

# NAFTA: as a Means of an U.S. Hegemony Creation in the Region?

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Consider the geopolitical landscape of the world at the start of the 1980s. The world was dominated by a political division between East and West, locked in a Cold War struggle of liberal Western democracies against communism.<sup>1</sup> Although U.S. seemed the sole dominant power after the collapse of Soviet Union, U.S. envisaged that some areas of influence<sup>2</sup> would have a huge potential to challenge its politic and economic hegemony in the world, which is leading towards a tripolar economic structure.<sup>3</sup> Thus, “Fortress North America” must be erected to challenge “Fortress Europe”. Both must be prepared to repel onslaught of Asian products.<sup>4</sup> At that time the North American Free Trade Agreement (NAFTA) came into effect with the initiatives of U.S. The NAFTA includes Canada, the United States, and Mexico, with a total (as of 2000) combined population of 410 million inhabitants, and combined GDP of over \$11 billion U.S.<sup>5</sup> It created the world’s largest regional free-trade zone, directly challenging the growing primacy of the European Community and the Japan-East Asia bloc<sup>6</sup> and aiming to maintain its superpower position.

In contrast to the EU, the NAFTA represents a less ambitious effort <sup>7</sup> to establish a common continental market for goods and services, and common protections for private investors and businesses, with little attention or interest devoted to developing a continental political or institutional dimension. The important structural and institutional differences among the NAFTA partners are the reasons behind that the NAFTA has limited its scope to the deregulation of trade and investment flows within the NAFTA zone, rather than attempting a deeper, European-style political and regulatory harmonization.

The model of the world economy assumes cut-throat trade competition between the three regional blocks. To survive in this competition each block should have a leading nation, which provides the

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<sup>1</sup> Belous, R.S., and Jonathan Lemco, *Nafta as a Model of Development - The Benefits and Costs of Merging High and Low Wage Areas*, National Planning Association, Washington D.C., 1993, p.39

<sup>2</sup> Bliss, C., *Economic Theory and Policy for Trading Blocks*, St. Martin's Press, New York, 1994, p. 87.

<sup>3</sup> Weintraub Sidney, *Nafta -What Comes Next?*, The Praeger, The Center for Strategic and International Studies, Washington D.C., 1994, p.17

<sup>4</sup> McGaughey, W., *A US-Mexico-Canada Free Trade Agreement – Do we just say no?*, Thistlerose Publication, Minneapolis, 1992, p.137

<sup>5</sup> In terms of both population and GDP, the NAFTA zone is larger than the 15-country European Union, although the intensity of integration is much deeper in Europe than in North America.

<sup>6</sup> For further reading, see. Stanford, J., “The North American Free Trade Agreement – Context, Structure, and Performance”, Feb. 2002, p. 2.

<sup>7</sup> The NAFTA is not a customs union. That is, each member nation continues to independently set its own external tariffs and trade policies; border crossings continue to operate between the three member countries; no form of monetary union is presently considered; the NAFTA includes only minimal provisions for mobility of particular kinds of specialized labor between NAFTA countries; and there are no supranational political or democratic institutions established as part of the NAFTA.

capital and managerial skills, and a group of less developed nations, which supply the cheap labor and mineral resources takes the role of a regulatory body and dominates the NAFTA economically and politically. So, U.S. as the dominant nation<sup>8</sup> intended to hook up with Mexico to obtain low-cost labor and oil. Canada's role is primarily "an energy and resource hinterland".<sup>9</sup> For U.S., NAFTA will mean a chance to regain competitive positions eroded by Japanese and European rivals.<sup>10</sup> For the U.S. the implementation of a North American free trade zone represented an important but hardly epochal development, one which mostly served to reinforce its already-existing economic and strategic dominance on the continent and even in the world. Trade patterns within the NAFTA conform largely to a "hub-and-spoke" structure<sup>11</sup>, with the U.S. located at both the geographical and the economic center of the continent.<sup>12</sup>

The United States adopted economic regionalism toward the end of the twentieth century. NAFTA of the early 1990s were crafted to apply the liberal policies and free market principles closer to U.S. policies. The United States did not impose NAFTA on North America but it clearly had an inordinate and even hegemonic influence on North America's adherence to the disciplines and principles favored by the United States.<sup>13</sup> Free trade, reciprocity, national treatment of investment, domestic trade policy, dispute settlement, labor and environment protection, and liberalization of services as well as agriculture were NAFTA tenets.<sup>14</sup> NAFTA is a U.S.-led RIA, a symbolic and genuine innovation that more formally organized North America with the United States at its geo-economic hub.

The NAFTA would draw both neighbors more closely into the U.S. sphere of influence, reducing the perceived geopolitical risk to U.S. interests that had been posed by occasional outbreaks of nationalist sentiment in Mexico and Canada.<sup>15</sup> Mexico's place in North America raises issues about the tradeoffs involved in integrating more closely developed and developing economies. This is what made NAFTA so consequential for the possibility of linking the global North and the global South in the Americas. The NAFTA is contributing to the broad US goal of promoting economic growth, political stability, and progress toward democracy in Mexico.<sup>16</sup> The NAFTA's provisions should complement and

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<sup>8</sup> U.S. accounts for about 70 percent of its population, and nearly 90 percent of its economic output.

<sup>9</sup> "Canada in the permanent 'war economy'", interview with Tony Clarke, Pro Canada Network Chair, *Pro-Canada Dossier* (March-April 1991), p.15.

<sup>10</sup> For further details, see. Norton, J. J., and Thomas L. Bloodworth, *Nafta and Beyond: A New Framework for Doing Business in the Americas*, Dordrecht; Boston: M. Nijhoff, 1995.

<sup>11</sup> Jackson, P. T., "Defending the West: Occidentalism and the Formation of NATO", *The Journal of Political Philosophy*, Volume 11, Number 3, 2003, p. 240.

<sup>12</sup> Bilateral trade flows are largest between the U.S. and Canada, and are also large between the U.S. and Mexico. Bilateral flows are small between Canada and Mexico.

<sup>13</sup> For further reading, see. Abbott, F., *Law and Policy of Regional Integration: The Nafta and Western Hemispheric Integration in the World Trade Organization System*, Dordrecht; Boston: M. Nijhoff Publishers, 1995, p. 67-69.

<sup>14</sup> Axline, A., *The Political Economy of Regional Cooperation: Comparative Case Studies*, London: Pinter Publishers, 1994, p.123

<sup>15</sup> Mayer, F. W., *Interpreting NAFTA: The Science and Art of Political Analysis*, New York: Columbia University Press, 1998.

<sup>16</sup> Batres R. E., and Byron F. Battle, "The North American Free Trade Area: Impacts and Implications", 2000, p.2.

augment the extensive economic reforms already under way in Mexico and provide an insurance policy against any reversion to past protectionist and interventionist policies that impeded US trade with Mexico.<sup>17</sup> As a result, a prosperous Mexico would become a thriving market for U.S. exports.<sup>18</sup> NAFTA reinforces ongoing Mexican trade and investment reforms<sup>19</sup>, which along with reforms in Mexican laws relating to intellectual property rights have generated substantial new opportunities for U.S. firms.

The United States has long championed a Pan American vision of a liberal, democratic, capitalist hemisphere based on precepts long held to be sacrosanct among its public<sup>20</sup> and private leaders. Integrating North and South America or at least bringing them closer together meant allowing for a substantial role in Latin America for U.S. power and policy.

For the United States, organizing a RIA in North America was a strategy more than an ultimate goal. Befitting its global status, it had a more ambitious agenda for the world economy beyond its own neighborhood. The United States pursued two tracks in economic regionalism during the waning years of the twentieth century. One was a North American or continental track. The second track is Pan American. As a unipolar region, North America had unique advantages; its hegemonic structure made NAFTA an obvious first step for a free trade area. After NAFTA, trade dependence and other economic relations are greater than before. The steep concessions that Mexico had to make to gain admittance to this exclusive North American club were palatable to most Mexicans because the two highly interdependent economies made structure and policy more congruent.<sup>21</sup> The same is not true of the hemisphere in general.<sup>22</sup>

During the mid-1990s, the United States entertained the view that NAFTA would be the vehicle for the more ambitious project of building a RIA for the entire hemisphere. It did not quite work out that way. The idea was to widen or broaden NAFTA by including new members through the accession clause<sup>23</sup>, but NAFTA did not expand.<sup>24</sup> NAFTA was bereft of support as the vehicle for

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<sup>17</sup> For further reading, see Hufbauer, G. C., p.336

<sup>18</sup> Mexico's population is now 90 million. Although per capita income is only \$2,250, Assuming conservatively that in 20 years the Mexican per capita income amounts to one-fourth to one-third that of the United States today, U.S. exports to Mexico could more than triple, reaching \$100 billion.

<sup>19</sup> Griswold, D., "NAFTA at 10: an economic and foreign policy success", USA Today, May, 2003.

<sup>20</sup> Colleen S. Morton, *Progress Toward Free Trade in the Western Hemisphere Since 1994*, in CIVIL SOCIETY AND THE SUMMIT OF THE AMERICAS: THE 1998 SANTIAGO SUMMIT

<sup>21</sup> Erfani, J. A., *The Paradox of the Mexican State: Rereading Sovereignty from Independence to Nafta*, Boulder: L. Rienner Publishers, 1995.

<sup>22</sup> Orme, W. A. Jr., *Understanding Nafta : Mexico, Free Trade, and the New North America*, Austin: University of Texas Press, 1996, p. 49.

<sup>23</sup> At the time, Chile was thought to be the most likely, and most ready, potential new member. Chile became an associate member of MERCOSUR.

<sup>24</sup> Morton, C. S., "Progress Toward Free Trade in the Western Hemisphere Since 1994", in *Civil Society and the Summit of the Americas: The 1998 Santiago Summit*.

creating a FTAA<sup>25</sup>. While structural power is important, so too are two other elements of power: the soft power of economic liberalism and the use of leadership to affect outcomes. U.S. influence depends partially upon an inter-American convergence around liberal market ideas and trade policy preferences of the United States. In other words, if Latin American leaders agree with the United States on the principles and disciplines it advocates in the FTAA process, U.S. dominance is more assured. The ultimate goal of U.S. is that the nations will converge around political and economic liberalization.<sup>26</sup>

Especially, in the wake of the terrorist acts of September 11, Iraq War and thus increasing sociotropic threat<sup>27</sup> and patriotism in different countries, the American foreign policy in NAFTA become more important in preserving the support of its neighbors and indirectly of the entire world. U.S. should change the context of NAFTA from mere a free trade area to a union with a Social Charter characteristic. NAFTA should better use a regime of fair and peaceful competition, through positive integration and institution building strategies.<sup>28</sup> U.S should emphasize the social quality aspects of NAFTA and help its NAFTA partners improve their economic as well as socio-political conditions to gain new allies at the same level in the world arena. The improvement of the rule of law and democracy should not be left in the hands of U.S., but they should be realized by institutionalization<sup>29</sup> taking the E.U as a model.<sup>30</sup>

Taking all these arguments into consideration, the NAFTA' s success will not only shape North America's faith, but also the future of the U.S influence on world politics as a superpower. NAFTA is used by U.S. to some extent as a model<sup>31</sup> and a vehicle to maintain its superpower role throughout the world. U.S. is given the opportunity to compete with the European Union and China, the most potential emerging power, by exploiting Mexico's cheap labor force and Canada's natural resources. The strategic policies and actions will determine its NAFTA partners' position against U.S. They will either lead to stronger strategic alliances between these countries, even including other Latin American countries, which will enhance the U.S. dominance or lead to an opposition in Mexico and Canada, which could mean the loss of its superpower role. NAFTA's future will play an important role; the success can help U.S. sustain its superpower role, but failure, such faced by U.S. in the FTAA, can

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<sup>25</sup> Carranza, M., "Building Block or Stumbling Block? MERCOSUR and the Future of Economic Integration in the Americas", Feb. 16-20.

<sup>26</sup> Poitras, G., "The Potential for U.S. Economic Dominance", Summer 2000., p.4.

<sup>27</sup> Davis, D. W., and Brian D. Silver, "Civil Liberties vs. Security: Public Opinion in the Context of the Terrorist Attacks on America", American Journal of Political Science, Vol. 48, No. 1, January 2004, p.28-46.

<sup>28</sup> Offe, C., "The European Model of 'Social' Capitalism: Can It Survive European Integration?", The Journal of Political Philosophy, Volume 11, Number 4, 2003, p. 438.

<sup>29</sup> Offe, C., p.440.

<sup>30</sup> Offe, p.445, "It has been said, as a general characterization of institutions, that they are like the force of gravity in that they prevent us from flying, but allow us to walk upright."

<sup>31</sup> Coffey, P., *Nafta-Past, Present and Future*, Boston : Kluwer Academic Publishers, 1999, p. 223

lead to a loss of this power, thus being a follower of E.U. in the world economy and politics it would be sufficient for U.S. ...

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