk of a genuine tri-lateral relationship because North American integration is largely focused on trade with the United States, since trade between Canada and Mexico remains very limited. The trade data essentially reflect the enormous differences in size and

in levels of development between the three countries and, thus, reflects a reality that consists of a dual asymmetry.

Trade between Canada and the United States has grown rapidly since the mid-1960s when the Auto-Pact was introduced. During the 1970s, while the Mexican economy was undergoing "petrolization," the links between Mexico and the United States were also strengthened. Today, around 70 percent of Mexico's and Canada's total trade takes place with the United States highlighting dependence on the US that is both considerable and increasing. (See Graphs 1 and 2.)

Although US dependence on the Canadian and Mexican economies is not insignificant, with just under 30 percent of US exports going to, and slightly more than 20 percent of US imports coming from, Canada and Mexico, a comparison of import/domestic market ratios and export/production ratios of the three countries reveals a very much lower degree of external dependency for the United States than for Canada and Mexico. For Canada and Mexico, trade with the United States represents more than 10 percent of their GDP, for the United States this value does not exceed 2.5 percent.

The mutual evolution of bilateral trade flows between the three countries has seen a decline in the US share of Canada's and Mexico's imports, while the US share in the two countries exports has been rising. Moreover, Mexico's and Canada's shares in US exports have also tended to rise, while the share of US imports coming from both of these countries has diminished as Canada's share of US imports fell considerably while Mexico's rose only marginally.<sup>13</sup> The region has tended to increase its imports from the rest of the world while relying increasingly on the North American market for its exports. For each of the three countries the rest of North America has become the export destination "par excellence," absorbing 37 percent of total country exports in 1970 and 44 percent twenty years later. (See Table 1 and Graph 3.)

The rise in the share of North America's imports originating from the "rest of the world" suggests that *all three* countries would benefit more from expanded extra-regional

rather than intra-regional trade. Even though Canada's and Mexico's trade is heavily oriented towards the US, mutual import trends point to an increasing extra-regional bias and this suggests that trade advantages for the region may lie primarily outside of North America.

A comparison with the other major regions of the world (see Graph 4), shows that the EEC's internal cohesion is much greater than North America's. Due to the more balanced commercial relations between the member countries of the EEC, intra-regional trade accounts for a greater portion of EEC's total trade. Both European intra-regional exports and imports are increasing, with imports rising faster than exports.

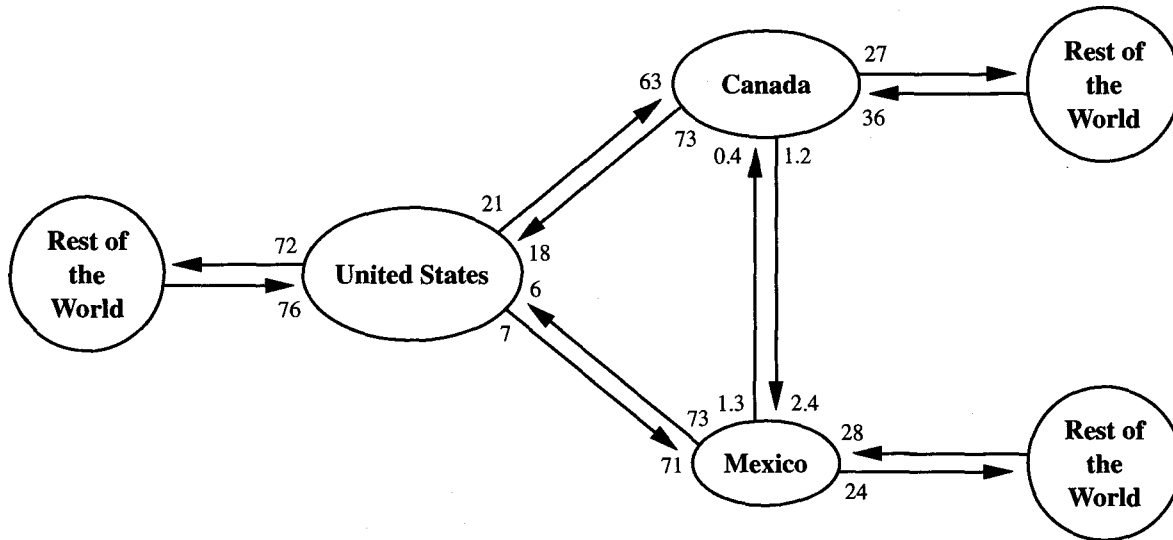
In Asia, Japan plays a similar role to that of the United States in North America. However, even though regional trade in Asia centres on Japan, this country's share of other Asian countries is considerably smaller than that of the United States in North America. Only Indonesian exports and Korean imports are exceptions to this trend. Despite Japan's importance and leadership, intra-regional trade in Asia has remained limited, especially in terms of exports. The region thus maintains its outward trade orientation, despite the recent growth of intra-regional trade which appears to result from specialization based on comparative advantage, whereas in North America the need to secure preferred access to regional markets appears to be the driving force behind the integration process.

The varying patterns of economic integration emerging in each region reflect the fact that patterns of interdependence between countries tend to be region-specific with regional integration being most pronounced in North America and Europe. Meanwhile North America is relatively polarized and its extra-regional exports are lagging far behind the equivalent imports. The EEC enjoys considerably more cohesion and a more balanced trade pattern while Asia, centring on Japan, remains relatively outward-oriented despite the rapid growth of intra-regional trade.

As for NAFTA, we suggest that it does not constitute a classical example of a regional agreement primarily designed to strengthen regional ties. Despite the fact that free trade will reinforce the economic links between the

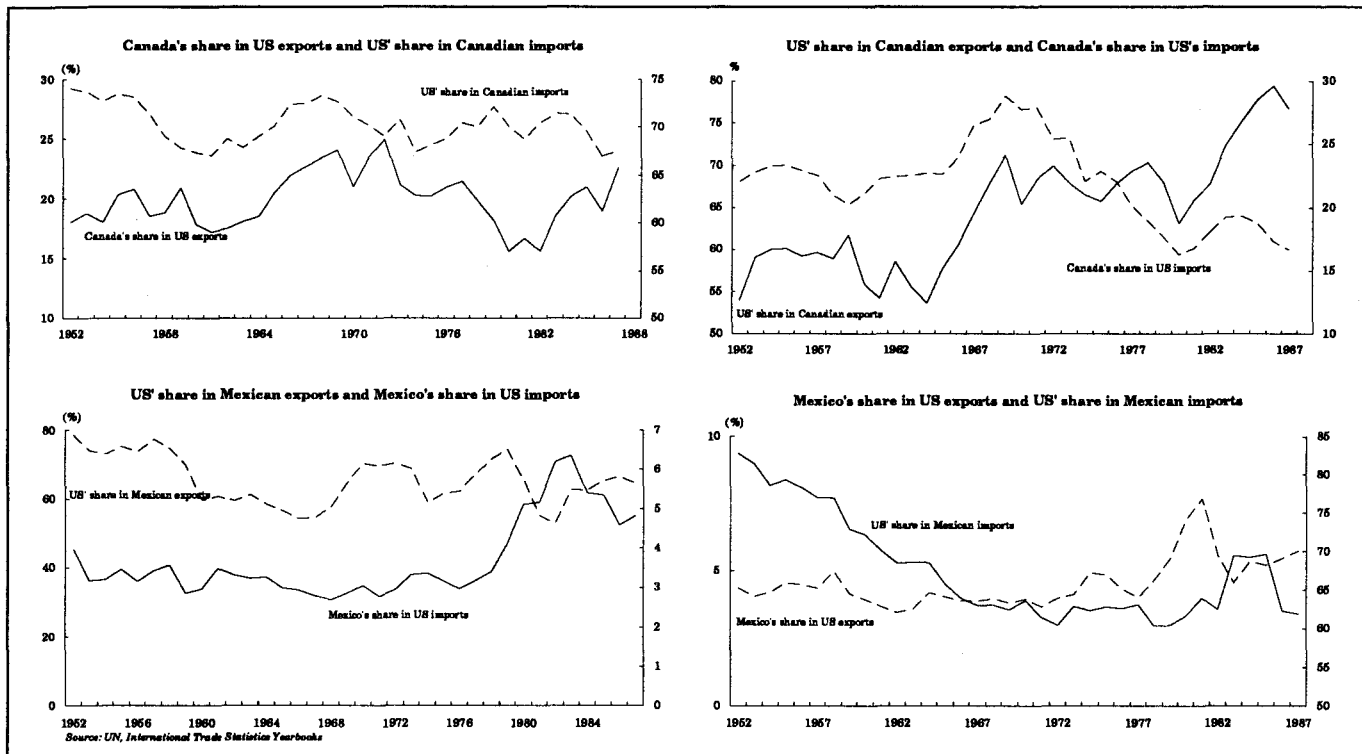
# Graph 1: Triangular Trade Relations 1990

(Shares of the three North American countries and of the rest of the world in North American total trade, in percentage)



Sources: FMI

**Graph 2: North America: Intra-regional trade, 1952-1988, in percentage of total trade**



Deblock & Rioux/NAFTA

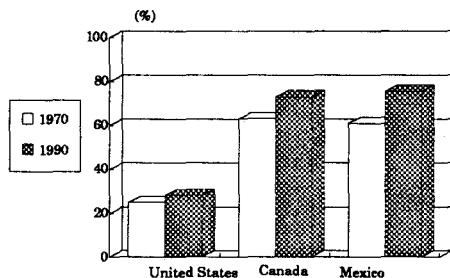
Table 1

<b>Intraregional trade in North America</b>						
(Selected years, in percentage of total trade)						
<b>United States</b>						
	Exports			Imports		
	Can.	Mex.	[1]+[2]	Can.	Mex.	[3]+[4]
	[1]	[2]		[3]	[4]	
1970	21,02	3,94	24,96	27,76	3,06	30,82
1975	20,21	4,78	24,99	22,01	3,01	25,02
1980	16,03	6,86	22,89	16,34	4,99	21,34
1985	22,17	6,40	28,57	19,20	5,36	24,56
1990	21,10	7,22	28,32	18,14	5,96	24,10
<b>Mexico</b>						
	Exports			Imports		
	U.S.	Can.	[9]+[10]	U.S.	Can.	[11]+[12]
	[9]	[10]		[11]	[12]	
1970	59,84	0,86	60,70	63,71	1,99	65,70
1975	57,44	1,48	58,92	62,60	2,22	64,82
1980	64,69	0,75	65,44	58,76	1,73	60,49
1985	60,35	1,78	62,13	66,62	1,75	68,37
1990	73,12	2,42	75,54	70,80	1,27	72,07
<b>Canada</b>						
	Exports			Imports		
	U.S.	Mex.	[5]+[6]	U.S.	Mex.	[7]+[8]
	[5]	[6]		[7]	[8]	
1970	62,32	0,54	62,86	68,57	0,33	68,90
1975	62,41	0,64	63,05	65,62	0,26	65,88
1980	60,63	0,62	61,25	67,53	0,48	68,02
1985	75,22	0,32	75,53	68,71	1,24	69,95
1990	72,66	0,37	73,03	62,88	1,24	64,12
<b>North America</b>						
Intraregional trade						
(percentage of total trade)						
	Exports		Imports			
	1970	1975	1980	1985	1990	
	36	35	34	44	41	
	41	37	32	34	34	

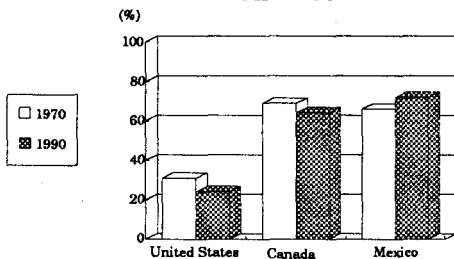
Source: IMF (DOTS)

Graph 3

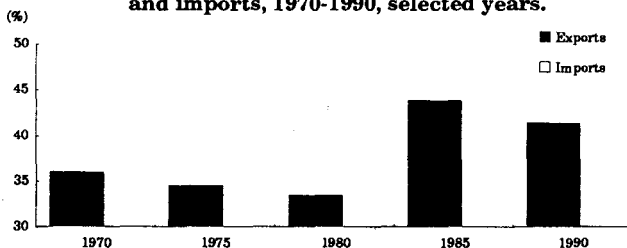
**Share of intraregional trade of total exports in the three North American countries, 1970 and 1990.**



**Share of intraregional trade of total imports in the three North American countries, 1970 and 1990.**



**Intraregional's share in total region's exports and imports, 1970-1990, selected years.**



Source: IMF (DOTS)

Graph 4

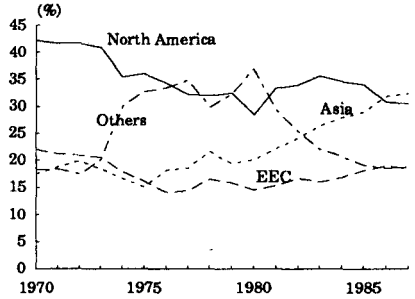
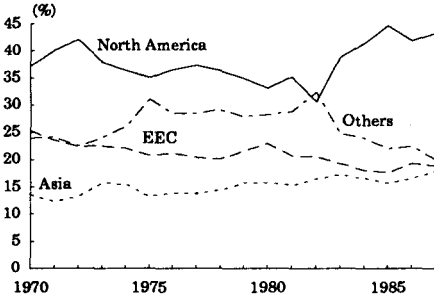
Extra- and intra-regional trade,  
North America, EEC, Japan and 8 NICs, 1970-1987  
(in percentage of total trade of each region)

Exports to:

Imports from:

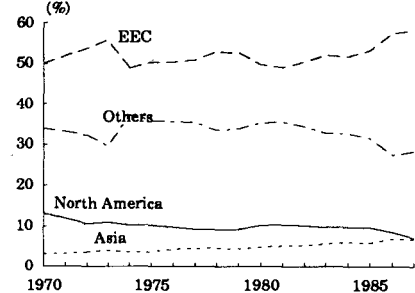
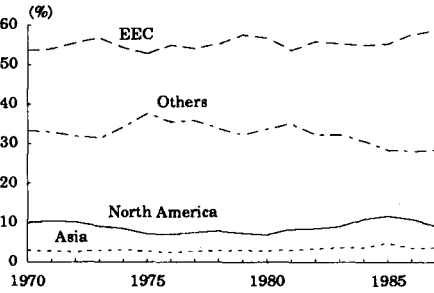
North America

North America



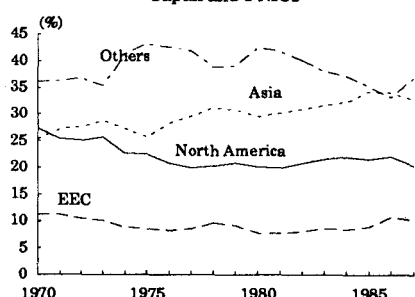
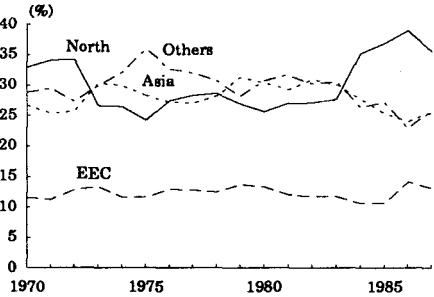
EEC

EEC



Japan and 8 NICs

Japan and 8 NICs



Source: UNCTAD, International Trade Statistics Yearbooks.

three weaker countries, and allow greater economic rationalization within the integrated market, these gains are far too limited to consider a regional retreat as a viable economic option within the current world context. Not only are the benefits that Canada and Mexico can expect to derive from NAFTA limited, but, the advantages of regionalism are generally overestimated in the current debate.

The North American market provides only limited additional export opportunities for three countries likely to continue to increase their imports from the rest of the world. So if the intra-regional gains from NAFTA are limited, what are the motivations behind NAFTA? We suggest that to grasp the real significance of NAFTA, one must look at the relative position of North America in the tripolar world economy.

**North America in a Tripolar World** NAFTA's significance for North America must be examined in terms of that region's position in the world economy. Three points are particularly important: North America's share of world trade; its commercial ties with the EEC and Asia; and the evolution of the balance of payments of its three member countries.

Since World War II North America has experienced a slow but steady erosion of its share of world exports, and, since the early 1980s, a drastic increase in its share of world imports.<sup>14</sup> The relative decline of North America in the world economy coincided with a geographical shift of commercial transactions towards the Asian countries. Asia's share of world exports rose from 10 percent to 18 percent between 1970 and 1990. Many of these exports went to North America, whose share of world imports rose phenomenally, from 17.5 percent to more than 32 percent in less than twenty years. Imports from Asia to North America are clearly displacing both imports from Europe and intra-regional trade between Canada, Mexico and the US. Japan is now the second largest exporter to the United States, behind Canada and ahead of Mexico, while economic ties between North America and the EEC are weakening to the benefit of Asia. North America sent only about 18 percent of its total exports to the EEC at the end of the 1980s, compared to 25 percent in 1970. Similarly, the importance of North America as a source of

the EEC's imports has decreased from 13 percent in 1970 to just 7 percent in 1987, while Asia's percentage of EEC imports has grown from 3 percent to 7 percent. Over the same period, the EEC's share of North America's imports fell from 22.5 percent to 18.5 percent. However, although the trade links between North America and the EEC have weakened, the EEC has managed to maintain its share of world trade over the last twenty years due to increasing intra-regional trade; intra-regional imports increased from about 50 percent to 59 percent between 1970 and 1990 and exports grew from 54 percent to 59 percent.

Meanwhile, North America's share of Asia's imports has also declined. While Asia's share of world imports increased from 10 percent to 15 percent between 1970 and 1990, these originated from other regional economies (who supplied 25 percent in 1970, and 33 percent just twenty years later). Of such imports the EEC's share of Asian imports fluctuated between 8 percent and 11 percent, while North America's share decreased from 27 percent to 20 percent. As commercial ties between Asian countries are deepening, North American exports to Asia have been growing at a very slow pace. Even so, for North America, the Asian market is of growing importance, absorbing 13.5 percent of its exports in 1970 and 18 percent at the end of the 1980s.

North American regionalism thus coincides with a deterioration of the region's external balance of trade as North America accumulated trade deficits all through the 1980s, especially with Japan and the 8 NICs of the Pacific Rim.<sup>15</sup> This contrasts with Asia's growing trade surplus, based on the strong growth of exports to North America, and the balanced trade position of the EEC thanks to a small surplus with North America that offsets a small deficit with Asia.

For North America there is therefore, a need to increase exports and to stem the flow of imports from the EEC and Asia in an increasingly competitive world economy. For the US expanding its exports to North America is not an option. Unlike Canada or Mexico, it remains a world rather than a regional trading power so that a regional retreat is quite unrealistic, especially in view of the low level of competitiveness in North America. The growing demand for

imports from other regions cannot easily be displaced by regional imports.

All three North American countries also face significant international financial deficits — including deficits in terms of international direct investments. Since 1983, there has been a phenomenal growth<sup>16</sup> of international investment flows but it is their geographical distribution, in terms of home and host countries or regions which has changed most dramatically.

Since 1986 North America has been a net recipient of foreign direct investment (FDI), while Japan and the EEC are increasingly dominant sources of FDI. In terms of FDI stocks, North America's share of global FDI has fallen from 52.4 percent in 1967 to 32.5 percent in 1989, while that of the EEC rose from 35.5 percent to 42 percent and that of Japan from a little more than 1 percent to 12 percent. On the other hand, the share of FDI in North America grew from 27.6 percent in 1967 to 45.4 percent, while that in the EEC increased only marginally. Thus, while North America owned a decreasing share of the world's FDI assets, its liabilities have increased rapidly due to its openness towards foreign capital and the enormous growth of FDI from the EEC and Japan. (Graph 5 illustrates the importance of regional and extra-regional links in terms of inward and outward FDI stocks for the three North American countries.)

Most significantly, in less than ten years, the US has gone from a position of being a net creditor, to becoming a net borrower on international financial markets. While the United States certainly remains the most important single player in the world economy, it faces a serious challenge to its international position. The weakening of its international financial position is closely related to : 1) the deterioration of its current account, both in trade and in international transfers; 2) the deterioration of its internal financial situation (growing public deficits and low levels of savings); and 3) massive inflow of foreign direct investments prompted by growing protectionism and higher interest rates in recent years. Moreover the US position is becoming more difficult as domestic deficits feed external deficits, at the same time as its external liabilities are increased by direct foreign

investment which is in turn producing trade substitution effects triggered by ritual protectionism.

The EEC's position is more robust (see Graph 6), even though its share of outward FDI is growing fast, intra-regional investment grew faster than extra-regional investment between 1984 and 1988 so that by 1988 almost 40 percent of national outward FDI was directed to other member countries of the EEC. Although EEC receipts of FDI grew more slowly than North America's during the 1980s. However, intra-regional FDI flows now exceed extra-regional FDI, amounting to more than 60 percent of total national inward FDI by 1988. Thus while the EEC still enjoys an important position in the world economy, its internal links are increasing rapidly. This is not the case for North America.

For the three North American countries 20 percent of FDI outflows were intra-regional between 1980 and 1989, while intra-regional flows made up less than 10 percent of total national inflows and this share was tending to decrease. Regional links are thus more important for outward than for inward FDI.

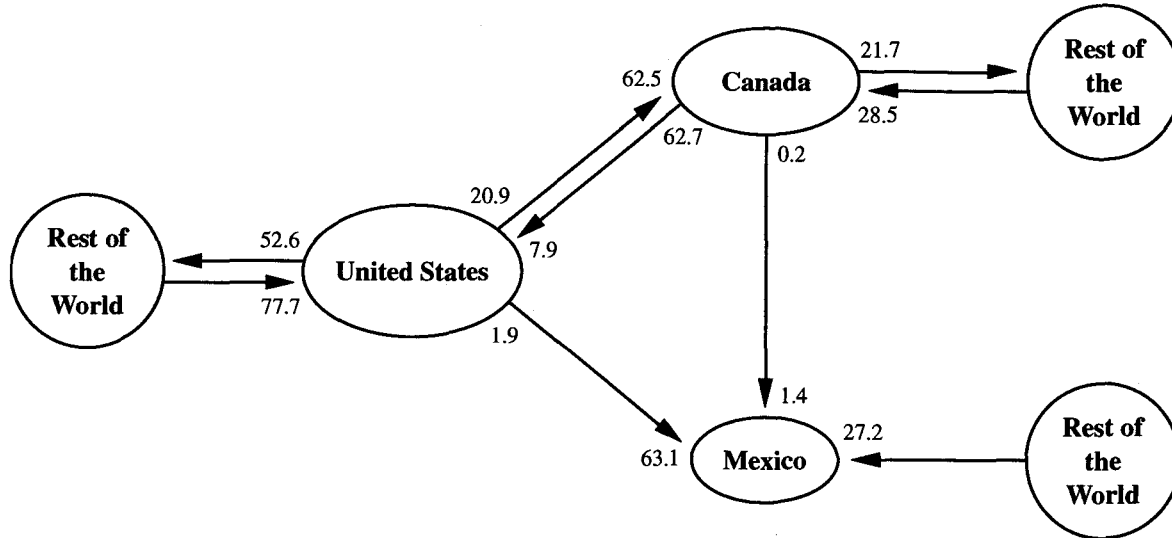
In the case of Canada and Mexico, most FDI inflows originate from the United States, although the share of the EEC and Japan is increasing rapidly. Unlike Mexico, Canada has improved its net financial position vis-à-vis the United States, especially in terms of its share of direct investments in the US economy. It now ranks fourth, behind Great Britain, the Netherlands and Japan, as close to 60 percent of Canadian outward FDI is destined for the United States.

Sixty-one percent of Mexican inward FDI comes from the region, mostly from the United States, while Canada's inward FDI comes primarily from Japan and Europe as the US is disinvesting from Canada. Despite the existence of strong intra-regional links in North America, extra-regional FDI flows are increasing faster than intra-regional flows.<sup>17</sup>

At the same time North America's growing openness resulted in rapid growth of imports, primarily from Asia, and a dramatic deterioration of both its trade balance and its net international financial position. Contrary to what occurred in Europe, in North America increased intra-regional trade and investment did not displace imports from other

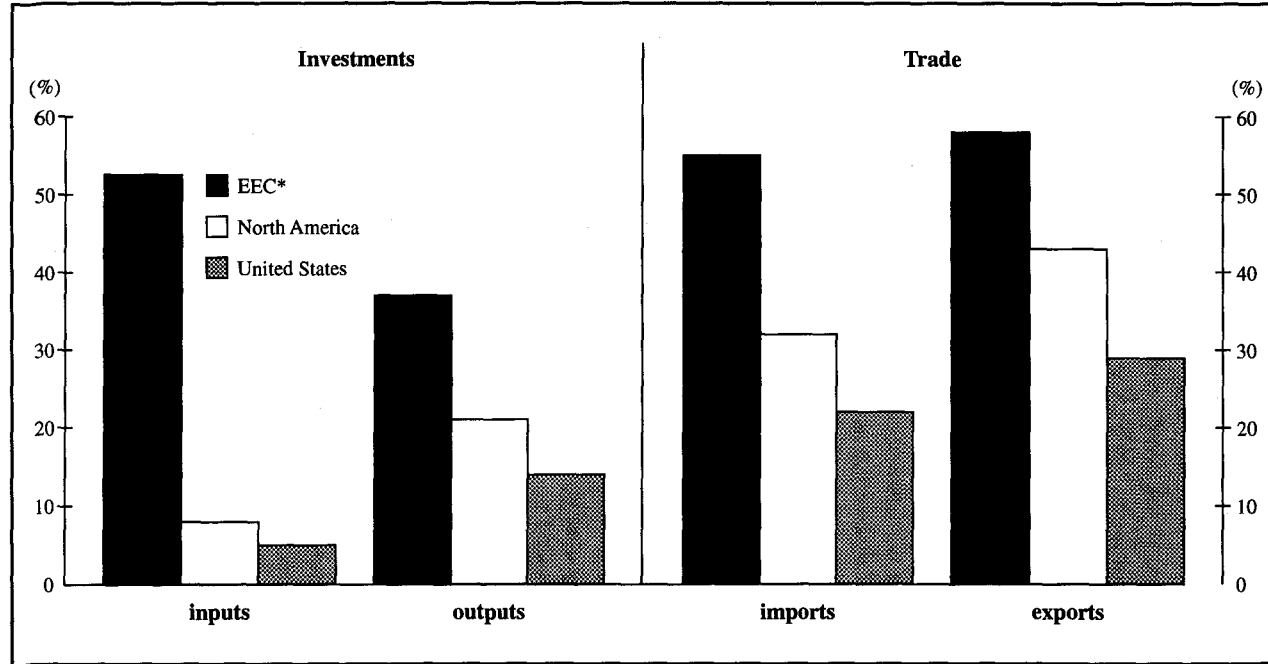
### Graph 5: Triangular Relations, FDI

(Shares of the three North American countries and of the rest of the world of total inward and outward FDI stocks in North America, 1990, in percentage)



Sources: UNCTC, Stat. Can. 67-202, Survey of Current Business et Banamex

**Graph 6: Intra-regional FDI and Commercial Flows, North America and EEC, 1986-89.**



Sources: Eurostat, UN, UNCTC.

\* EEC data, 1984-88.

regions and stop the deterioration of the region's financial position. The resulting regional liabilities reflect the fact that North America is not well prepared to face the challenges of the world economy.

Moreover, NAFTA may not be the right strategy to restore North America's competitive position given existing patterns of trade integration and polarization within the region and its vulnerability to external inflows of imports and finance. If NAFTA does intensify regional isolation, the three member countries could face serious problems given their lack of competitiveness on world markets.

As we have seen earlier, there is no strong basis for the belief that an intensification of regional economic links would produce a more "classical" type of economic regionalism in which intra-regional trade and capital flows displace extra-regional inflows. Intra-regional trade growth shows signs of saturation. It is true that Canada and Mexico have benefited from increased reliance on the North American market as indicated by their large trade surpluses with the US during the second half of the 1980s. Both are now strongly dependent on US growth and this makes them very vulnerable to any change of that country's international economic policy. Privileged access to this market and a degree of protection against such policy change have become crucial for both of them as a result. It is thus surprising that their main reason for entering free trade negotiations do not relate primarily to these issues, but to the fact that these two countries have followed their neighbour's economic decline in the new world economic order, which has emerged since the end of the Cold War.

Tripolarization best characterizes the world economy today, and, within this context, North America's external economic vulnerability is growing as its economic strength declines. It is in the light of these developments that we must analyze NAFTA and consider the type of regionalism it seeks to create. NAFTA's objectives are closely related to North America's need to reassert its position in the world economy since the momentum of its enterprises is clearly no longer sufficient to support its traditional hegemonic role.

Through NAFTA, the region, and especially the United States, is seeking to create a space within which its big businesses can consolidate their activities in order both to derive global comparative advantages from their privileged access to three markets, and to improve their strategic position in negotiations with Europe and Asia. North American economic integration is therefore closely related to a strategic and competitive vision of international economic relations in a tripolar world. For that reason, NAFTA represents a kind of economic regionalism that can lead to an escalation of tension between economic blocs, as will be shown in the two following sections.

### **NAFTA: An Economic Bloc?**

NAFTA institutionalizes an already well-established reality, i.e. the continentalization of the Canadian, American and Mexican economies. In contrast with Europe, which was able to increase intra-regional economic links while maintaining a strong international posture, NAFTA coincides with the decline of the three North American economies. It must, therefore, meet a number of specific economic, commercial and financial challenges. It must reverse this economic decline, increase North America's room to manoeuvre, and allow North America to compete more effectively on world markets. These three dimensions of NAFTA must be investigated in terms of the motives of the United States in supporting the deal, on one side, and those of Canada and Mexico, on the other.

**The New International Economic Policy of the United States** Faced with a severe economic crisis and a deteriorating external position, the hegemonic role of the United States in the world economy is threatened. Since the beginning of the 1970s, the United States has encountered mounting economic difficulties, and, confronted with a strong protectionist lobby in Congress, it adopted a more "realist" approach to international economic policy from the beginning of the 1980s.<sup>18</sup> This "realism" finds expression in the promotion of American values, the defence of American

commercial interests, the pursuit of the postwar ideal of "one undivided world," and in the drive towards trade liberalization to eliminate state interventionism based on nationalism or Keynesianism.

This new realist approach is evident on three fronts. Internationally, the US is promoting multilateral GATT negotiations, revitalizing large international institutions and, more recently, promoting a new international order. Bilaterally, it is using the "fast track" procedures to negotiate reciprocal market access and to gain preferential treatment for American goods and finance. Domestically, it is promoting the application of the "fair trade" principle and giving way to protectionist pressures from Congress and individual states.<sup>19</sup>

It is in this context that NAFTA, together with the Americas Initiative,<sup>20</sup> must be situated. Through NAFTA, the United States is pursuing three objectives:

1) access to a larger market for American enterprises, benefiting from the Canadian and Mexican comparative advantage in some natural resources and from Mexico's low labour costs, as well as from continentally integrated production and distribution networks. At stake is the creation of a regional economic space allowing American enterprises to improve competitiveness and to regain their lost share of international markets.<sup>21</sup>

2) the elimination of all national barriers to the circulation of goods and capital. Thus, beyond improving American competitiveness, NAFTA aims at the convergence of national economic policies into *one* vision of America, thereby cementing a genuine North American community of interests through the creation of an integrated market.<sup>22</sup>

3) with the prospect of world-wide trade liberalization and the strengthening of international institutions, NAFTA is needed as a bargaining tool in future negotiations with Europe and Japan. NAFTA will then become an important element of a strategy to obtain multilateral agreements on new regulations in areas such as investment, intellectual property and services, which are all very important for the United States.<sup>23</sup> Should this strategy fail, NAFTA could also constitute a "second best" solution for the United States; a type of

insurance policy against a compromised internationalism, above which access to the continental market could be negotiated on reciprocal terms with other countries or regions.

The US rationale for NAFTA is thus essentially related to its hegemonic concerns. Within that context, it is characterized by "realism" and a drive to establish closer economic ties with its "natural" neighbours. Eventually, NAFTA and the Americas Initiative is to enable the United States to restructure its economy and promote its vision of the world. Its concerns about free trade are thus quite different from those of Canada and Mexico, where domestic economic preoccupations explain the abandonment of the postwar interventionist model and the adoption of free trade as the basis of a new "roll-back" strategy.

**Canada's and Mexico's New Economic Policy**<sup>24</sup> For Canada and Mexico, fears of US protectionism can partly explain interest in NAFTA.<sup>25</sup> Yet, the reasons for their support go far beyond their interest in protecting their access to the American market. Economic factors alone cannot explain why three countries of such different size, international posture and levels of development would commit themselves to an agreement that favours regionalism as opposed to multilateralism.

Canada and Mexico were deeply affected by the last economic crisis. Mexico laboured under an unprecedented debt burden while Canada's economy, faced with mounting stagflation, plunged into the worst recession since World War II. In both cases, that recession was accompanied by a profound loss of confidence in state institutions and in the prevailing economic model. The resulting attempt to redefine the very basis of economic growth and development produced the sudden change in economic policy of the mid-1980s.<sup>26</sup>

Both in Canada and Mexico, NAFTA coincides with the adoption of a renewed economic strategy that radically modifies the parameters of economic policy. The new orientation favours market forces rather than state intervention and mid- and long-term, as opposed to short-term, economic stabilization. The macroeconomic objective is to recreate and preserve

the conditions required to sustain growth through the elimination of public and external deficits, which are viewed as the main sources of disequilibrium. Structurally, market deregulation and greater exposure to international competition are justified by the need for greater market flexibility.

Even though it is a "second best" option, NAFTA is consistent with the restructuring process that is linked to this new economic orientation. The argument is simple: in a context of market globalization, economic nationalism is a blind alley; given that multilateralism does not satisfy the specific interests of Mexico or Canada, free trade with the United States is the only viable commercial option for both.

The Macdonald Commission<sup>27</sup> stated this position clearly. On the one hand, the status quo could exacerbate Canada's struggle with two incompatible commercial policies: "the historic developmental and protectionist approach of the National Policy as opposed to the more modern, multilateral, liberalizing policy of the GATT." On the other hand, the lengthy and slow-paced GATT proceedings raised a serious concern that unilateral trade liberalization would expose the economy to excessive risks. In the "absence" of other options, free trade with the United States thus became a magic formula for an expansion of markets, needed to increase specialization and productivity, and to enable Canada to face world competition.

Multilateralism had always been at the heart of Canada's international economic policy as the best guarantee of access to foreign markets. This never prevented Canada from developing a close relationship with the United States, but counterbalanced the hegemony of the major economic powers. Moreover even though it is now committed to NAFTA, Canada continues to support multilateralism. Mexico,<sup>28</sup> which recently joined GATT, also made various attempts to widen and consolidate its commercial links with other Latin American countries. The gains derived from such multilateral initiatives help to counterbalance American influence on Canada and Mexico, which are always at risk of regional entrapment.

Despite their efforts, during the 1960s and 1970s, both Canada and Mexico failed to mitigate their economic dependence on the United States. Indeed, in the 1980s both

countries became more dependent on the US market, especially in terms of exports and investments. After four years of the Free Trade Agreement between Canada and the United States (FTA), the integration of the two economies is not proceeding as smoothly as expected during the negotiations. The Canadian economy is faced with serious adjustment problems and capital outflows to the United States are greater than ever.<sup>29</sup>

NAFTA implies that economic restructuring has now to be addressed from the perspective of a "ménage à trois," and yet Canada and Mexico still have little or no influence over US domestic and international economic policies. Canadian and Mexican social and economic policies must therefore be aligned with those of the United States. This entails obvious institutional and political problems.

Perhaps the most important implication of this agreement is the further continentalization of the Canadian and Mexican economies, since they give up control of key economic policy instruments in order to avert the catastrophic threat of losing access to their principal market. Despite this, guaranteed access to the American market was the most contested issue in the FTA negotiations, and the United States ultimately refused to accept the parity principle in the trade disputes settlement mechanism.<sup>30</sup> The problem is that the magnitude of the isolationist and protectionist tendencies in the US may divert NAFTA from its ostensible internationalist objectives, thereby threatening the very existence of NAFTA regionally, and endangering international economic relations. As a tool of US strategic international economic policy, NAFTA may thus be opening the door to the emergence of an economic bloc striving to reassert itself in the world economy.

### **The US Strategy: An American Fortress?**

Once again, neither the United States, nor Canada or Mexico, intend NAFTA to become an exclusive bloc enclosing them in a politically and economically unsustainable regionalism. Rather, they see it as a trump card, able to revitalize their economies and allow the United States (and hence the region) to regain its leadership in the world

economy. There are two problems with this strategy, however. First, the actual negotiations are proving very difficult and second, the rising tension in the world economy may transform the NAFTA region into an economic bloc erected against the two other main regions.

**The Institutionalization of the US Vision in North America** US demands for greater access to Mexican and Canadian markets might force them to abandon the entire project as a result of domestic political opposition.<sup>31</sup> Indeed, a breakdown of NAFTA could come from any one of the three countries, since NAFTA, unlike the FTA, is facing considerable opposition in the US.<sup>32</sup>

At the moment, this appears unlikely since all three countries remain politically committed to the project. So long as this is so, the three countries are engaged in a more or less irreversible process of continental integration, through which the United States can promote its vision of international economic relations at enormous cost to Canadian and Mexican sovereignty over economic policy. The truth is that the United States can institutionalize its conception of trade relations in North America so long as Canada and Mexico opt for increased reliance on the US market.

We now turn to examining the probable escalation of tension between North America, Europe and Japan, which could transform NAFTA into an isolationist North American economic bloc, under the hegemony of the United States.

**An Escalation of Tensions?** In case of an escalation of tensions between the world's three main economic regions, all three North American countries risk being drawn into a whirlpool from which they could not easily emerge given North America's relatively weak position in the world economy. The US hopes to use NAFTA to revive its economy and to restore equilibrium in its balance of trade on the one hand; and to promote the liberal ideology which it has defended since the end of the World War II on the other. Unfortunately this will not be easy, partly because the global economy has changed substantially. In the new tripolar world, the United States must more actively take into account the

economic and commercial interests Europe and Japan, while also coming to terms with their divergent visions of international economic security. Moreover, faced with growing and persistent trade deficits with Japan and the Southeast Asian countries, the United States can no longer count on its economic strength to ensure its supremacy in the world economy.

There can be no doubt that the process of economic globalization is being challenged by an emerging regionalist response. At this point, it is important to investigate the role that might be played by NAFTA in this process.

The US position, towards the EEC has always been ambivalent.<sup>33</sup> On the one hand, it promoted a strong Europe, especially during the Cold War era. On the other, it has resented Europe's agricultural policies and interventionist tendencies. The United States has criticized European countries for their alleged unfair commercial practices and their subsidies to industries and exports. For their part, the Europeans have often resented the United States for its paternalistic and hegemonic attitude towards them. More recently, they have criticized the United States for linking its international economic policy to the requirements of trade deficit management.

Europe's international political position does not yet reflect its importance as a world economic giant.<sup>34</sup> In the last thirty years, the EEC has not elaborated a coherent common trade policy because of perceived conflicts between national and community interests and because of the Commission's lack of legislative power. Nevertheless, despite remaining weaknesses, the EEC has created an enormous integrated market and has therefore attained considerable negotiating power on the international scene.<sup>35</sup> This has been reflected in a series of disputes with the United States, such as those over agricultural policies and non-tariff barriers during the latest round of GATT negotiations.

It is increasingly difficult for the United States to take advantage of Europe's internal divisions and weak commercial policy. Thus, the Uruguay Round negotiations have confirmed that European unity is possible on issues such as agriculture and that, when attained, it is strong enough to

resist concerted pressure from the United States and the Cairns Group. Only the decision to extend negotiations prevented a dangerous confrontation over issues of principle. There remains a potential clash between Europe, seeking genuine international legitimacy, and North America, in this case meaning the United States, looking for solutions to its economic and commercial problems. In the process, the established international rules may be threatened, since Article XXIV of the General Agreement may not provide adequate safeguards to accommodate the protagonists.

The EEC's own commercial policy has not escaped protectionist tendencies, especially vis-à-vis Japan and the Southeast Asian countries,<sup>36</sup> but they have remained limited. On balance, the community is more open than North America and Asia, and the development of its intra-regional market has not been inconsistent with the region's greater openness to the international economy.<sup>37</sup> Behind these specific commercial disputes, there lie divergent European and American visions of international economic relations. The recent stand-off between the EEC and the United States over agricultural subsidies reflected two conflicting views of economic policy based on different visions of the world.

NAFTA and "Europe 1992" can both be seen as attempts to create regional economic fortresses sheltering large regional markets from international competition. They both seek to solidify the economic association of countries naturally bound by a common historical heritage and geographical proximity. But this is where the comparison ends. While evidence introduced earlier suggests that Europe's economic cohesion is much higher than North America's, even more fundamental differences can be found between these two projects.<sup>38</sup>

In addition to creating a new political entity, "Europe 1992" seeks to develop regional institutional arrangements capable of dealing with social as well as economic issues. The project involves an attempt to build an administrative framework that takes into account the economic efficiency and collective security needs of the community, by means of the creation of a genuine mixed economy at the regional level, when it seemed no longer viable on a national level. Perhaps this model resembles the one which Keynes, and

many others after him, had wished to establish on a multilateral basis after World War II.<sup>39</sup>

NAFTA corresponds to a very different philosophy of international economic relations. In it, economic integration is presented in a functionalist perspective, striving for the progressive elimination of all barriers obstructing the free movement of goods and capital.<sup>40</sup> It does not involve the creation of a new political entity since regional integration is to be dictated by market forces without any administrative coordination.<sup>41</sup> The resulting political and institutional vacuum allows the United States to advance its vision of the market and democracy in the entire region, including Canada and Mexico.<sup>42</sup>

Canada's and Mexico's political vulnerability vis-à-vis the United States extends also to international issues. Despite repeated efforts, the two countries have been unable to affirm their distinctiveness from the US, and to establish themselves as middle-range political powers on the international scene. Their greater economic integration with the United States effectively creates a community of interests in which they become politically impotent junior partners. After this, it is even more difficult to foresee Canada and Mexico escaping US influence in foreign policy.<sup>43</sup> Moreover, having abandoned their own powers of state intervention, would they not be bound to resent European interventionism or the apparent isolationism that flows from the rise of intra-regional trade?

With Asia, NAFTA's main source of conflict is based on economic rivalry and trade imbalances. While the strong jump in the value of the US dollar can certainly explain part of the deterioration in the US trade balance, the lack of responsiveness of those deficits to a depreciating US dollar seems to suggest that the problem is structural. As has been demonstrated in numerous studies, the US has a "productivity problem" that must be explained in terms of its slow response to new trends in world competition and the insufficiency of its level of productive investment as compared to those of Japan and other dynamic Asian economies. The United States' trade balance with Asia reflects these problems, and also explains its new initiatives in the

international economic policy debate. NAFTA should thus be regarded as a strategic instrument for global economic restructuring.

Recently, Robert Gilpin<sup>44</sup> raised the possibility of a United States/Japan axis (which he called the "Nichibeï Economy"). Considering their interdependence and US technological superiority in certain sectors, such a possibility seems realistic. Another plausible thesis envisages an economic regrouping of the Southeast Asian countries around Japan. However, both of these two hypotheses are flawed. Japanese external trade is still too dependent on Europe and North America for Japan to be interested in an Asian economic bloc. The history of conflicts between Japan and the other countries of the region constitute another obstacle to such a project.<sup>45</sup> On the other hand, Japan's isolationism and its independent industrial strength prevent the emergence of a privileged relationship between the United States and Japan.

Economic relations between Japan and the United States have always been troubled and the adoption of the Omnibus Bill and NAFTA will not help to improve this situation. In fact, Japan has recently criticized NAFTA, calling it a form of regional protectionism, even though relations between Japan and Europe are also strained, especially since the European community has implemented anti-dumping measures against Japan.<sup>46</sup> Yet, at the moment, Japanese international economic policy remains essentially "reactive."<sup>47</sup>

European regional protectionism and the United States' increasingly distorted definition of "fair trade" as applied to Japan does not suggest increased cooperation between the three economic regions of the world. In fact, the prospect of increased isolationism and increased conflict in the international economy partners might lead Japan to abandon its traditional low profile and adopt a more active international role. It might then foster a closer economic association between itself and the other Southeast Asian countries.

US international economic policy could thus evidently encounter many obstacles in its relations with Europe and Japan. Europe's weight in the world economy, and American trade deficits with Asia prevent the United States from regaining its hegemonic position and imposing its vision

on the rest of the world. Politically, the US must now compromise with Europe's vision, and economically, with Japan. If the United States is unable to attain its global objectives through NAFTA, it risks being trapped in its own strategy. Together with Canada and Mexico, it would inevitably then retreat into a regional fortress whose very existence would embitter international economic relations.

### Conclusion

Although the members of NAFTA do not wish to create an exclusive economic bloc in North America, the current world economic context suggests that this might be the actual outcome. According to Charles Kindleberger,<sup>48</sup> stable international economic regimes depend on the presence of an hegemonic power. While we do not fully endorse this view, there is no doubt that the current regime, unsettled by the decline of US hegemony, is not conducive to international cooperation. In R.N. Cooper's<sup>49</sup> words, "as long as countries will not be able to agree on the ends of international cooperation, it will be difficult to agree on its means."<sup>50</sup>

Fred C. Bergsten recently argued that the United States' increasing external dependence was exacerbated by its declining capacity to influence the international economy. He suggested that this could open a new era of trilateral cooperation,<sup>51</sup> but this may not happen. The United States remains at the centre of the world economy and NAFTA can be regarded as an attempt to deal with the external constraints that are undermining its economic and political clout. As such, the US attempt to regain a leadership that has been challenged by the emergence of a more united Europe, the rise of Japan as a major economic power, and a proliferation of international economic actors, may not be conducive to more harmonious international economic relations.

Parallels between the current situation and the interwar period should not be hastily drawn.<sup>52</sup> However, even though numerous factors favour trade liberalization through multi-lateral channels — one being the increasing globalization of markets — rising economic regionalism is challenging this tendency. NAFTA could promote a new era of economic

rivalry, now that the Cold War era is over, especially since GATT seems powerless to prevent regional protectionism, and since the United States increasingly favours unilateralism.<sup>53</sup> The international economy is thus increasingly characterized by protectionism and rivalry between the great economic powers, rather than by trade liberalization and economic cooperation. There is therefore undoubtedly a potential for an escalation of tension.

In a tripolar world, nations and regions that compete for world markets by using contractionary policies in their domestic markets, can only endanger international economic security. Under such circumstances, the drive for economic efficiency becomes counterproductive. If all countries adopt austerity measures to improve their performance on the world markets, they will only succeed in shrinking the pie. By fostering a new strategic and competitive regionalism, NAFTA is part of the problem because, in this fragmented and competitive world, it creates a regional space that aims at increasing exports rather than trade; and at the reassertion of the political and economic clout of the United States instead of greater international cooperation. As such, it may help to bring about a confrontation of regional blocs.

We should thus have no illusions about NAFTA fostering international cooperation. The problem with NAFTA, as an economic strategy, is not its eventual success, but rather its probable failure, since the US aim to use NAFTA as a tool for promoting trade liberalization is bound to encounter major obstacles. Indeed, NAFTA has been weighed down with numerous illusions about its capacity to generate benefits to the region and to the international community. Certainly Canada and Mexico should have no illusions about the risks involved in this form of regionalism, given the small measure of autonomy they enjoy vis-à-vis their powerful neighbour. Moreover, there should be no illusions about the compatibility of regionalism and global cooperation, as NAFTA serves an internationalism that corresponds to a geo-strategic vision of international relations.

Only the future will determine the true nature and significance of NAFTA. We have attempted to uncover the potential challenges and obstacles inherent in a strategy that

is using NAFTA as an instrument through which the region, and especially the United States, seeks to alter the distribution of power, and regain its lost international competitive position. If this strategy succeeds, it will be only temporarily and partially. History tells us that basic world economic trends are rarely reversed. If the principal objective of this new strategic regionalism is the reversal of the trend towards global liberalization, and not just its consolidation through economic intra-regional integration, then North America has entered a very dangerous game — a game in which particular regional interests always tend to win out over those of the whole international economic community. A scenario of growing economic rivalry between the three great economic regions would be the worst scenario. If it is unable to reach its objectives, NAFTA could rapidly become a protectionist instrument that would foster a perverse and dangerous result: regional entrapment for the United States, as well as for Canada and Mexico.

## Notes

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1. G. Haberler, "The Political Economy of Regional or Continental Blocs," in S. Harris (ed.), *Postwar Economic Problems* (New York: McGraw Hill, 1943), pp. 325-344.
2. See Michael Hart, *A North American Free Trade Agreement* (Ottawa: Institute for Research on Public Policy, July 1990); Sidney Weintraub, *A Marriage of Convenience. Relations between Mexico and the United States* (New York: Oxford University Press, 1990). For a summary of different options relevant to the Canadian case, see Richard G. Lipsey and Murray G. Smith, *Taking the Initiative: Canada's Trade Options in a Turbulent World* (Montreal: C.D. Howe Institute, 1985). For an economic evaluation of NAFTA, see Report to the Committee on Ways and Means of the United States House of Representatives and the Committee on Finance of the United States Senate on Investigation No. 332-337 Under Section 332 of the Tariff Act of 1930, *Potential Impact on the U.S. Economy and Selected Industries of the North American Free Trade Agreement* (Washington, 1993); and Gary C. Hufbauer and Jeffrey J. Schott, *North American Free Trade: Issues and Recommendations* (Washington: Institute for International Economics, 1992).

3. See for instance, Jeffrey J. Schott, "The Trading Blocs and the World Trading System," *The World Economy* 14/1 (1991) pp.1-19; Delal Baer, "North American Free Trade," *Foreign Affairs* 70/4 (1991), pp. 132-149; Peter J. Lloyd, "Régionalisation et commerce mondial," *Revue économique de l'OCDE* 18 (printemps 1992), pp. 7-49; and the *Journal of Common Market Studies* XXX/2 (June, 1992), "Regionalism and the Integration of the World Economy," (Robert C. Hine, dir.).
4. In its evaluation of the FTA (Free Trade Agreement) between the United States and Canada, a working group of the GATT was unable to conclude on the compatibility of the regional agreement with the General Agreement (Focus, GATT, No. 86, Nov-Dec 1991). This question is still under debate and should be discussed further when Canada and the United States present their reports on the functioning of the FTA due in 1993.
5. Fred C. Bergsten, "The World Economy after the Cold War," *Foreign Affairs* (1990), pp. 95-112.
6. Economically, an economic bloc is "any preferential arrangement between nations which affects quantities or prices of merchandise and factors of production on the international markets." In the political sense, an economic bloc refers to any arrangement which aims at a greater economic interdependence between the involved countries; a more satisfactory adjustment of the balance of payments; and at facilitating the pursuit of common economic objectives. On this subject, see Ernest H. Preeg, *Economic Blocs and U.S. Foreign Policy* (Washington: National Planning Association, 1974); Schott "The Trading Blocs and the World Trading System"; and C. Deblock and D. Brunelle, "Une intégration régionale stratégique: le cas nord américain," in *Études Internationales* (forthcoming 1993).
7. Maurice Allais in *La libéralisation des relations économiques internationales* (Paris: Gauthier-Villars, 1972) defines economic agreement: "contractual agreements between sovereign states relating to trade, be it long-term treaties or commercial agreements dissolvable on demand, bilateral or multilateral accords." (p. 21) The term also applies to specific agreements on tariffs, sectorial or general free-trade agreements, customs unions, common markets or even economic unions. See Richard Lipsey, "Economic Unions", in David L. Sills, (ed.), *International Encyclopedia of the Social Sciences* (London: Macmillan, 1968), pp. 540-547.
8. We can talk of trade creation when higher cost domestic production is substituted, in both countries, by imports from the trading partner. Trade diversion occurs when trade with "the rest of the world" declines to the advantage of a less efficient source of imports through high tariffs against "the rest of the world" and closer commercial ties within a trading zone. See the classical book of Jacob Viner, *The Customs Unions Issue* (New York, 1959).
9. The position towards regional economic agreements was more yielding considering that the parties were already "de facto" involved in the process. To the extent that these agreements are viewed as a "step in the right direction" — a step towards liberalization of trade — it was preferable to subscribe to them while ensuring that the conditions for their implementation, specified by article XXIV, were

- honored. The article authorizes the creation of "free-trade zones" and "customs unions." See: Jürgen Huber, "The Practice of GATT in Examining Regional Arrangements under Article XXIV," *Journal of Common Market Studies* XIX/3 (1989), pp. 281-298; Kenneth Dam, "Regional Economic Arrangements and the GATT: The Legacy of a Misconception," *The University of Chicago Law Review* 30/4 (Summer 1963), pp. 615-665.
10. The theory of integration is based on the notion of "second best." On this subject, see Richard G. Lipsey, "The Theory of Customs Unions," *Economica* (Feb. 1957); Richard G. Lipsey, "The Theory of Customs Unions: A General Survey" *Economic Journal* 60 (1960), pp. 496-513; R.G. Lipsey and K. Lancaster, "The General Theory of Second Best," *Review of Economic Studies* XXIV (1957), pp. 11-32.; Jan Tinbergen, *International Economic Integration* (Amsterdam: Elsevier Publishers, 1965), pp. 34 and 95. See also, Alfred Toviss, "A Survey of the Theory of Economic Integration," *Journal of European Integration* XV/1 (1991), pp. 5-23; Bela Balassa, *The Theory of Economic Integration* (Homewood: Richard D. Irwin, 1961); *idem*, "Towards a Theory of Economic Integration," *Kyklos* (1961), pp. 1-17; Peter Robson, *The Economics of International Integration*, Studies in Economics, No. 17 (London: Georges Allen & Unwin, 1980).
  11. See, for instance, Louis Emmerij, "Quelques conclusions de principe," in *Un monde ou plusieurs?* (Paris: OCDÉ, 19, 1989); and Preeg, *Economic Blocs and U.S. Foreign Policy*.
  12. For the purpose of the analysis, three regional blocs are introduced and defined as follows. North America is composed of Canada, the United States and Mexico, Europe refers to the twelve-member economic community and Asia encompasses Japan and eight NICs: South Korea, Singapore, Taiwan, Hong Kong, Indonesia, Malaysia, the Philippines and Thailand. We define intra-regional trade as the commercial transactions between the countries within each region; extra-regional trade as the commercial transactions of each member of a given region with the rest of the world; and, inter-regional trade as the commercial transactions between the regional economic blocs. The data must be considered with certain caution since, strictly speaking, Asia does not constitute an officially defined regional economic zone. Among other things, we have consciously excluded trade with China and India. In the case of the EEC, we took the current definition of the Community of 12 and data for Germany refer to the Federal Republic. Most data used in this article came from UN sources. Publication delays explain why some series have not been updated. Percentages have been rounded off.
  13. It should be noted that the modest Mexican share of US trade as compared to Canada's can be explained, to a large degree, by the development gap between the two countries.
  14. The pattern for North America is mainly determined by the US economy but further analysis show that the decrease in the region's share of world exports cannot be attributed solely to the drop in US exports. Canada's share of world exports also declined steadily from 5.2 percent in 1970, to 4 percent in 1990. However, in terms of imports, the US share increased from 12.1 percent to 15.5 percent

- while Canada's declined from 4.1 percent to 3.6 percent and Mexico's remained roughly constant.
15. Trade deficits by the United States include deficits with both its immediate neighbours, Canada having substantial surpluses on its trade balance with the United States, significant deficits with the EEC and a more or less balanced trade with Japan.
  16. The growth in international direct investment outpaced the growth of world trade and production. Between 1983 and 1989, foreign direct investment (FDI) stocks grew from US\$ 575 billion in 1983 to US\$ 1300 billion in 1989, the average rate of growth per annum being 7 percent from 1981 to 1985 and reaching 16 percent between 1985 and 1989. These figures are derived from the IMF financial statistics and from UNCTC publications. Data on regional FDI flows are derived from EUROSTAT, Statistics Canada, Survey of Current Business and Banamex.
  17. There is no evidence that commercial links constitute substitutes for, nor complements to, FDI in North America. However, and this requires much attention in the future, it is likely that, in the long term, the changing FDI structure in North America will have some impact on commercial links.
  18. This new approach led to the famous Omnibus Bill. On this subject, see in particular I.M. Destler, *American Trade Politics: Under Stress* (Washington: Institute for International Economics, 1986); Jeffrey E. Garten, "Gunboat Economics," *Foreign Affairs* 63/3 (1985), pp. 538-559. For the analysis of the question, see Bruno Hamel, "Le nouvel ordre international et la politique commerciale des États-Unis: quelques développements récents," Montréal, *Continentalisation-Cahier de recherche* 91-3, (March 1991). The use of the term "realism" here is derived from the literature on the theory of international relations where it is contrasted with "idealism." On this subject, see Judith Goldstein, "Ideas, Institutions and American Trade Policy," *International Organization* 42/1 (Winter 1988), pp. 179-218.
  19. On this subject, see Jagdish Baghwati, "The United States and Trade Policy: Reversing Gears," *Journal of International Affairs* 42/1 (Fall 1988), pp. 93-108. From the same author, *Protectionism* (Cambridge Mass.: MIT Press, 1988).
  20. Government of the United States, Presidential Documents, *Remarks announcing the Enterprise for the Americas Initiative* 26/26 (2 July 1990), pp. 1002-1003.
  21. See Stephen Gill, *American Hegemony and the Trilateral Commission* (Cambridge: Cambridge University Press, 1990).
  22. See Abraham Lowenthal, "Rediscovering Latin America," *Foreign Affairs* 69/4 (Fall 1990), pp. 27-41; and David Leyton-Brown and John Gerard Ruggie, "The North American Political Economy in the Global Context: An Analytical Framework," *International Journal* 42/1 (1987), pp. 3-24.
  23. Gary C. Hufbauer, "Beyond GATT," *Foreign Policy* 77 (Winter 1989), pp. 64-76.
  24. This section is essentially limited to Canada's point of view. The official view is contained in a recent document, Ministère des Finances, *L'Accord de libre-échange nord-américain. Évaluation économique selon une perspective canadienne* (Ottawa, 1992).

25. On this subject, see Canada, Affaires extérieures et Commerce extérieur Canada, *Le Canada et le libre-échange en Amérique du Nord. Notes pour une allocution du ministre du Commerce extérieur, M. John Crosbie, à Mexico* (Mexico, Feb. 18, 1991), and *Déclaration du ministre du commerce extérieur, M. John Crosbie, concernant les négociations sur le libre-échange entre le Canada, les États-Unis et le Mexique* (Ottawa, Feb. 5, 1991).
26. On these modifications see Sidney Weintraub, *Transforming the Mexican Economy: The Salinas Sexenio* (Washington, D.C.: National Planning Association, 1990); D. Brunelle, and C. Deblock, "Canada and Continentalism: An Analysis of the new parameters of Integration," Cahier de recherche 91-2, Montréal, Groupe de recherche sur la continentalisation des économies canadienne et mexicaine, 1991. The debate is different in Canada and in Mexico. The considerable differences between the two countries must be taken into consideration, especially the demographic factors in Mexico.
27. Canada, Commission royale d'enquête sur l'union économique et les perspectives de développement du Canada, *Rapport*, Vol. 2 (Ottawa, Ministère des Approvisionnements et Services Canada, 1985).
28. On this subject, see Olea Sisniega, Miguel Angel, "Las negociaciones de adhesión de Mexico al GATT," *Foro Internacional* 30/3, (Feb.-Mar. 1990), pp. 497-535.
29. It should be noted that trade statistics are somewhat misleading since Canada's and Mexico's trade surpluses are largely due to devaluations of the Canadian dollar and the peso relative to the US dollar. In both countries the commercial balance is very sensitive to currency fluctuations.
30. The disputes related to the application of the free-trade treaty reveal that Canadian access to the American market is far from being ensured by this agreement. Now that the debate is shifted towards NAFTA and that a new US administration took office, one cannot take this privilege for granted.
31. See Robert Pastor, *Limits to Friendship: The United States and Mexico* (Vintage Press, 1989). In the case of Canada, the guarantee of access to the American market was obtained in return for concessions in areas such as control over investments, agricultural policy, support for domestic industries, national contents regulations or access to the public sector contracts. The NAFTA negotiations also require some important concessions by Canada and Mexico.
32. On this subject, see Government of the United States, *Hearings of the Senate Finance Committee on US.-Mexico Free Trade* (Washington, D.C., January 1991).
33. Among others, see Jacques Bourinet (ed.), *Les relations Communauté européenne-États-Unis* (Paris: Économica, 1987); Willy De Clerq, "The US and EC: Brothers yet Foes?" *European Affairs* 3 (July-Aug. 1987), pp. 12-13; Gary C. Hufbauer, *Europe 1992: An American Perspective* (Washington, Brookings Institution, 1989); Edmund Wellenstein, "Political Implications of US-EC Economic Conflicts," *Government and Opposition* 21 (Fall 1986), pp. 387-395; Albert Bresand, "Prospective des relations économiques euro-américaines," in Jacques Bourinet, (ed.), *Les relations Communauté européenne-États-Unis* (Paris: Économica, 1987), pp. 53-62.

34. During the Gulf conflict, Europe demonstrated neither the interest nor the capacity to dispute the leadership of the United States.
35. This is not the case in NAFTA, where, in principle, each country retains its sovereignty in international economic policy.
36. Article XXII of the General Agreement served as an instrument of negotiation with Japan. See George Yannopoulos, "The European Community's Common External Commercial Policy," *Journal of World Trade* 19 (Sept.-Oct. 1985), pp. 451-465.; Rolf Weidemann, "The Anti-dumping Policy of the European Communities," *Inter-economics: Review of International Trade and Development* (Jan.-Feb. 1990), pp. 28-35.
37. See Pierre Rollet and Philippe Maillet, "L'insertion de l'Europe dans la division internationale du travail: appréciations et suggestions," *Revue du marché commun* 299 (July-August 1986), pp. 371-386.; Wilhelm Nolling, "Single European Market", *Inter-economics: Review of International Trade and Development* 23 (Nov.-Dec. 1988), pp. 255-260.
38. However, the situation is more subtle. To a large extent, the adoption of the "Livres Blanc" on completion of the internal market, then the signing of the "l'Acte unique" in February 1986 appeared as magic resolutions to all remaining barriers to the community's integration. No doubt, the process helped to open new opportunities by freeing markets of certain constraints and by imposing on each member-state a mode of adjustment according to market forces. However, we can ask whether this process of economic liberalization is not depriving Europe of its source of originality, by turning the focus from the political perspective to the perspective of economic efficiency. Maastricht also illustrates the difficulty the community faces in going beyond economic integration in consequence of resistance towards the creation of regional political institutions. On this and related points, see G. Ross, "The European Community and Social Policy: Regional Blocs and a Humane Social Order," *Studies in Political Economy* 40 (Spring 1993), pp. 41-72.
39. The combination of a mixed economy model, found in the individual countries, and the model of multilateralism, which governs international relations, has been characterized as "Keynes on the inside, Adam Smith on the outside." The two projects were, at least at some point in time, closely linked. The existing institutions were adapted to meet a changing economic reality. The political will to fashion new institutional arrangements that could reconcile the State and the market on the domestic level, and, externally, could ensure security for markets and sovereign states existed. On the domestic front, the process which Polanyi called the reinsertion of the economic into the social, has advanced significantly. Yet, on the international front, the model of multilateralism was limited to a formula of compromise allowing countries to pursue domestic objectives in a more or less stable environment. The limits of this model became apparent with the development of mostly unregulated international markets. Individual countries' room to manoeuvre rapidly shrunk, while international institutions remained powerless. Nevertheless, in the context of postwar protectionism, this model came closest both in spirit and content to the grand project of in-

ternational economic security that the international community intended to implement. On this subject, see C. Deblock, and D. Éthier (eds.), *Mondialisation et régionalisation: La coopération économique internationale est-elle encore possible?* (Sainte-Foy: PUQ, 1992).

40. It should be noted that the NAFTA project leaves out entirely the question of circulation of persons. In fact, its objective would be to enable more control over migration.
41. The conservative government always made a point of stressing that there was no question of compromising Canada's sovereignty beyond liberalization of trade, or entering into any other than commercial negotiations with the US. Thus, other formulas such as a customs union or the creation of a common market were rejected. The government also refused to include in the bilateral negotiations any questions pertaining to culture, regional development or social security. However, it remains unclear whether it is possible to draw a line between these issues and purely commercial considerations. On this subject, see Christian Deblock, "Les paramètres de la politique économique internationale canadienne," *Cahier de recherche 90-1, Groupe de recherche sur la continentalisation des économies canadienne et mexicaine, Mexico/Montréal, 1990.*
42. The convergence of the Canadian position with the United States on the European issue during the Uruguay Round or Mexico's support for the Allies during the Gulf war constitute a step in that direction.
43. The facts speak for themselves: in 1987, trade between North America and the rest of the world represented 56.8 percent of total exports and 69.3 percent of total import. Alone, the United States accounted for 85.8 percent extra-regional exports and 91.3 percent of imports. Countries other than Canada and Mexico account for 71.2 percent of US exports and 78.5 percent of its imports, which amounts to 8.5 percent of exports and 12 percent of world imports.
44. Robert Gilpin, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987).
45. See Fred Charles Ikl and Terumassa Nakanishi, "Japan's Grand Strategy," *Foreign Affairs* 69/3 (Summer 1990); Kent E. Calder, "Japanese Foreign Economic Policy Formation: Explaining the Reactive State," *World Politics* XL/4 (July 1988).
46. See Lucien R. Le Lièvre and Luc G. Houben, "EC versus Japan: The Community's Legal Weapons," *Common Market Law Review* 24/3 (Fall 1987), pp. 427-455.
47. See Alex Macleod, "La politique économique internationale du Japon dans les années 90," in C. Deblock and D. Éthier (eds.), *Mondialisation et régionalisation....*
48. See Charles Kindleberger, "Dominance and Leadership in the International Economy," *International Studies Quarterly* 25/2 (1981), pp. 242-254.
49. See R.N. Cooper, "The US and EC: Brothers yet Foes?" *European Affairs* 3 (July-August 1987), pp. 12-13.
50. The Geneva commercial talks, the US' proposal to replace the G7 by a G3, the efforts to strengthen GATT and to closely link this institution with the IMF, the new role of the OECD in coordinating economic policies, and the fact that it is the United States, as opposed

to the Third World countries, proposing a new international order seem to indicate that a new historical compromise could emerge. Like the compromise that followed World War II and established a multilateral political order, this compromise would coincide with the requirements of international economic security and national interests. To what extent are individual countries, and especially the United States, engaged in this direction and do they realize its urgency? We can only express doubts on this issue.

51. Fred C. Bergsten, "The Primacy of Economics," *Foreign Policy* 87 (Summer 1992), pp. 3-24; and *idem*, "The World Economy after the Cold War..."
52. See Alfred Tovis, "Trade Discrimination in the Thirties and Eighties," *World Economy* 11/4 (December 1988), pp. 501-513; Gottfried Haberler, "The Political Economy of Regional or Continental Blocs" in Seymour Harris (ed.), *Postwar Economic Problems* (New York: McGraw Hill, 1943), pp. 325-344.
53. See Philippe Leprestre, "Les États-Unis: vers un nouvel isolationnisme?" *Politique* 16 (automne 1989), pp. 5-34; IMF, "The Coming Emergence of Three Giant Economic Blocs," *IMF Survey* (April 1989); Pierre Martin, "L'après-Tokyo round: la réciprocité spécifique dans la politique commerciale américaine récente," *Études internationales* XXI/1 (March 1990), pp. 5-38.