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DOMESTIC POLITICS AND INTERNATIONAL NEGOTIATIONS: NAFTA's TWO-LEVEL GAMES

ARTURO SANTA CRUZ*

This article applies the "Two-Level Games" model to the Mexico-United States negotiations on NAFTA. It demonstrates that the traditional dichotomy between domestic politics and international relations is not useful to explain international negotiations. The first part presents the overall, general evolution of the negotiations. The second and third parts review in more detail the agricultural and banking chapters of the negotiations, respectively. It concludes that the Mexican political regime was a handicap in NAFTA's negotiations.

The negotiations leading to the North American Free Trade Agreement (NAFTA) between Mexico and the United States were formally carried out by the negotiating teams of the two countries between June 1991 and November 1993.[1] In actuality, they began in February 1990, when President Salinas covertly sent his chief of staff to Washington to propose President Bush a free trade agreement between the two countries.[2]

NAFTA was, in terms of public policy, a *rara avis:* partly domestic, partly external. Following Robert Pastor, it could be characterized as a "foreign economic policy issue," since it involved trade-offs in five important areas: (a) particular and collective interests; (b) short term, concrete and long term, rule-sustaining interests; (c) economic and political, military/security, or environmental objectives; (d) domestic and diplomatic interests; and (e) autonomy and sovereignty. Consequently, like any other issue of foreign economic policy, NAFTA, sits on "a *blurry line between domestic and foreign policy.*"[3]

More importantly, the negotiations indeed involved many more players than the two official negotiating teams: business groups, labor unions, and environmental organizations, among others, each of them trying to leave its own imprint on the final outcome. The diversity of players in the NAFTA negotiations unquestionably made the process more complex, but it also made it more interesting. Perhaps the most intriguing feature of the

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*Professor, Department of Pacific Studies, University of Guadalajara, Mexico.

[1]I am not including Canada for three reasons: 1) because since 1988 it had a free trade agreement with the United States; 2) because its joining NAFTA practically did not alter the negotiations between Mexico and the United States; and, 3) because its trade with Mexico is minimal: around three percent of its exports go to Mexico, and less than two percent of Mexican exports go to Canada. In contrast, about 70 percent of Mexican foreign trade (exports and imports) is with the United States.

[2]Information about the meeting first appeared in *The Wall Street Journal* on 3/27, p.A3.

[3]*Congress and the Politics of U.S. Foreign Economic Policy* (Berkeley: University of California Press, 1980), p.13.

negotiating "game" was the two-level strategy most players adopted. That is, not only the two governments, but also a myriad of groups with a stake in the outcome of the negotiations knew that, in order to achieve their objectives, they had to be active in promoting their interests in the two countries *simultaneously*. They knew that they had to play a "two-level game," in which the moves in one "board" (country) affected the result in the other.

In this paper I attempt to illustrate the two-level games that took place during the NAFTA negotiations, drawing from the interactive model developed by Robert Putnam in *Diplomacy and Domestic Politics: the Logic of Two-level Games*.[4] In it, Putnam proposes a "Janus" model of international relations, where governments face opportunities and constraints at both the domestic and the international levels. "Neither of the two games," observes Putnam, "can be ignored by central decision-makers, so long as their countries remain interdependent, yet sovereign."[5] Thus, the central actor in Putnam"s approach is the chief negotiator, usually the chief of government. Nevertheless, as I noticed above, the governments of Mexico and the United States were only two among many actors playing two-level games during the NAFTA negotiations. Consequently, I will emphasize state actors less than Putnam does in his model.

Since so many games were evolving at the same time, though, it is practically impossible to account for all of them coherently in a single narrative. I therefore concentrate on three of them: the first one is the overall, general evolution of the negotiations, and it is intended to provide the reader with a broad perspective of the process. The other two are more specific: agriculture and banking, each of them involving sharply differentiated constituencies in the two countries. In each of the three sections, before delving into a brief account of the negotiating process itself, I present some remarks in order to provide the reader with a broader understanding of the context in which such process took place. In the conclusions, I summarize the reasons why I think the negotiations took the course they did, and speculate on the possible consequences of NAFTA for Mexico.

1. GENERAL SETTING

In order to make sense of the NAFTA negotiations, it is important to keep in mind some fundamental institutional differences between Mexico and the United States. The lack of democracy in the Mexican political system, for instance, is a relevant factor when considering NAFTA's negotiation process. Since the 1930's Mexico has had not only a constitutionally strong executive power, but also presidents who, during their administration, have been the leaders of their party (which more than a party has been a governmental agency) and, as a tragic corollary, of the majority in Congress. If to this we add the corporatist structure of the Institutional Revolutionary Party (PRI), by

[4]*International Organization* (42: 3), Summer 1988, pp. 427 - 460.
[5]Op. cit., p. 434.

which it has controlled for the last six decades peasant and worker organizations, it is no surprise that there were only a few real players in Mexico during NAFTA's negotiations.[6]

The United States, on the other hand, has a two-party system, with a well established system of check and balances in which the legislators represent the interests of their constituency, not those of the federal administration. Although with unequal opportunities, different groups lobby in Congress to pursue their interests (something that in Mexico would make no sense, given the practically ornamental role of the legislators).

Consequently, the number of real players during the NAFTA negotiations was much more reduced in Mexico than in the U.S. It was practically limited to a few federal bureaucrats and some representatives of the big industry.[7] Mexican legislators, environmentalists, union leaders, and other interest groups played an insignificant role in shaping the national position *in* Mexico.

In contrast, in the United States there was a myriad of organizations that in some way influenced U.S. negotiators. Not only the office of the U.S. Trade Representative and a host of other federal agencies took part in the process, also federal legislators, environmentalists, union leaders and interests groups had a say in it. The difference between the two countries was not that in one of them people were more concerned about NAFTA than in the other, it had to do with the character of their political system.

THE NEGOTIATIONS

The Salinas administration followed a particularly poor strategy in the political arena of the United States during the negotiations. As *The Economist* succinctly put it: "the Salinas government reduced its bargaining power by an inexplicable naive policy of putting all its bets on George Bush. (...) the result is that the new American president owes Mr. Salinas nothing."[8] It became clear that for Salinas reaching an agreement, almost any agreement (excluding oil), was better than no agreement at all.[9] It must be remembered that it was him who had staked his political prestige on it.[10] In contrast, Clinton was willing to pursue NAFTA only as long as it included some kind of

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[6]By "real players" I mean those that were able to influence their negotiators *in* their country.

[7]Among those few bureaucrats were the members of the "Intersecretarial Commission of the Free Trade Agreement," which was integrated by representatives of six ministries: Finance, Social Development, Labor, Bank of Mexico, Office of the Presidency, and Foreign Relations. Jaime Serra Puche, "Resultados de la Negociación del TLC," *El Mercado de Valores*, No. 18, 9/15/92, p. iii.

[8]"Survey Mexico," *The Economist*, 2/13/93, p. 8.

[9]See Anthony DePalma, "Trade Pact: Vital for Mexico's Leader," *The New York Times*, 7/2/93, p. C2, and Tim Golden, "Mexican President Seeks to Address Clinton's Concerns," Ibid., 11/21/92, pp. 1-2.

[10]Tim Golden, "Mexican Leader a Big Winner as the Trade Pact Advances," *The New York Times*, 11/19/93, pp. 1 and 26.

environmental and labor accords: those were the grounds on which he differentiated himself from George Bush on NAFTA during the presidential campaign.[11]

NAFTA was not simply negotiated on the international table and then sold and ratified at the domestic sphere. It was a constant process of selling at home what had been negotiated abroad, a process that can be broadly divided into two phases. The first one included 17 negotiating rounds,[12] beginning on June 12, 1991 and concluding on August 12, 1992. This was the "original" NAFTA. Nevertheless, despite the Mexican chief negotiator's announcement shortly after that day that "negotiations are over and they will not be re-open,"[13] Clinton's victory forced the Mexican government to reopen not only negotiations but also the public debate about NAFTA. This was the second phase of the negotiations.

And it was precisely in the second phase of negotiations (January to November 1993) that the two-level games of the actors involved became more intense. By the time NAFTA was voted in the House of Representatives, the Mexican government had spent more than 25 million dollars[14] in what has been the most expensive ever lobbying campaign for a single issue.[15]

Private organizations were also active in the two countries in the political battle around NAFTA. The head of USA-NAFTA, a pro-agreement lobbying group set up by some of the most important transnational companies, said that they had "done more on NAFTA than on any legislative issue in history."[16] The United States Council for International Business, similarly, engaged in a "series of business-based informational activities jointly conducted with the (Mexican) National Confederation of Industrial Chambers."[17]

Since the game was practically being played in the U.S., it was important for the Mexican entrepreneurs to be represented there. Juan Gallardo Thurlow, head of the

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[11]See Thomas L Friedman, "Clinton Says U.S. Will Act Fast on Trade Pact If...," *The New York Times*, p. A8. See also Carlos Acosta, "Salinas en Austin: por primera vez un Presidente mexicano viaja al extranjero para ver a un Presidente electo," *Proceso*, No. 845, 1/11/93, pp. 40-42.

[12]I am including in this figure the Plenary Negotiation Meetings and the Ministerial Meetings. See "Cronología del TLC," *El Mercado de Valores*, No. 16, 8/15/92, pp. i-xii.

[13]Jaime Serra Puche in Aurelio Ramos, "Nuevas leyes, sin reformar la constitución por el TLC," *Excélsior*, 8/15/92, p. 1.

[14]See Charles Lewis and Margaret Ebrahim, "Can Mexico and Big Business USA Buy NAFTA?" *The Nation*, vol. 256, No. 23, 6/14/93, pp. 826-839. Nevertheless, it is important to point out that the Mexican strategy might have caused a negative effect, as the fact that that "key aides to Mr. Salinas who had expected to join the fight in Washington were told by United States officials to stay home because it was thought that their pressence might be counterproductive," suggests. Tim Golden, "Mexican Leader ...," cited, p. A-26.

[15]The Mexican campaign was diverse. It included, for instance, the recruitment of Mexican Jews to lobby Jewish groups in the United States. Tim Golden, "An Outsider Nation at Least Arrived, Mexico is Embracing the Agreement," *The New York Times*, 8/13/92, p. D-4.

[16]Joshua Mills, "Business Lobbying for Trade Pact Appears to Sway Few in Congress," *The New York Times*, 11/12/93, p. 1.

[17]Mary Witoshynsky, "The New Politics of NAFTA," *Business Mexico*, vol. III, No. 3, March 1993, p. 48.

Coordination for Entrepreneurial Organizations of Foreign Trade (COECE), a private organization that represented the interests of the private sector in the negotiations, put it clearly: "the Mexican private sector should make sure that its points of view are also taken into consideration in the decision process of the congress people during the negotiations and when they are finished, when (the U.S.) Congress considers its ratification."[18]

Similarly, the Mexican Authentic Labor Front organized a series of events with and received support from its U.S. counterpart, the AFL-CIO. Environmental groups in both countries also joined forces to fight for the inclusion of environmental issues in NAFTA. Regardless of the actual achievements of each of those groups, it was clear that NAFTA, as Nora Lustig has noted, provided them "with a forum to express their dissatisfaction."[19] This is important mainly for the Mexican actors who, as I said above, could do little *in* Mexico to influence the position of their negotiators. A Mexican public official recognized this when, referring to Mexican critics of NAFTA, said that "their voices are louder in Washington than they are here (in Mexico)."[20]

When it seemed that NAFTA was a dead issue in the U.S. Congress[21] (for the reasons above mentioned NAFTA was never at risk in the Mexican Congress), both the Mexican and the U.S. governments created new rewards. The Mexican government targeted key legislators, offering them in exchange for their vote for NAFTA specific "services," such as the extradition of Mexican prisoners to the U.S.,[22] or, in the opposite direction, the extradition of a Mexican being prosecuted in the United States.[23]

The Clinton administration, on his part, also launched an intensive campaign to convince legislators to support NAFTA. Mikcey Kantor, the American chief negotiator, threatened his Mexican counterpart to stop the negotiations if an off-shore investment project launched by the government of Yucatan was not suspended, as some U.S.

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[18]Juan gallardo Thurlow, "La Coordinación de Organismos Empresariales para el Comercio Extereior," in Carlos Arriola (ed.), *Testimonios sobre el TLC* (Mexico: Miguel Angel Porrúa, 1994), p. 144.

[19]"NAFTA: A Mexican Perspective," *SAIS Review*, vol. 12, No. 1, Winter-Spring 1992, p. 66

[20]Golden, "An Outsider..." cited, p. D-4. Similarly, Robert Pastor noticed that "groups in Mexico are using the U.S. debate to enhace their bargaining leverage within Mexico." "NAFTA as the Center of an Integration Process," *The Brookings Review*, winter 1993, vol. 11. No. 1. p. 45.

[21]Even President Clinton later recognized that as of September, NAFTA actually was a "Mission Impossible." See Sidney Blumenthal, "The Making of a Machine," *The New Yorker*, 11/29/93, p. 93. Most senior members of the White House also thought that NAFTA was not going to pass. See R.W. Apple Jr., "A High-Stakes Gamble that Paid Off," *The New York Times*, 11/18/93, pp. 1 & 21.

[22]This was offered to Rep. Jay C. Kim (CA). See Carlos Puig, "Convoca el Departamento de Estado a una reunión para discutir en Washington las elecciones federales del 94," *Proceso*, No. 890, p. 9.

[23]This was offered to Rep. Clay Shaw (Fla), who proudly declared that his negotiations about NAFTA "were with the Mexicans." See Jackie Calmes, "How a Sense of Commitment and a Series of Deals Clinched the Vote," *The Wall Street Journal*, 11/19/93, p. A-7.

legislators had demanded the Mexican government do.[24] As November 17 (the day the House voted on NAFTA) got closer, the campaign intensified.[25] According to a *New York Times* report, "alone and in groups, representatives were called to the White House to be worked over by the President. Those on the fence received 10, 20, 30 calls a day from cabinet members and influential constituents."[26] What is important here, though, is not that the representatives received precious time from the President and his Cabinet, or simply that they were persuaded of the advantages of supporting NAFTA, but that in most cases they were able to get something for their vote. It was in this context, for instance, that President Clinton promised to limit U.S. concessions on textiles in the Uruguay Round, and to establish the North American Development Bank.

2. AGRICULTURE

The agriculture table of NAFTA was a two-level game for both the Mexican and the U.S. governments. Since the Reagan administration, the United States has been trying to reduce the subsidies to its farmers by making of agriculture a key element in the General Agreement on Trade and Tariffs negotiations (GATT).[27] Thus, although NAFTA was subordinated to the GATT's outcome, and in this sense there could not be expected major changes in the agricultural policy of the United States,[28] the U.S. government was willing to make some concessions in this regard. This is why the chairman of the National Legislative Committee, American Sugar Cane League, complained that "under the proposed NAFTA, the Administration is attempting to do

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[24]The program was the "AmeriMex Maquiladora Fund," which was soon cancelled. See *IUST*, 2/19/93, p. 7. See also Keith Bradsher, "Fund to Move Companies to Mexico," *The New York Times*, 2/17/93, pp. C1 and C17.

[25]An interesting strategy used by both governments was to threat U.S. legislators that should NAFTA be defeated, Mexico would turn to Japan. See Gwen Ifill, "Clinton Uses Japan to Sell Mexico Pact," *The New York Times*, 10/21/93, p. A13. Nevertheless, it did not seem to be a credible threat; see Tim Golden, "Japan Role in Mexico Doubted if Trade Pact Fails," Ibid., 11/4/93, p. A6.

[26]David E. Rosenbaum, "House Backs Free Trade Pact in Major Victory for Clinton After a Long Hunt for Votes," *The New York Times*, 11/18/93, p. A-20. See also Gwen Ifill, "How Clinton Won: 56 Long Days of Coordinated Persuasion," *The New York Times*, 11/19/93, p. A-27.

[27]Robert L. Paarlberg, "Why Agriculture Blocked the Uruguay Round: Evolving Strategies in a Two-Level Game," in William P. Avery (ed.), *World Agriculture and the GATT* (Boulder: Lynne Rienner Publishers, 1993). He notes that Reagan administration officials "sensed an opportunity to pursue their domestic objective of farm policy reform at home through an international negotiation abroad." p. 41.

[28]During the negotiations *IUST* reported that "the agricultural text does not include language on subsidies and section 22 commodities. The U.S. is taking the position that these issues should be dealt with in the context of the Uruguay Round." *IUST*, vol. 12, 2/7/92, p.15.

administratively through a secretly-negotiated trade agreement that which was prevented from doing legislatively."[29]

For the Salinas administration, on the other hand, the NAFTA negotiations on agriculture represented an opportunity to continue the deep agricultural reform it had undertaken.[30] Self-sufficiency in corn and other basic staples had ceased to be the guiding principle, and was replaced for a policy of open markets. With NAFTA, as Steven Sanderson observes, "for the first time ever, a Mexican president explicitly linked rural development and domestic food policy to trade policy."[31] For Mexico, as one of its top negotiators put it, the objective was "to achieve a stable and permanent access of our agricultural exports to the united States and Canada."[32] Thus, whereas for the U.S. the prime objective was to change its domestic agricultural policy through international negotiations, for Mexico the objective was to give keep on, by opening the U.S. agricultural market, the drastic domestic reform already under way.[33] After all, the less accountable Mexican government was in a better position than the U.S. government to impose its decision domestically.

In Mexico, the peasants were able to have a representative in the Advisory Board to the negotiating team. Nevertheless, the corporatist structure of the PRI, along with the submissive attitude of the PRI legislators toward the President, were the main obstacles the peasant organizations which felt their interests threatened by NAFTA faced. In addition, the interests of the growers were also represented in Advisory Board and in the above mentioned COECE. However, some important functions that the COECE was supposed to perform were soon given to an especially created group, the Advisory Council on Foreign Trade, which was controlled by a few big businessmen.[34]

In the United States, the diverse interests of the growers were articulated through different associations. Thus, for instance, whereas the Farm Bureau Federation lobbied

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[29]*IUST*, vol. 12, 10/2/92, p.14.

[30]A reform whose culmination was the amendment to Article 27, by which communal lands (*ejidos*) can be leased, and even sold, to non-ejido members. See Ronald H. Schmidt and William C. Gruben, "Ejido Reform and the NAFTA," *Federal Reserve Bank of San Francisco Weekly Letter*, No. 92-34, 10/2/92.

[31]"Mexican Public Sector Food Policy Under Agricultural Trade Liberalization," *Policy Studies Journal*, vol. 20 (Summer 92) p. 434.

[32]Jaime Zabludosky, "El proceso de negociación del Tratado de Libre Comercio de Amér ica del Norte," in Carlos Arriola (ed.), *Testimonios sobre el TLC* (Mexico, Miguel Angel Porrúa, 1994), p. 119.

[33]Richard Steinberg, who served as legal advisor to U.S.Trade Representative Carla Hills during the negotiations, told me (4/6/94) that in NAFTA Mexico was trying to open the U.S. agricultural market, and no the other way around.

[34]The important positions in the COECE were also taken by important entrepreneurs. For instance, 16 out of the 18 COECE representatives who sat on each of the tables on which the NAFTA negotiations were divided, were or had been leaders of business organizations or big companies. See Cristina Puga, "Las organizaciones empresariales mexicanas de comercio exterior," in Cristina Puga (ed.), *Organizaciones Empresariales y TLC*, (Mexico: UNAM, FCPS, IIS, 1993), pp. 49-71.

for NAFTA, the National Farmer Union fought against it.[35] The important point, again, is that the system of check and balances made it easier for the agricultural sectors that did not feel well served by the administration to fight for their interests (although this does not mean that small and big farmers all got equal access to Congress).

Consequently, as in the overall process, the real players in the agricultural negotiations were more in the U.S than in Mexico. Besides the above-mentioned fact that in Mexico the legislators played a virtually null role in the negotiations, and that most peasant organizations are controlled by the PRI, the division between poor, subsistence agriculture, and modern, industrial agriculture is very pronounced in Mexico. Even more, in Mexico there was a relatively high consensus inside the two groups about what was good for them and what was not. In contrast, in the United States, although the difference also exists between the rich agricultural industry and the small farmers, the difference is not so big and, more importantly, the big agricultural industry is more divided about agricultural policy. Thus, for instance, whereas farmers in Washington and Texas strongly supported NAFTA, those in Florida fiercely opposed it.[36] In the United States, though, both the advocates and the adversaries of NAFTA were able to have their voice heard where it mattered: in Congress.

THE NEGOTIATIONS

As I said before, both Bush and Clinton were willing to sacrifice some areas of the agricultural sector (particularly the sugar and horticulture industry),[37] in order not only to restructure their domestic farm policy, but also to get a better deal in other areas of NAFTA. Nevertheless, both of them knew that any agreement that threatened seriously such areas would not pass (the 23 Representatives from Florida, for instance, represented a real threat to any potential agreement).

On the Mexican side, the Salinas administration's main concern was to open the U.S. market to Mexican products, particularly horticulture and sugar. In order to achieve this, the Mexican government was willing to use the its corn market as a bargaining chip.[38] In any case, the political control the PRI exercises over corn producers (most of them *ejido* farmers) gave the Mexican negotiators ample leeway in this respect.

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[35]*International Trade Reporter*, vol. 8, 11/20/91, p. 1704.

[36]As Ildelfonso Guajardo, trade official at Mexico's Washington embassy put it: "For some reason, a California orange seems to be much more Mexico-friendly than a Florida orange." Quoted by Phillip Longman, "The Mexicans Are Going to Strike," *Florida Trend*, May 1992, p. 38.

[37]Different studies predicted that NAFTA would have a small negative effect on the U.S. horticultural industry. See Alan Barkema, "The North American Free Trade Agreement: What is at Stake for U.S. Agriculture?," *Federal Reserve Bank of Kansas City Economic Review*, third quarter 1992, pp. 5-20.

[38]*IUST*, vol. 12, 6/26/92, p. 9.

In the United States, sugar and horticulture growers, mainly those of Florida, were the leading adversaries of NAFTA's agricultural chapter,[39] whereas in Mexico corn producers were its foremost opponents. The relative weight of each of these groups in their respective countries was, obviously, quite different. Even more, unlike some Mexican unions and environmental groups, Mexican corn producers did not find an ally in their U.S. counterparts, since the U.S. corn growers were precisely the more interested group in opening the Mexican corn market. As a result, the Mexican corn producers were very limited in their opportunities to play a two-level game. Florida growers and other domestic farm lobbies, in contrast, "have shown themselves to be more clever than U.S. officials in manipulating the complex "two-level game" dynamic of the negotiation."[40]

Thus, after the first phase of the NAFTA negotiations concluded, in August 1992, Florida's citrus growers and citrus producers were infuriated by the agricultural chapter. Under it, the United States would raise the quota for Mexican sugar exports to 25, 000 metric tons over the first six years following NAFTA's enactment. After that, Mexico's quota would be increased to 150,000 tons unless Mexico became a net exporter of sugar two years in a row, in which case it could export its entire surplus.[41]

In citrus, the most sensitive product for the U.S. was orange juice, for which the original NAFTA stated that a tariff-rate quota would be established for Mexican exports. Such quota would allow Mexico to export to the U.S. 40 million gallons of juice, which would face a declining tariff over a 15-years period. After this period, the quota would be lifted.[42]

In exchange for the tariffs cuts in fruits and vegetables, Mexico agreed to let in 2.5 million tons of corn per year, with a compounded three percent increase pre year,[43] for 15 years. As with orange juice, after 15 years the quota would be lifted.[44]

Florida farmers immediately expressed their dissatisfaction with the agreement. Sugar producers demanded that Mexico not be allowed to send sugar to the U.S. unless it was a net exporter of nutritive sweetener.[45] Orange growers demanded that NAFTA include a price-based safeguard mechanism in addition to the quantity-based trigger.[46]

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[39]So strong was the opposition to NAFTA in Florida that the Mexican government hired a public relations specialist to sell the agreement there. See Phillip Longman, op. cit., p. 36. Florida farmers were expected to "experience a greater share of adjustment costs" due to NAFTA. Congress of the United States, Office of Technology Assessment, Office of Technology Assessment, *U.S.-Mexico Trade: Pulling Together or Pulling Apart?*, ITE-545, October 1992, p. 197.

[40]Paarlberg, op. cit., p. 39.

[41]*IUST*, vol. 12, 8/7/92, pp. 14-15.

[42]Ibid., vol. 12, 8/7/92, p. 14.

[43]This was considered a major concession of the Mexican delegation; see *IUST*, vol. 12, 6/26/92, p. 15.

[44]Ibid., vol. 12, 6/26/92, p. 15.

[45]*IUST*, vol. 12, 8/21/92, p. 18.

[46]*IUST*, vol. 12, 9/25/92, p. 6.

Soon after Clinton took office, Mickey Kantor - the new U.S. Trade Representative - revealed that he was "pressing the Mexican government to give better treatment to certain agricultural commodities."[47] A few days before the house voted on NAFTA, and despite the declaration of the Mexican chief negotiator that the negotiations were over, Mike Espy, U.S. Agriculture Secretary declared that he was "very happy because Mickey Kantor (had) received new concessions form our Mexican friends."[48]

The new concessions were the following: in sugar, Mexico agreed to sign a side letter that includes high-fructose corn sweeteners (HFCS) for calculating net surplus production (this means that Mexico would not be able to substitute HFCS for sugar in its beverage industry).[49] Likewise, orange growers obtained the price-based safeguard mechanism for frozen concentrated orange juice they had demanded, which would allow tariff "snapbacks" to be imposed if the price of the commodity fell below a certain threshold.[50]

Mexican negotiators simply had to give up in all those issues: they were not in a position of walking out of the room or of saying that Mexican growers would not accept the new terms. Juan Gallardo Thurlow, head of COECE, declared that "the changes accepted by the Mexican sugar industrialists and the citrus fruit producers were negotiated with their U.S. counterparts and subsequently were presented to their corresponding governments."[51] Nevertheless, it was obvious that, as the *Financial Times* put it, "the concessions on sugar, although formally made by the Mexican private sector, in fact were ordered by the Mexican government."[52] This was confirmed by the president of the Mexican Association of Citrus Producers, who complained that "the producers were not consulted about the new agreements."[53]

Similarly, although officially Mexico agreed to sign a side letter for sugar that would solve a "latent ambiguity" in the original NAFTA text,[54] Deputy Agriculture Secretary Ann Veneman had previously acknowledged that the Mexicans had refused to negotiate a deal that would prevent their substitution of HFCS for sugar.[55] Therefore, it was not a "latent ambiguity;" it was that the Salinas administration needed the agreement badly - and that it did not have to sell the new clauses at home.

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[47]*IUST*, vol. 13, 8/6/93, p. 1.

[48]Carlos Puig, "Desesperado, el gobierno salinista reabre el TLC, y cede en todo," *Proceso*, No. 888, 11/8/93, p.9.

[49]*IUST*, vol. 13, 11/5/93, p. 4.

[50]*IUST*, vol. 13, 11/5/93, p. 12.

[51]"Exporters Deny Concessions Made for NAFTA Votes in Congress," NotiMex, 11/4/93, reprinted in *FBIS-LAT*, 93-213, 11/5/93, p. 20.

[52]Cited in Puig, "Desesperado...," cit. p. 9.

[53]Antonio Jáguez, "No hubo consulta con empresarios en la renegociación de vidrio, cítricos, y electrodomésticos," *Proceso*, No. 888, 11/8/93, p. 9.

[54]*IUST*, vol. 13, 11/5/93, p. 4.

3. BANKING

The agriculture and banking negotiations were very different - as the fact that the latter were not reopened shows. The position of the Bankers in Mexico is a factor that helps understand the different course of the negotiations. For instance, Mexican bankers (unlike most peasant organizations) are not integrated into the corporatist structure of the PRI, they have their own powerful, independent organization. Thus, the contrast in relative power between the Mexican and the U.S. bankers in their respective countries is not as sharp as it is between the farmers of the two countries.

Nevertheless, as in the agriculture negotiations, the Mexican government seemed to have been pursuing a primarily domestic objective by external means. As officially stated, the objective of the Mexican delegation to the negotiation was "to increase competition within the national financial system and to achieve the times and modalities that would allow our financial system to adjust to a gradual opening."[56] Salinas did not want an agreement leading to the fast liberalization of the Mexican banking system. In this area, the zeal the Mexican negotiators had shown in advocating free trade principles was replaced with protectionist convictions.[57] Similarly, having access to a wide-open U.S. market was not the objective of the Mexican bankers.[58]

Furthermore, for the United States Mexican banks did not represent a threat to their market. The U.S. government was more concerned about opening a specific niche of the Mexican banking system: corporate banking.[59] The director of Chemical Bank in Mexico, for instance, observed that foreign banks would not establish branch networks in Mexico, since they are planning on concentrating on large borrowers.[60] Thus, the fact that the Mexican and U.S. banking markets did not seem to be of great interest for the U.S. and Mexican bankers, respectively, is another factor that helps explain why the banking chapter was not reopened.

In any case, it was not the banking table the one that could endanger the overall negotiations: both Mexican and U.S. negotiators could grant a little here and there and still have an acceptable agreement. Even the relatively hard Mexican position in this

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[55]Cohn, op. cit., p. 36.

[56]Jaime Zabludosky, "El proceso..." cit., p. 122.

[57]Thus, for instance, chief negotiator Jaime Serra Puche declared that NAFTA assures the Mexican banking sector a "proper protection." Jaime Serra Puche, "Resultados de la Negociación del TLC," *El Mercado de Valores*, No. 19, 19/1/92, p. iv. Similarly, Deputy Finance Secretary Gullermo Ortíz said that "the important point (about NAFTA) is that gradualism was achieved through the establishment of market quotas. "Los Servicios Financieros ante el Tratado de Libre Comercio," Ibid., No. 22, 11/15/92, p. iii.

[58]Francisco Suárez Dávila, "Retos y Oportunidades para la Banca Mexicana en el Acuerdo de Libre Comercio," *El Mercado de Valores*, No. 17, 9/1/91, p. iv.

[59]This difference between the agricultural and the banking negotiations was pointed out by Richard Steinberg in the above mentioned interview.

[60]Cited by Joel Russell, "Niche Banking," *Business Mexico*, April 1994, p. 7.

sector, strongly supported by the Mexican bankers who wanted to protect their recently acquired business,[61] did not derail the negotiations.

THE NEGOTIATIONS

Negotiations in this sector were rather straightforward. For Mexico, the main issue of concern was to obtain non-discriminatory treatment for Mexican banks in the different states of the Union.[62] This, again, is something that has to do with the institutional life in the United States, in which the federal regime dictates that the most the federal government can do is to coax the state governments to enter into the obligations of the agreement.[63]

Thus, after beginning with an extremely hard position,[64] Mexico agreed to a 10-year transition period for eliminating market share caps, with the potential for a three year freeze during the second period. The final text allows an initial six-year transition period, when the U.S. and Canadian banks can increase their overall market share from an initial cap of eight percent to a maximum of 15 percent. Starting the next decade, the cap would be lifted, but if the total market share grew to 25 percent, Mexico could still invoke a safeguard provision and impose a three year freeze on any further growth by U.S. and Canadian firms. After this three-year period, no market shares could be applied.[65]

Commenting on the terms of NAFTA's financial chapter, a *Financial Industry Studies'* analyst wrote that "the Mexicans have taken special care to protect their banks from foreign competition during the long phase-in period."[66] Similarly, the senior economist at the Federal Reserve Bank of Dallas noted that "retail banking appears to be a safe niche for the Mexican banking industry to develop,"[67] since, as Mexico's financial market specialist Juan Castaingst observes, the banking market will be fragmented, and consequently, it "will continue being a non-competitive market."[68] The good terms achieved by the Mexican bankers show that not all areas are equally

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[61]Mexican banks were privatized during 1991 and 1992.

[62]*IUST*, vol. 12, 1/31/92, pp. 19-20.

[63]*IUST*, vol. 12, 9/11/92, p. 20.

[64]Mexican negotiators offered to open the Mexican market up to 12 percent, begining with five percent in 1995, and adding one percentage point every year until 2002, when it would reach 12 percent of the market. Fernando Ortega Pizarro y Carlos Puig, "Al descubierto, algunos de los cientos de corchetes que entorpecen al TLC," *Proceso*, No. 802, 3/16/92, p. 12.

[65]*IUST*, vol. 12, 7/3/92, p. 12.

[66]William C. Gruben et. al., article in *Financial Industry Studies*, quoted in *International Trade Reporter*, vol. 10, 10/20/93, p. 1765.

[67]Bronwen Davis, "Mexico's Commercial Banking Industry: Can Mexico's Recently Privatized Banks Compete with the U.S. Banking Industry after the Enactment of NAFTA?," *Arizona Jornal of International and Comparative Law*, vol. 10, No. 1, p. 110.

[68]Quoted by Fernando Ortega Pizarro, "Los bancos reprivatizados, consentidos de sexenio; en 1992 Banamex ganó más que la más grande corporación bancaria estadunidense," *Proceso*, No. 907, 3/21/94, p. 24.

important for all countries, and that the way domestic politics are organized in each of them matters in international negotiations.

4. CONCLUSIONS

I

There is no fixed division between the domestic and the foreign spheres of world politics. As the NAFTA case shows, the *"blurry line between domestic and foreign policy"* was often imperceptible. From Salinas' visit to San Antonio in the midst of the 1992 U.S. presidential race (perceived as an open endorsement of Bush's reelection bid),[69] to the House Majority Leader's letter to Salinas asking him to stop his government's participation in an investment fund,[70] it is clear that the traditional boundary between "sovereign states" is not as sharp as it is frequently thought.

II

Consequently, it is not possible to continue looking almost exclusively at "state actors" in the study of international affairs. Not only multi-national corporations and international organizations have become important players in world politics, now also all sort of groups, ranging from human rights associations and trade unions, to terrorists, drug-cartels, and environmental groups are active players in the international arena. What we have then is that state and non-state actors are involved in a dynamic interaction of "domestic" and "foreign" affairs which has at least two related effects: it produces international alliances, and it makes the domestic-foreign divide less meaningful.

In NAFTA, non-state actors such as Mexican Jews lobbying their U.S. counterparts, or business associations planning joint activities in both countries, played an important role in the agreement's fate. Similarly, labor unions and environmental groups formed the "transnational alliances" that proved to be instrumental in broadening the agenda - and in the eventual inclusion of the side agreements in those areas.

III

Ironically, it was these "transnational alliances" which more clearly showed that domestic political institutions matter in international negotiations. They made clear that world politics are not as simple as some systemic perspectives have made us believe, since in international negotiations the relative power of the countries in question matters, but it does not determine their outcome.

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[69]Carlos Puig, "La gestión económica de Salinas, atada al destino electoral de Bush," *Proceso*, No. 835, 11/2/92, p.10.

[70]Keith Bradsher, "Fund to Move...," cited.

The lack of a system of check and balances in Mexico, along with the short-sighted strategy of identifying the Mexican interests with those of the Mexican governing party, debilitated the Mexican negotiating position. The Mexican government weakened its negotiating position not only by making explicit to the United States government how badly it needed the agreement,[71] but also by its lacking accountability. This enabled the United States government, legislators, and interests groups to obtain significant concessions from the Mexican side.

The non-democratic character of the Mexican political system was, of course, at the core of the weak Mexican position in the negotiating table. At the same time, though, it was this lack of democracy what prompted some groups in Mexico, such as some independent labor unions and environmental groups, to move their game to the arena where it could actually influence the outcome: the U.S. Congress. They demonstrated that the character of the political system of the countries involved is an important intervening variable in determining the outcome of international negotiations. Thus, if Mexico did not achieve a better agreement it was not simply because it was negotiating with a big power, but also because its own political regime prevented it from doing so.

Nevertheless, it is not likely that NAFTA will bring about radical changes, either in Mexico or in the United States. What NAFTA did was to formalize an integration process that was well under way.[72] It could have been a better agreement, certainly. It could have included the labor and environmental issues in the agreement itself (not in side-agreements), and it could have dealt with some issues that it simply left out, such as migration. Nevertheless, the agreement does not significantly change the status quo and, if only for that reason, it is very unlikely that it will have profound general effects.

In any case, its stronger consequences will be felt in a few specific areas, such as Mexican agriculture.[73] In the words of the Mexican negotiator of the agricultural chapter, NAFTA will be for Mexican agriculture "like opening the Wild West in America."[74] The comparison might sound exaggerated - but perhaps it is not. The

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[71]For instance, President Salinas' chief advisor went to Washington shortly after Clinton had been elected to request that NAFTA be a priority in his administratin. He told a representative of the President-elect: "For us time is everything (...) in December 1993 we will have a presidential candidate." It is obvious tha by "we" he meant the ruling party, otherwise he wouldn't have talked of "a" presidential candidate. (Carlos Puig, "Cordova expuso ante el equipo de Clinton las urgencias de Salinas," *Proceso*, No. 839, 11/30/92, pp. 6 and 9). Similarly, the Mexican coordinator of NAFTA in the United States declared that "there is no candidate of the party in power who would be able to fight an election with NAFTA still pending." (Carlos Puig, "Salvar al TLC es salvar al PRI y a las reformas de Salinas: Von Bertrab," Ibid., No. 878, 8/30/93, p. 32).

[72]Acording to the Mexican chief negotiator, when negotiations began, Mexican products entering the United States faced, on average, a 4.8 percent tariff, whereas the average Mexican tariff on U.S. products was less than 10 percent. That is why he recognized that, in terms of trade, NAFTA would be "a small thing." Interview with Federico Reyes Heroles and Sergio Aguayo, "TLC: responde Serra," *Este Pa?*, May 1991, pp. 18 and 26.

[73]The Mexican banking market, as I said above, most likely will not undergo profound changes--at least in non-corporate banking.

[74]"Mexico Survey," *The Economist*, 2/13/93, p. 13.

relative weight of agriculture in Mexico is much higher that in the U.S. Relative population in the agricultural sector in Mexico, for instance, is over 8.5 times higher than that in the American agricultural sector.[75] Thus, more than three million Mexicans make their living of corn growing, whose production costs in Mexico are twice those in the United States.[76] Overall, it is expected that in Mexico, as a result of NAFTA, horticulture producers will benefit, and that the poorer corn growers will loose.[77] A conservative estimate is that NAFTA will increase migration by as many as 100,000 annually.[78] The question that arises is thus: where will the displaced Mexican agricultural workers go? The most plausible answer is: where they have traditionally gone, to the urban areas and to the United States.

The treatment received by the banking and agriculture sectors of the two countries further supports the claim that domestic institutions matter in international negotiations. Although both the Mexican and the United States governments used NAFTA in their domestic agricultural reform policies, Mexican farmers, as suggested above, were far less successful than their U.S. counterparts in preventing their government from signing an agreement that they perceived damaged their interests. This result, of course, has to do with the relative power of the social groups involved in the two sectors *in their respective countries:* Mexican farmers are relatively much weaker than U.S. farmers. The domestically powerful Mexican bankers, in contrast, obtained much more favorable terms. This is just another example of why one should not simply make abstraction of intricate domestic politics when studying international events.

IV

The transnational allicances formed during the negotiation process, as well as the institutionalization of dispute resolution mechanisms (such as the labor panel), might point to a beneficial (unintended) consequence of NAFTA: the demise of Mexican authoritarianism. Of course that bringing about a democratic regime in Mexico is, and should be, an enterprise to be carried out by Mexicans.

But in the same way that NAFTA will make it harder for any future Mexican administration to reverse the deep economic reforms undertaken by Salinas, it will also make it more difficult for the Mexican regime to get away with, say, electoral fraud or human right violations. The extensive coverage in the U.S. media of the guerrilla war that broke out in Mexico the same day that NAFTA went into effect, and of the

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[75]Eduardo Segarra, "The Proposed United States-Mexico-Canada North American Free Trade Agreement: The Mexican Perspective," *Southern Journal of Agricultural Economics*, July 1992, pp. 45-54.

[76]Felipe Torres y Javier Delgadillo, "El sector agropecuario frente al TLC," *Problemas del Desarrollo*, vol. XXII, No. 86, July-September 1991, pp. 23-29.

[77]Donald K. Freebairn, "Posibles perdidas y ganancias bajo un TLC entre Estados Unidos y Mexico," *Revista Mexicana de Sociolog?*, No. I, January-March 1992, pp. 5-28. See also, Congress of the United States, op. cit., chapter 10.

[78]Philip L. Martin, *Trade and Migration: NAFTA and Agriculture*, Institute for International Economics. October 1993.

Mexican presidential elections of August 1994, arguably pressured the Mexican government not to crack down on the insurgents, nor to perpetrate a massive electoral fraud.

The government has not yet reached a peace accord with the rebels, but it no longer controls the electoral process. Let's hope that the increased attention Mexico receives in the United States contributes in some way to a more democratic Mexico.

Mailing Address: Arturo Santa Cruz, Department of Pacific Studies, University of Guadalajara, e-mail: arturosc@udgserv.cencar.udg.mx.