

## ASYMMETRIC INTEGRATION UNDER NAFTA

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## Introduction

*There are no isolated problems; everything is a part of everything else.*

José López Portillo, President of Mexico, 1977

The topic of integration of asymmetric states is rightfully an exciting field to study, for several reasons. First, this subject matter is highly topical – new developments in NAFTA and the European Union are shedding new light at the role of the weaker and stronger states within these international arrangements, and at the same time new bold projects of asymmetric integration are under way, namely the preparations for a Free Trade Area of the Americas and the Eastern Enlargement in the European Union. In this respect every day may bring new data, which might shatter prevalent theses related to these matters.

Second, asymmetric integration could become an important contribution to the development of weaker states. If the results show the viability and profitability of the concept of asymmetric integration for both the stronger and the weaker partners, we could then optimistically await the new wave of such developments. However, if the analysis showed that asymmetric integration is detrimental to the development of the weaker (and maybe even the stronger) parties, new ways of international cooperation ought to be looked for.

Third, asymmetric integration touches the crucial question for international relations of the future, namely the role of inequality among states. Does asymmetric integration provide the weaker states with sufficient means to defend their rights successfully *vis-à-vis* the stronger states? Is asymmetric integration beneficial for the levelling of the differences between the integrating countries? Do mutual perceptions of the countries change after they become more integrated?

Fourth, asymmetric integration stands for a certain vision of the future, future where more and more countries with various levels of development become closely connected to each other, undoubtedly bringing forth many problems, beginning with regulation of migration and ending with loss of effective control of the economy by national governments. Examples of asymmetric integration of today can serve us to better prepare for such challenges, or might even discourage us from undertaking these projects and search for other alternatives.

Last but not least, the Czech Republic is soon to become asymmetrically integrated, and in this respect, by researching asymmetric

integration, I am trying to assess the possibilities and dangers of this development, which will undoubtedly have profound both short-term and long-term effects. These effects will take place not only in the economic realm, but, as the motto for this introduction hints, transformations will occur in diverse areas of national politics as well.

As prime example in this study I take the asymmetric integration taking place between Mexico and United States under the North American Free Trade Agreement. Table 1 vividly illustrates the extent of asymmetry between these two states. As seen from the table, in rather journalistic terms, a First World country is being integrated with a Third World country. Despite the differences, both countries chose to enter into the NAFTA Agreement and deemed it in their best interests when doing so. Mexico, the weaker partner, even paid estimated 30 million USD to lobbyists in Washington to get the deal approved by U.S. Congress.<sup>1</sup> This development raises a host of analytical questions. First, what were the reasons of these two countries that contributed to this asymmetric integration?

Table 1: *Statistical Comparisons U.S.–Mexico*

Indicator	Mexico	United States
Population	101,879,171	278,058,881
less than 15 years old	43.3%	21.1%
more than 65 years old	4.4%	12.6%
Area	741,600 sq.mi.	3,535,000 sq.mi.
Population density	137 per sq.mi.	79 per sq.mi.
Defense budget	3 bil. USD	291.2 bil. USD
Active troops	192,770	1,365,800
Crude oil reserves	28.4 bil. barrels	21.03 bil. barrels
Arable land	12%	19%
Cattle	30.29 mil.	98.05 mil.

<sup>1</sup> Bhagwati, J.: *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy*, MIT Press, Cambridge, 1998, p. 276.

<b>Indicator</b>	<b>Mexico</b>	<b>United States</b>
Chicken	476.0 mil.	1.72 bil.
Pigs	13.69 mil.	59.34 mil.
Fish catch	1.53 mil. metric tonnes	5.45 mil. metric tonnes
Electricity production	182.492 bil. KWh	3.67 tril. kWh
Labor force	55% services 24% agriculture 21% industry	30% managerial 29.2% technical 24.5% manuf. 2.4% agriculture
GDP	865.5 bil. USD	9.255 tril. USD
per capita GDP	8,500 USD	33,900 USD
Imports	142.1 bil. USD	912 bil. USD
Exports	136.8 bil. USD	663 bil. USD
Tourism incomes	7.59 bil. USD	74.49 bil. USD
Budget	123 bil. USD	1.653 tril. USD
Civil aviation	14.7 bil. pass.-mi.; 83 airports	599 bil. pass.-mi.; 834 airports
Motor vehicles	8.2 mil. passenger cars 4.03 mil. comm. vehicles	129.73 mil. passenger cars 76.64 mil. comm. vehicles
TV sets per 1,000 pop.	257	847
Radios per 1,000 pop.	329	2,115
Telephones	12,332,600	192,518,800
Daily newsp. circulation 1,000 pop.	97	215
Life expectancy	68.73 male, 74.93 female	74.37 male, 80.05 female
Birth per 1,000 pop.	22.77	14.20
Deaths per 1,000 pop.	5.02	8.7
Infant mortality (per 1,000 live births)	25.36	6.76
Literacy	90%	97%

Source: *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 829, 862

## 1 Brief historical overview

To understand how dramatic the changes in relations on the North American continent, capped by signing of NAFTA, have been, brief historical overview is necessary. Especially the Mexican distrust towards the northern neighbor has deep roots, going as far back as 1848, when Mexico lost one third of its territory (including California) to the U.S. in the treaty of Guadalupe Hidalgo. Another important moment was the revolution of 1911 against the regime of Porfirio Díaz. In the ensuing chaos, which lasted almost twenty years, the U.S. intervened at various times to support some of the contenders for power, often with military means, which only added to the suspicions Mexicans had about Americans.

After the situation became more stable under the rule of Lazaro Cárdenas in 1930s, nationalization of industry became the contentious issue of the day. Especially the initiative of Cárdenas to nationalize the oil industry in 1938 almost caused a military intervention by the U.S. and only Roosevelt's preoccupations with the situation in Europe and Japan prevented such escalation. After World War II, the Mexican one-party (*Partido Revolucionario Institucional*, PRI) nationalistic regime opted for the policy of import-substitution industrialization, with the state having the main say in the formation of economic and industrial policies. Possibilities of foreign capital entering the country have been very limited and under strict government control. Sovereignty, independence and lukewarm socialism were cornerstones of party ideology, which manifested itself in overt clashes with the U.S. on the international arena, especially in the case of Cuban revolution.<sup>2</sup>

After impressive economic growth in 1950s and 1960s, the viability of Mexican developmental model was put under more and more strain, which culminated in 1982 when Mexico was unable to pay interests on its accumulated huge foreign debt. Then, under the leadership of President Miguel de la Madrid, began the slow structural change to a more open economy and export-led growth, which was accelerated by President Salinas de Gortari and climaxed in the adoption of NAFTA.

From the point of view of the United States, the U.S. foreign policy was happy to have a stable, albeit not very democratic southern neighbor,

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<sup>2</sup> Smith, P. H.: *Talons of the Eagle: Dynamics of US-Latin American Relations*, Oxford University Press, New York, 2000, p. 132.

who did not present a security threat on the long border in the Cold War environment. Closer cooperation might have been desirable for U.S. exporters, but it was considered politically impossible mainly due to the mistrust on the Mexican side.

## **2 Why did Mexico want to join?**

To illustrate the complexity of the issues included in NAFTA, after brief recapitulation of facts, I will try to answer this question looking through lenses of various methodological approaches.

### **2.1 Facts**

Apart from the historical background described in section 1.1 above, it is worth noting, that when asked about prospects for a free-trade area with the United States in 1988, President Salinas rejected the idea saying that Mexico is not ready for such a pact yet. He hoped to attract diversified investment, especially from Europe, in order not to get too dependent on the United States. Japanese bankers were highly distrustful towards Mexico, since they suffered heavy losses during debt-restructuring process in Mexico in 1980s. In this respect the end of Cold War provided an important push for the Mexican government to get close to the United States. Western European investment, which could provide alternative to the American one was going to favor the reconstruction of Eastern Europe, thus leaving Mexico to its fate.

The program that Salinas then proposed meant really a neoliberal revolution from above, concerning all major areas of Mexican life, which in scope was comparable with the radical transformations taking place in Eastern Europe. State companies, the backbone of Mexican economy, were being privatized. Agricultural subsidies were to be eliminated, and doors were increasingly opening for foreign capital. Party's socialistic rhetoric and ideology was discarded and exchanged for a neoliberal vision of growth through increased competitiveness. NAFTA became an essential part of this program, because it was supposed to institutionalize and solidify these radical reforms in international law against possible future political instability.

This was important, because not only was Mexico undergoing major economic transformation, which was painful for its population, but it was

also becoming more and more democratic at the same time. Electoral fraud came under increased public scrutiny, and the governing party was under pressure to make the election process fair.<sup>3</sup> As one senior Mexican official commented, the situation was precarious for the party, because “in Mexico, the easiest thing to do is to organize 100 000 people in a demonstration and put them in front of the U.S. Embassy. ... The hardest thing to do is to persuade them to make a free trade agreement with the United States.”<sup>4</sup> The control of the media by the PRI helped to check the public opinion, but at the price of invoking unrealistic expectations of rapid economic growth once the NAFTA takes effect.<sup>5</sup> Relative enthusiasm about NAFTA lasted in Mexico long enough for the party candidate Ernesto Zedillo de Ponce León to get elected in August 1994, presumably without massive electoral fraud.

## 2.2 Rational choice approach

Mexican government, and more specifically, President Salinas was the principal agent on the Mexican side when deciding to pursue the NAFTA Agreement. His goal was the same as the goal of his predecessors, namely to restore economic growth to Mexico after the lost decade of 1980s. His choice of bold opening to the United States could be seen as the selection of the best of alternative strategies. Mexico’s level of savings was not high enough to accumulate enough capital for self-sustained economic growth. Foreign loans were a frequent source of capital for domestic development, but reliance on this tool has brought the country to the brink of default in 1982 and the paying of interest was a major burden in the national budget even after successful restructuring of the foreign debt. Japanese and Europeans investors were not eager to invest in Mexico, each for reasons of its own, and their main interests lay elsewhere. There remained the United States as a possible source of much needed capital.

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<sup>3</sup> It is argued, that Salinas won the election by fraud in 1988, after a mysterious shutdown of computer systems monitoring the election.

<sup>4</sup> Mayer, F. W.: *Interpreting NAFTA: The Science and Art of Political Analysis*, Columbia University Press, New York, 1998, p. 43.

<sup>5</sup> “I think my salary is going to go up about 20%, more or less.” Mr. Alfonzo Diaz, Mexican electrician, 31 years, when questioned about the expectations from NAFTA, reported in Golden, T.: “Mexican Leader a Big Winner As the Trade Pact Advances”, *The New York Times*, November 19, 1993, A1.



By combining provisions on investment protection with reduction of tariffs in the NAFTA, the Mexican government sought to attract U.S. investment. This would push Mexico towards economic growth, with the improved access to the U.S. market becoming the main driving force of this growth. The issue of agricultural reforms in Mexico would be solved as well, as the imports from the U.S would force the Mexican farmers to become more competitive or go out of business. Last but not least, by adhering strictly to the teachings of mainstream American economists, Salinas was hoping to become President of the World Trade Organization after leaving Presidential office in Mexico.

### 2.3 Institutional approach

The institutional approach is not very useful when adopted at the process of birth of institutions themselves. It can only be said that the Mexican side wanted to get the complex relationship with the U.S. on an institutional level, at least some aspects of it. Trade and investment relations would get a new institutional framework, which could be used by Mexicans to protect their interests. NAFTA institutions, although crafted for the most part by the U.S., nevertheless provided Mexican companies exporting to U.S. much better protection than they would get from U.S. domestic authorities, known for their rather protectionist approach. Law, even though it might be written by the strong, is often the weapon of the weak.<sup>6</sup> The new institutional structure of NAFTA (both formal and informal) was also meant to lock in the neoliberal modernization project of the Salinas government, making it less dependent on political changes that were likely to come with the democratization process in Mexico.<sup>7</sup>

The institutional approach could be also used as showing how the institution of Mexican presidency allows the President considerable autonomy and authority in politics,<sup>8</sup> thereby rendering Mexican opposition to NAFTA ineffective.

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<sup>6</sup> Falk, R.: "The World Order between Inter-State Law and the Law of Humanity: the Role of Civil Society Institutions", in: Archibugi, D., Held, D. (eds.): *Cosmopolitan Democracy: An Agenda for a New World Order*, pp. 163–179, Polity Press, Cambridge–Oxford, 1995.

<sup>7</sup> Zinser, A. A.: "Is There an Alternative? The Political Constraints on NAFTA", in: Bulmer-Thomas, V., Craske, N. and Serrano, M. (eds.): *Mexico and the North American Free Trade Agreement: Who Will Benefit?*, pp. 119–130, Macmillan Press, Houndmills, 1994.

<sup>8</sup> Camp, R. A.: *Politics In Mexico*, Oxford University Press, New York, 1999, p. 112.

## 2.4 Symbolic approach

Viewed symbolically, Mexicans wanted NAFTA because it would symbolize their progress to modernity. By tying themselves economically with the fresh winner of Cold and Gulf Wars, Mexico was giving a powerful signal to the rest of the world. One part of the signal was that Mexico is strongly determined to progressive reforms, which will produce unparalleled economic growth, other part of the signal was the underlying message that Mexico is already strong enough to succeed in such a partnership. The idea that being closely integrated with a First World country brings some glimpses of glamour (and with it increased investor's confidence) to the image of Mexico played some role as well. Last but not least, the young technocrats in the Mexican governments were all educated on top-level U.S. economic universities (Salinas himself at Harvard). When viewed in context with this kind of education, the NAFTA project as well as other neoliberal reforms being undertaken in Mexico, would by all means grant an A+ grade to Salinas and his team from their former professors.

On a symbolic level the controversy about U.S. access to Mexican oil reserves was extremely sensitive for Mexican public, and the suspicions of Mexicans that the whole NAFTA enterprise is aimed only at seizing the black gold from Mexico did not cease to stir public imagination.<sup>9</sup> Comparative figures on oil reserves (see Table 2) show, that even if U.S. oil interests could play some role, these conspiracy theories are based rather on historic stereotypes rather than on reality.

Table 2: *Oil reserves (billions of barrels)*

Country	USA	Mexico	Saudi Arabia	Middle East	World
Oil reserves	21.8	28.4	263.5	675.0	1,016.8

Source: *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 67

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<sup>9</sup> Fazio, C.: *El Tercer Vínculo: De la teoría del caos a la teoría de la militarización*, Joaquín Mortiz, México D.F., 1996.

## 2.5 Critical neo-Marxist approach

For both Mexican and American critics of the Agreement, the will of Mexico to enter NAFTA has been interpreted as orchestrated by small technocratic elite educated in the U.S., which was meant primarily to increase the dependency of Mexico on the U.S., and at the same time enriching the small but extremely rich strata of Mexican society and further impoverishing the poor. Furthermore, important decisions about economic policies got out of democratic control just at the time the country was slowly becoming more democratic. From NAFTA on, it will be foreign interests (read U.S. multinational corporations) that will direct the economic future of Mexico, ultimately forfeiting the legacy of the socialistic constitution of 1917.

## 3 Why did U.S. want to join?

### 3.1 Facts

NAFTA did not present for the United States any substantial reversion of traditional policies, free trade was an integral ideological part of U.S. foreign policy since end of World War II. Since 1980s there has been extensive cooperation between the two countries in the border region through the maquiladora<sup>10</sup> program and further cooperation promised to increase competitiveness of American companies through rationalizing production in the whole North American region. In the beginning of 1990s lagging behind the Japanese was one of the sore spots of U.S. industrialists.<sup>11</sup> Moreover, NAFTA meant support for pro-market reform policies of President Salinas, arguably the most pro-American leader of Mexico since Porfirio Díaz.<sup>12</sup> Yet, the issue of NAFTA became highly

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<sup>10</sup> Maquiladoras were factories in export-processing zones on the border, using cheap Mexican labor force mainly to assemble delivered parts for re-export, with little value-added. Under U.S.-Mexican treaty, taxes were paid only on the value added to the product in Mexico. see Damgard, B.: "Labour and Economic Integration: The Case of the Electronics Sector in Mexico", in: Appendini, K., Bislev S. (eds.) *Economic Integration in NAFTA and the EU: Deficient Institutionalization*, pp. 89–106, Macmillan Press, London, 1999.

<sup>11</sup> Bhagwati, J.: *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy*, MIT Press, Cambridge, 1998, p. 276.

<sup>12</sup> In this respect it is no accident that under the Salinas government history textbooks concerning the dictatorial rule of Porfirio Díaz were rewritten to give more credit to the military general, who had such good ties with foreign investors.

contentious and only last-minute changes<sup>13</sup> ensured its passage in the U.S. Congress.

The anti-NAFTA coalition in the U.S. was very diverse, the backbone of it being American trade unions like AFL-CIO and various environmental groups.<sup>14</sup> On the electoral level Ross Perot, a third-party presidential candidate in 1992, whose campaign was to a large extent run on the anti-NAFTA platform, took up the issue. Ross Perot also coined the term “giant sucking sound” of American jobs moving to Mexico,<sup>15</sup> which appealed to many low-skilled American workers. In a larger sense, the opponents of NAFTA were opposing the vision of corporate America, which is insensitive to local conditions and readily exploits differences in labor and environmental standards all around the world. Generally, the Republican congressmen supported the NAFTA, but it was pushed through by a split in the Democratic party, the pro-NAFTA faction led by Bill Clinton, himself a supporter of the initiative which was started by George Bush Sr. In the end, the vote was 234 to 200 in favor of the NAFTA in the House of Representatives and 61 to 38 in the Senate.<sup>16</sup>

### 3.2 Rational choice approach

For U.S. policymakers, the free-trade deal with Mexico was a good deal for a number of reasons. First, it would increase competitiveness of U.S. industries in the world-market by optimizing production in North America. Second, the fate of the neoliberal reforms in Mexico favorable to the U.S. was of significant importance in Washington. If Salinas were to fail, there were considerable fears of nationalistic and leftist populism taking roots in democratizing Mexico. NAFTA was in this case seen as supportive for the President. Improved access to Mexican oil reserves, although still limited, played some role in the U.S.

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<sup>13</sup> Provisions concerning sugar were thus substantially modified to gain key votes from Florida, see Cameron, M. A., Tomlin, B. W.: *The Making of NAFTA: How the Deal Was Done*, Cornell University Press, Ithaca, 2000, p. 38.

<sup>14</sup> For example Greenpeace was strongly anti-NAFTA, but World Wildlife Fund supported it, Foreign Policy Implications of NAFTA and Legislative Requirements for the Side Agreements, Hearing Before the Committee on Foreign Relations, United States Senate, 103<sup>rd</sup> Congress, First Session, Oct. 27 1993, U.S. Government Printing Office, Washington, 1994.

<sup>15</sup> Perot, R., Choate, P.: *Save Your Job, Save Our Country: Why NAFTA Must Be Stopped – Now!*, Hyperion, Westport, 1993.

<sup>16</sup> Mayer, F. W.: *Interpreting NAFTA: The Science and Art of Political Analysis*, Columbia University Press, New York, 1998, p. 318.

position, as well as stipulation by Mexico to agree to high standards of enforcement of intellectual property rights (vast majority of these rights is owned by U.S. companies). The immigration issue was supposed to be kept within reasonable limits, since direct link between Mexican real wage and number of immigrants has been established.<sup>17</sup> On global level, the agreement with Mexico was to demonstrate to the world that the U.S. is ready to pursue the neoliberal agenda wherever possible, even if the Japanese and Europeans are not ready to free trade on multilateral level in WTO.

### 3.3 Institutional approach

Significant economic ties have already existed even before NAFTA. However, there was strong pressure on the U.S. side to institutionalize these ties. For big U.S. companies, operating in a system institutionalized in their favor is a preferred option, because it reduces unwanted insecurity in the business environment. In case of Mexico this has been especially important, since the future of the political system was highly uncertain. Given the nationalization of oil-industry by Cárdenas in 1938 and of banks by López Portillo in 1978, U.S. investors did not have much guarantee that their investments are secure in Mexico. NAFTA institutionalized the investment rules, which served as an important incentive for further U.S. investment.

### 3.4 Symbolic approach

When viewed symbolically, the U.S. entry into NAFTA stood for the embodiment of neoliberal principles of the so-called “Washington consensus”<sup>18</sup> the U.S. was trying to promote all around the world. Similarly, the U.S. government had the opportunity to make its favorite developmental approach “trade not aid” work.<sup>19</sup> Moreover, the friendly,<sup>20</sup>

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<sup>17</sup> Orrenius, P. M.: “Illegal Immigration and Enforcement along U.S. Mexico Border: An Overview,” *Economic and Financial Review*, First Quarter 2001, available online at, <http://www.dallasfed.org/htm/pubs/pdfs/efr/efr0101a.pdf>, p. 8, 18. 3. 2003.

<sup>18</sup> This terms refers to the Williamson's perception of broad agreement among public officials in both the industrial economies and international institutions on the importance of the neoliberal program for economic development and its emphasis on free markets, trade liberalization, and a greatly reduced role for the state in the economy. In Gilpin, R.: “The State and Economic Development”, in: *Global Political Economy: Understanding the International Economic Order*, pp. 305–340, Princeton University Press, Princeton, 2001, p. 314.

<sup>19</sup> U.S. lacks far behind EU in providing direct foreign aid, a source of criticism by some NGOs.

<sup>20</sup> For example, Carlos Salinas was the first Mexican President to speak to American audience in New York officially in English.

market-oriented and cooperative stance of the Mexican government would serve as a model for the new relations of the U.S. in the global international system. The fact that it was Mexico's government who initiated the free-trade talks was of symbolic importance as well, because the U.S., the proclaimed worldwide champion of free trade, did not want to be seen as letting Mexico down on this issue.

### 3.5 Critical neo-Marxist approach

Not surprisingly, the critics viewed NAFTA as a vehicle for U.S. multinational corporations, which wanted to increase their profit margins. This was to be done first by making use of lax enforcement of environmental and labor standards in Mexico, which lowers production costs at the expense of worker rights and environmental protection. Second, NAFTA opened the door for large-scale relocation of labor-intensive U.S. factories to Mexico, where labor is much cheaper – see Table 3. This meant higher unemployment for low-skilled U.S. workers, as well as the weakening of bargaining power of trade unions. The adjustment costs of entering into NAFTA were to be paid mainly by U.S. workers.

Table 3: *Hourly Compensation Costs in Selected Countries, 1975–2000 (in U.S. Dollars, compensation for production workers in manufacturing, compensation includes all direct pay, paid benefits, and for some countries, labor taxes)*

Country	1975	1985	1990	2000
United States	6.36	13.01	14.91	19.86
Mexico	1.47	1.59	1.58	2.46
Canada	5.96	10.95	15.95	16.16
Portugal	1.58	1.53	3.77	4.75
Spain	2.53	4.66	11.38	10.85
Greece	1.69	3.66	6.76	–

Country	1975	1985	1990	2000
France	4.52	7.52	15.49	16.38
Great Britain	3.37	6.27	12.70	15.88
Ireland	3.03	5.92	11.66	12.50
Germany*	6.31	9.53	21.88	22.99

\* the data for Germany are for West Germany in 1975, 1985 and 1990 and for unified Germany in 2000

Source: *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 145

#### 4 What type of integration was chosen?

Another important question when looking at this asymmetric integration is what type of integration was in the end chosen by the contracting parties. I will take the theoretical framework describing possible integration motives offered by Appendini<sup>21</sup> as a point of departure.

Federalism, defined as integration driven by political ideas and ambitions and community building efforts, can be ruled out in the North-American case. Not even in the preamble, which is the most general formal description of the motives behind NAFTA, any traces of federalism are difficult to find. The formal institutions set up by NAFTA are weak and neither of the governments wished to build a political community in North America, because given the asymmetries of power, any such community would be dominated by the U.S.<sup>22</sup>

Functionalism, defined by Appendini as stemming from logic of macro-social development, which leads to integration via the need for cooperation

<sup>21</sup> Appendini, K., Bislev S. (eds.): *Economic Integration in NAFTA and the EU: Deficient Institutionalality*, Macmillan Press, London, 1999, p. 6.

<sup>22</sup> Valtonen, P.: "The Challenge of Regionalism: Unbalanced Integration in the Americas", in: Appendini, K., Bislev S. (eds.): *Economic Integration in NAFTA and the EU: Deficient Institutionalality*, pp. 178–193, Macmillan Press, London, 1999.

in the performance of public functions,<sup>23</sup> is not quite applicable in the case of NAFTA. Such functionalist cooperation exists in some of the border cities, where for example U.S. fire engines often help to fight fires on the Mexican side of the border. The NAFTA agreement is not concerned with these issues. Some of the functionalistic logic can be seen in the side-agreement concerning environmental protection, which acknowledges the environmental problems created at the U.S.-Mexico border and sets up a mutual fund to deal with these issues. However, as environmental groups claim, there is not enough money in the fund and its operations are deemed ineffective.

The explanations of neo-functionalism bring the issue of elite formation, socialization and integration to the picture. Although the functional needs might not have been a decisive factor in North-American integration, the fact that elites of U.S. and Mexico were educated on the same universities definitely played some substantial role in the integration process.

Transactionalism claiming that increase in international contacts are the source of integration as more people can develop more positive feelings toward other people is not applicable in U.S.-Mexican case, given the long history of mutual suspicion even when cooperation was on a relatively high level. However, if the definition of transactionalism was altered in the sense that increased international business contacts foment the need for institutionalization of such contacts, this would be applicable in the case of NAFTA. The U.S.-Mexican economic cooperation did not begin with NAFTA, NAFTA only supported this cooperation and put it within a stable framework.

Of all the theoretical approaches to integration, intergovernmentalism with its emphasis on rational, interest-based bargaining between governments seems to be the closest to the reality of NAFTA negotiations. NAFTA was in this sense a mutually advantageous treaty in which multiple interests had their inputs. Vast majority of the one thousand pages of the agreement is dedicated to the detailed technical provisions affecting various industries, suggesting intensive lobbying on the part of interested industrialists.<sup>24</sup> The last-minute change of the citrus chapter to protect

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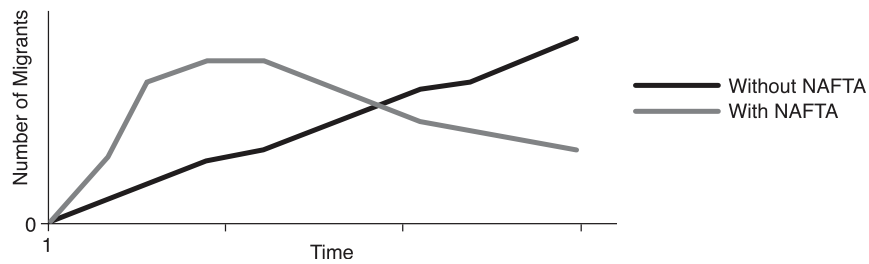
<sup>23</sup> Appendini, K., Bislev S. (eds.): *Economic Integration in NAFTA and the EU: Deficient Institutionalization*, Macmillan Press, London, 1999, p. 7.

<sup>24</sup> "There is no such thing as free trade." U.S. Trade Representative Mickey Kantor, quoted in Cameron, M. A., Tomlin, B. W.: *The Making of NAFTA: How the Deal Was Done*, Cornell University Press, Ithaca, 2000, p. 38.



Florida's producers in order to get the necessary votes for NAFTA in U.S. Congress seem to support this interpretation, too.

Graph 1: *Hypothetical migration with and without NAFTA*



Source: Lange, J.: *Die politische Ökonomie des Nordamerikanischen Freihandelsabkommens NAFTA: Erwartete wirtschaftliche Auswirkungen, Interessengruppen und der handelspolitische Entscheidungsprozeß*, IKO – Verlag für Interkulturelle Kommunikation, Frankfurt am Main, 1998, p. 68

It can be argued that concerns of the industrialists and political realities were the principal driving forces behind NAFTA. This had profound implications for the final shape of the agreement. Many of the constraints for the final text of the Agreement came from the approvability in the U.S. Congress – this was the principal reason why supranational regulative bodies, which could infringe upon national sovereignty were not present. Also, the side agreements on environmental protection and labor standards were insisted upon by U.S. Democrats to ensure the approval of NAFTA as a whole. For the sake of political feasibility the issue of immigration is not mentioned in the agreement at all, although immigration is the dominant issue on the U.S.-Mexican border, having important economic and social consequences in both countries. In the debates concerning NAFTA it was argued that in the long run Mexican immigration will be decreased thanks to positive developments in Mexico (see Graph 1). To what extent this was just another attempt to promote the agreement in U.S. Congress remains to be seen, so far immigration from Mexico is still rising. The smuggling of illegal drugs and the fight against it similarly did not get any mention in the Agreement either, although this issue plays major role in the U.S.-Mexican relations, too.

On the Mexican side there were some political constraints on the scope and type of integration processes, too. The environmental and labor standards side-agreements were not welcome by the Mexicans and they wanted them to be as weak as possible. The reason for this was that environmental and labor standards are often used by U.S. protectionists to promote their agenda, as the dispute with Mexican fishermen catching tuna with dolphin-unfriendly nets showed.<sup>25</sup> Labor and environmental standards also tend to make the price of labor higher, thereby diminishing the comparative advantage Mexico has in this field.

Mexicans tried to keep their natural reserves of oil in national hands, mostly because this topic is very sensitive in domestic politics, where fears of domination by foreigners are easily to be exploited by nationalists. As a result only a few concessions were granted to foreign companies in this field.

## 5 Effects of asymmetric integration in Mexico

*“Quien dice unión económica, dice unión política. El influjo excesivo de un país en el comercio de otro se convierte en influjo político.”<sup>26</sup>*

José Martí

NAFTA had a profound effect on Mexico in many different areas. Unfortunately, it is difficult to differentiate between changes that took place because of NAFTA and changes which would take place even without NAFTA as part of the modernization process independent on NAFTA. This caveat should be had in mind particularly when discussing the domestic situation in Mexico.

### 5.1 International position of Mexico after entry into NAFTA

Internationally speaking, the NAFTA membership provided Mexico with a symbolic aura of successful economic transformation and as the

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<sup>25</sup> Gilpin, R.: *Global Political Economy: Understanding the International Economic Order*, Princeton University Press, Princeton, 2001, p. 218.

<sup>26</sup> Who speaks about economic union, speaks about political union. Excessive influence of one country in the commerce of another converts into political influence. (author's translation)

investment bonanza of the future. However, the peso crisis, which started with rapid devaluation of the peso and ended with deep economic recession soon bereft Mexico of this shining image. The connection between NAFTA and the peso crisis is often disputed, majority of the writers claiming that domestic mismanagement of the economy combined with conscious decision to postpone the devaluation of the peso after the presidential election were the principal causes.<sup>27</sup>

NAFTA is often cited as the main reason for rather quick economic recovery, which took place in Mexico after the crisis (see Graph 2). The volume of trade with U.S. and Canada kept increasing gradually and direct foreign investment was steadily coming to the country. In this sense NAFTA was definitely a success. Also, the new ties to the U.S. helped Mexico to get the massive credit guarantees from the U.S. government, which were needed to prevent Mexico's default on its foreign debt in 1995.<sup>28</sup> It should be noted, however, that that the historically much-cherished vision of independence from the U.S. was undermined, as shown by increasing role of American companies in national economy as well as influences of U.S. government on domestic policy in Mexico. A good example of this soft influence was the conduct of U.S. Ambassador James R. Jones at the beginning of Zedillo's administration: "James R. Jones presented the new government with a list of about 15 active and former Mexican officials whom the US suspected of corruption and hoped not to see in the new administration. None of those on the list joined the new government."<sup>29</sup>

An important, but not often mentioned effect of NAFTA was that Mexico became a stable and significant part of the world economy, for better or worse. Trade and investment flows do not leave Mexico out, on the contrary (see Tables 4, 5 and 6). Consequently, Mexico does not have the problem as some developing countries have, namely to become uninteresting and left out of the world trade. In such cases, national autonomy of the left-out states might be well preserved, but it poses serious hurdles to economic development.

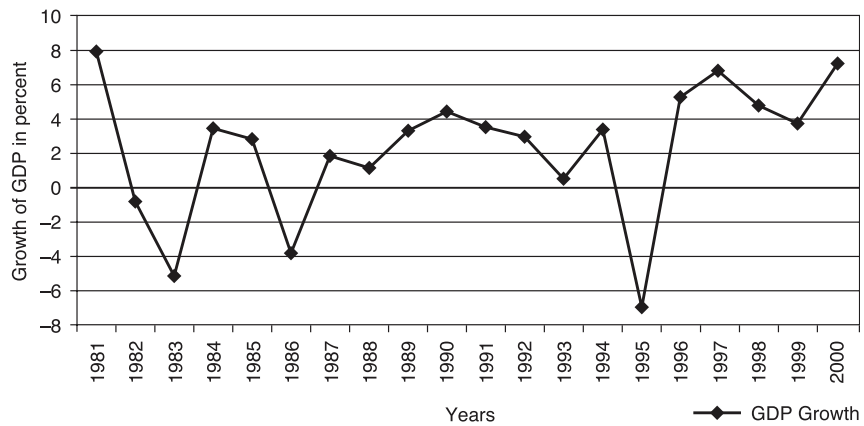
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<sup>27</sup> See for example Strange S.: *Mad Money: When Markets Outgrow Governments*, University of Michigan Press, Ann Arbor, 1998.

<sup>28</sup> Thurow, L. C.: *The Future of Capitalism*, Penguin Books, New York, 1996, p. 226.

<sup>29</sup> Golden, T: "To Help Keep Mexico Stable, U.S. Soft-pedaled Drug War", *The New York Times*, July 31, 1995, A1.

Graph 2: *Growth of GDP per capita in Mexico under NAFTA*



Source: [www.latinbusinesschronicle.com/statistics/gpd/mexico.htm](http://www.latinbusinesschronicle.com/statistics/gpd/mexico.htm), 24. 3. 2003

Table 4: *U.S. Direct Investment Abroad (selected countries, millions of dollars)*

Country	1990	1999	2000
Mexico	9,398	32,262	35,414
Canada	67,033	111,051	126,421
Brazil	14,918	34,276	35,560
United Kingdom	68,224	212,007	233,384
France	18,874	40,009	39,087
Germany	27,259	50,892	53,610
Netherlands	22,658	105,571	115,506
Panama	7,409	33,027	35,407

Country	1990	1999	2000
Japan	20,997	49,438	55,606
Eastern Europe*	NA	9,581	11,009

\* Eastern Europe includes here Albania, Armenia, Azerbaijan, Belarus, Bulgaria, Czech Republic, Estonia, Georgia, Hungary, Kazakhstan, Latvia, Lithuania, Moldova, Poland, Romania, Russia, Slovakia, Tajikistan, Turkmenistan, Ukraine and Uzbekistan.

Source: Office of Trade and Economic Analysis, U.S. Dept. of Commerce, quoted in *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 223

Table 5: *U.S. Trade with Mexico (millions of dollars)*

Year	Exports to Mexico	Imports from Mexico	Trade Balance
1992	40,592	35,211	5,381
1993	41,581	39,917	1,664
1994	50,844	49,494	1,350
1995	46,292	61,685	-15,393
1996	56,792	74,297	-17,506
1997	71,388	85,938	-14,549
1998	78,773	94,629	-15,857
1999	86,909	109,721	-22,812
2000	111,349	135,926	-24,577

Source: Office of Trade and Economic Analysis, U.S. Dept. of Commerce, quoted in *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 221

Table 6: *Merchandise Exports, 1990–1996 (billions of dollars)*

Destination:	USA		Canada		Mexico		NAFTA		RoW <sup>30</sup>		World	
	1990	1996	1990	1996	1990	1996	1990	1996	1990	1996	1990	1996
Origin:												
USA	X	X	83.0	132.6	28.3	56.8	111.3	189.3	281.6	433.4	392.9	622.8
Canada	95.2	164.6	X	X	0.5	0.9	95.7	165.5	31.2	36.1	126.9	201.6
Mexico	32.3	80.5	0.2	2.2	X	X	32.6	82.7	7.6	13.3	40.2	96.0
NAFTA	127.6	245.1	83.2	134.8	28.9	57.6	239.6	437.5	320.4	482.8	560.0	920.4

Source: WTO (1997), quoted in FitzGerald, E. V. K.: „Trade, Investment and NAFTA: The Economics of Neighbourhood“, in: Bulmer-Thomas, V., Dunkerley, J. (eds.): *The United States and Latin America: The New Agenda*, pp. 91–123, Harvard University Press, Cambridge, 1999, p. 118

## 5.2 Immigration

The limits of cooperation under NAFTA and the asymmetric power relations within it have demonstrated themselves in the topic of Mexican migration to the U.S. It has been a long-term objective of recent Mexican governments to ease the conditions of the emigrants. One reason is that the status of illegal aliens in the U.S. makes them vulnerable to various types of exploitation. The massive and dangerous smuggling of illegal workers across the increasingly fortified border claims several hundred lives of the migrants per year. Another reason is that remittances from emigrants are the third largest source of foreign revenue (see Tables 7 and 8).

Since many of the migrants are only temporary workers who fill positions that U.S. workers are not prepared to take, an agreement on migration was deemed reasonable by both academics and most local politicians.<sup>31</sup> Vicente Fox raised this issue shortly after his inauguration in the year 2000 and thanks to his cordial relationship with George W. Bush

<sup>30</sup> Rest of the World, i.e. World Total without NAFTA.

<sup>31</sup> Orrenius, P. M.: „Illegal Immigration and Enforcement along U.S. Mexico Border: An Overview,” *Economic and Financial Review*, First Quarter 2001, available online at <http://www.dallasfed.org/htm/pubs/pdfs/efr/efr0101a.pdf>, p. 9, 18. 3. 2003.

the situation looked optimistic in this respect. Jorge Castañeda, a leading Latin American intellectual and Fox's minister of foreign affairs made the betterment of conditions for Mexican migrants one of his top priorities while in office.

Table 7: *Income from remittances related to selected sources of foreign currency, 1999*

Source of income	Millions of USD	Percentage (Remittances = 100%)
Remittances	5,910.0	100.0
Oil exports	6,580.7	111.34
Tourism	4,552.7	77.04
Direct foreign investment	8,424.9	142.55

Source: de Jesús Santiago Cruz, M.: "Importancia económica de la migración internacional en México: Análisis desde la perspectiva de las remesas", *Momento Económico*, núm. 114, marzo-abril de 2001, p. 44

Table 8: *Income from remittances related to income from export of agricultural products*

Year	INCOME FROM REMITTANCES (1)	INCOME FROM EXPORT OF AGRICULTURAL PRODUCTS (2)	Ratio 1:2
1980	877,305	1,527,909	0.57
1985	2,013,546	1,408,884	1.43
1990	3,992,342	2,162,442	1.85
1995	3,994,950	4,016,153	0.99
1999	5,910,000	2,390,486	2.47

Source: de Jesús Santiago Cruz, M.: "Importancia económica de la migración internacional en México: Análisis desde la perspectiva de las remesas", *Momento Económico*, núm. 114, marzo-abril de 2001, p. 45

However, the terrorist attacks on September 11 changed the priorities of the U.S. government drastically, and security concerns overrode any positive results from possible cooperation with Mexico. The unilateralism of the U.S. led the Mexican President Vicente Fox to reverse his positive attitude from the beginnings of his presidency, and on his trip to Europe he sought more European involvement and investment in Mexico to counterbalance the influence of the U.S.<sup>32</sup> Since then, the Mexican foreign policy, which tended to be rather pragmatic in the first NAFTA years, returned to its anti-American positions, be it in the Security Council or in the World Court, where Mexican government sued the U.S. government for attempted execution of its citizens in Texas.

### 5.3 Conclusions

Internationally we can see two major consequences of unequal integration for Mexico – first it is the symbolical incorporation into the world economic system, providing higher levels of trade and investment flows and heightening the international prestige of the country (which was subsequently shattered by the peso crisis). Second, when the vital interests of the stronger partner (i.e. the U.S.) were vitally threatened (or perceived as such), the cooperative spirit *vis-à-vis* its weaker and unnecessary partner dwindled overnight, although the economic ties remained strong.

## 6 Domestic situation in Mexico after NAFTA

*“I don’t know how American farmers can sell corn to this country at such low prices. I have heard that their government gives them money. What I know is that we cannot compete with their prices. Imports are killing our markets and our communities.”*

Hector Chavéz, smallholder farmer, Chiapas

### 6.1 Democratization and stabilization

Supporters of NAFTA would claim that the provisions of the agreement provided Mexico with a vision of the future, which helped the country to

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<sup>32</sup> Vicente Fox’s speech at Humboldt-Universität Berlin, 30. 11. 2002, archives of the author.



get through the difficult period of political transformation without sliding back to nationalistic populism, or renewed authoritarianism. The political transformation was capped by election of Vicente Fox Quesada of PAN (*Partido de Acción Nacional*) President in 2000, who defeated the official PRI candidate Fernando Labastida in the general election held that year. Fox, the former chief executive officer of Coca-Cola Mexico, was the first non-PRI President in sixty years. NAFTA provided the Mexican political scene with a clear scenario of possible development that proved essential for peaceful democratization project.

However, opponents of NAFTA see its effects on Mexican politics in less benign terms. NAFTA sanctioned and perpetuated income and distribution inequalities that the democratization process could have possibly ameliorated. Moreover, the NAFTA put important areas of economic decision-making out of popular control altogether, creating “limited democracy”<sup>33</sup> in the process.

## 6.2 High adjustment costs

*“Welcome to the nightmare!”*  
Subcommandante Marcos

NAFTA was not very generous concerning adjustment costs.<sup>34</sup> The flood of cheaper agricultural products from the U.S hit especially already marginalized groups like rural Indians in southern Mexico hard. This is not to say that the whole concept of free trade is wrong per se, for example urban population in Mexico benefited from this development because it gained access to cheaper products.<sup>35</sup> However, without adjustment mechanisms particular segments of population are greatly disadvantaged by the free trade agreement.

The case of agriculture is often mentioned in this respect. The trade statistics (see Table 9) show the vast disproportion in the production of

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<sup>33</sup> Cox, R. W.: “Global Perestroika”, in: Crane, G. T., Amawi, A. (eds.): *The Theoretical Evolution of International Political Economy: A Reader*, pp. 158–172, Oxford University Press, New York, 2001.

<sup>34</sup> Drache, D.: “Triple ‘A’ Trade: Asymmetry, Access and Adjustment: The Inflexible Limits of Trade Blocs”, in: Georgakopoulos, T., Paraskevopoulos, C. C. and Smithin, J. (eds.): *Economic Integration between Unequal Partners*, pp. 170–186, Edward Elger Publishing, Aldershot, 1994.

<sup>35</sup> The folly of blaming free trade indiscriminately is exposed in Oxfam: *Rigged Rules and Double Standards: Trade, Globalization, and the Fight Against Poverty*, Oxfam, London, 2002, p. 61.

basic foodstuffs. In fact, U.S. exports almost three times the yearly production of Mexico in corn worldwide. What the trade statistics do not tell us is the fact that many of the poorest rural Mexicans are dependent on the production of corn, which is also a basic means of subsistence (tortillas are made of corn flour and water). This was also the reason why the production of corn was subsidized and the whole market regulated by the state. Under NAFTA, this is no longer possible, and the changes brought with the influx of cheaper U.S. corn are seriously damaging the rural communities.

Table 9: *Agricultural Production 2000 (thousands metric tonnes)*

Country	Corn	Rice	Wheat	Corn Exports 1997	Corn Exports 1999
United States	253,208	8,669	60,512	41,792	51,975
Mexico	18,761	450	3,300	-2,519	-5,546

Source: *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 137

In a situation, where the social safety net is nonexistent or very thin at best, this could lead as far as armed rebellion, as was the cause in Chiapas, where the rebellion started on January 1, 1994, symbolically the first day of NAFTA in effect. NAFTA became a scapegoat for the long-term ills of the population, as is forcefully argued in Rich's "NAFTA and Chiapas".<sup>36</sup> The ultimate proof would be that if the rebellion started two month earlier, it is pretty certain that this would seal the fate of the agreement in U.S. Congress. Inability to cope with adjustment costs in Mexico goes so far as suggesting renegotiation of some agricultural chapters in NAFTA,<sup>37</sup> a topic highly topical in Mexican politics with next round of tariff reductions scheduled after 10 years of agreement in effect, in 2004 (see Table 10).

<sup>36</sup> Rich, P.: "NAFTA and Chiapas", in: Rich, P., de los Reyes, G. (eds.): *NAFTA revisited: Expectation and Realities*, The Annals of The American Academy of Political and Social Science, Vol. 550, March 1997, pp. 158-175.

<sup>37</sup> Garcia-Barrios, R.: "Free Trade and Local Institutions: The Case of Mexican Peasants", in: Appendini, K., Bislev S. (eds.): *Economic Integration in NAFTA and the EU: Deficient Institutionalization*, pp. 34-51, Macmillan Press, London, 1999.

Table 10: *NAFTA: Schedule of Tariff Reductions*

<b>Imports / Date of tariff elimination</b>	<b>US Imports from Mexico</b> (% of total value of imported goods from Mexico)	<b>Mexican Imports</b> (% of total value of imported goods from USA)
A. Effective on Date of Agreement	53.8	31.0
B. 5 Years After	8.5	17.4
C. 10 Years After	23.1	31.8
C. + 15 Years After	0.7	1.4
D. Duty Free Before Agreement	13.9	17.9

Source: Gruben, W. C., Welch, J.: "Is NAFTA More Than a Free Trade Agreement? A view from the United States," in: Bulmer-Thomas, V., Craske, N. and Serrano, M. (eds.): *Mexico and the North American Free Trade Agreement: Who Will Benefit?*, pp. 177–198, Macmillan Press, Houndmills, 1994, p. 184

### 6.3 Polarization of the country

One of the significant effects NAFTA had on Mexico was the polarization of the country. In the territorial sense it exacerbated the division between North and South. Northern Mexico is getting more and more connected to the richer U.S. economy, it is the target of most of U.S. investment, creating jobs and infrastructure. Inner migration in Mexico contributes to the divisions. Unofficial capital of Northern Mexico, Monterrey, is becoming more and more westernized, with shopping malls on the outskirts, billboards of Eva Herzigova in Wonder Bra,<sup>38</sup> and the standard of living rising overall. President Fox comes from Baja California, a Northern state as well, and his party has its strongholds in the North.

<sup>38</sup> The pictures of the Czech model have in fact created a heated controversy about morals and public spaces. Preston, J.: "How Brazen Can You Get? In Mexico, Not Quite As Far As This", *The New York Times*, July 31, 1996, A4.

Table 11 shows the population increase in the border region. Not only migrating Mexicans are responsible for the changes, Americans share the tendency to move and exploit the opportunities of the trans-border economy, albeit to a lesser degree.

Table 11: *Population in Border Cities (in thousands)*

<b>U.S. Border City</b>	<b>1980</b>	<b>1990</b>	<b>Mexico Border City</b>	<b>1980</b>	<b>1990</b>	<b>2000</b>
San Diego, CA	1,876	2,513	Tijuana	461	747	1,150
Imperial, CA	93	111	Mexicali	511	602	601
El Paso, TX	484	596	Ciudad Juarez	567	799	1,107
Laredo, TX	101	135	Nuevo Laredo	203	220	307
McAllen, TX	287	387	Reynosa	211	283	360
Brownsville, TX	212	262	Matamoros	239	303	363

Sources: U.S. BEA, Regional Economic Information System; Mexico Censo de Poblacion, quoted in Hanson, G. H.: *U.S. – Mexico Integration and Regional Economies: Evidence from Border City Pairs*, National Bureau of Economic Research, Cambridge, 1996, p. 23

Southern Mexico (except for Mexico City, which is a case sui generis in this respect) does not share the fruits of increased trade and investment with the U.S. and its mostly rural population is on the losing side in the free trade arrangement. This imbalance causes migration flows within Mexico, with young peasants moving first to factories in the North, and subsequently, if possibility arises, further north to the U.S. The South became a stronghold for the traditional post-Salinas PRI, which partially returned to its leftist rhetoric. Thus, the division of the country has political ramifications as well.

Second polarization taking place under NAFTA is the widening gap between the rich and the poor. The neoliberal ideology does not have equalization of income levels on the agenda, the dismantling of the state

in favor of the market is much more important. In the Mexican case the state was the provider of public welfare, and although great inequalities existed, the socialistic rhetoric of the PRI provided some check on these developments. Under NAFTA, the redistributive capacities of the state are largely undermined and some of the governmental programs had to be abolished, because they constituted a breach of the free trade requirements.<sup>39</sup>

Under the neoliberal doctrine, the only solution to the problem of rising inequality is the so-called “trickle-down” effect, under which the wealth accumulated by the rich is supposed to benefit the lower strata of the society by providing employment opportunities and improved public services due to increased tax revenues. However, the supposed results of the “trickle-down” economy did not materialize in Mexico. Lax tax enforcement and large money transfers to foreign banks by Mexico’s wealthy citizens<sup>40</sup> undermined this model of income equalization.

#### **6.4 NAFTA as developmental model**

Mexican experience under NAFTA has been used as a neoliberal (i.e. extremely market-oriented) version of developmental politics. After nine years of the agreement in effect, we can see mixed results (for GDP growth, see Table 12). One of the main features of the development was the decline of the Mexican state as the principal actor in Mexican society and economy. Huge privatization program was underway in the 1990’s and today only a fraction of state enterprises remained. Some writers argue that effective state policies are needed in developing economies and that the market forces themselves are not able to provide a suitable developmental program.<sup>41</sup>

Consistent with this claim are the data which show how only small value is added to the products made in Mexico. High-level trading statistics conceal the most common trading pattern in Mexico (see Graph 1).

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<sup>39</sup> Motamen-Samadian, S., Ortiz Cruz, E.: “Successful Integration and Economic Distress: The New Dual Economy – The Case of Mexico in NAFTA”, in: Appendini, K., Bislev S. (eds.): *Economic Integration in NAFTA and the EU: Deficient Institutionalities*, pp. 209–227, Macmillan Press, London, 1999.

<sup>40</sup> The case of Raúl Salinas, brother of ex-President Carlos Salinas, was widely publicised, especially because his alleged good connection with organized crime.

<sup>41</sup> Rodrik, D.: *Has Globalization Gone Too Far?*, Institute for International Economics, Washington, 1997.

Majority of the trade is intra-firm and consists of high value parts imported to Mexico, where only little value is added when assembling these parts, which are then re-exported as high-value finished products.<sup>42</sup> Such patterns of trade do not create any demand for skilled or educated population, which would consequently get higher wages that would increase the standard of living in Mexico. Furthermore, market forces are not well suited to deal with the situation of marginalized groups, whose situation in Mexico only worsened after the entry into NAFTA.

Table 12: *GDP growth per capita in Mexico under NAFTA*

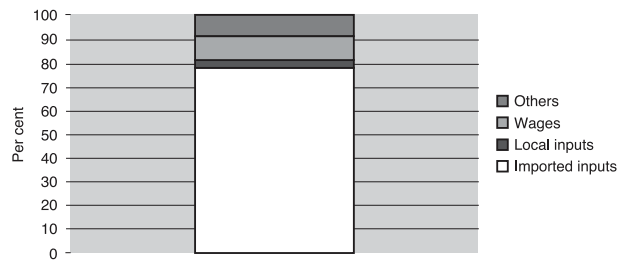
year	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003*
GDP growth	3.7	1.8	4.4	-6.1	5.4	6.8	5.1	3.7	6.9	-0.3	1.7	4.9

\* estimates

Source: [www.latinbusinesschronicle.com/statistics/gdp/mexico.htm](http://www.latinbusinesschronicle.com/statistics/gdp/mexico.htm), 18. 3. 2003

Dependence on the U.S. economy can be demonstrated by the Mexican recession in 2001, which followed the recession and contraction of the U.S. market. Mexican trade is not diversified, thus Mexico cannot really avoid following U.S. economic misfortunes. This data also suggest the possible huge losses in case of hypothetical severing of ties between the two economies.

Graph 3: *Final value from Mexican maquiladora exports*



Source: Oxfam: *Rigged Rules and Double Standards: Trade, Globalization, and the Fight Against Poverty*, Oxfam, London, 2000, p. 136

<sup>42</sup> Oxfam: *Rigged Rules and Double Standards: Trade, Globalization, and the Fight Against Poverty*, Oxfam, London, 2002, p. 41.

## 6.5 Illegal drugs

One of the side effects of NAFTA has been a rapid increase of smuggling of illegal drugs into U.S. via Mexico, since with increased levels of trade it has become easier to hide the illegal goods among the legal ones. This had negative consequences in Mexico, as thanks to the enormous money flows coming from drug trade, corruption of Mexican officials rose to unprecedented levels.<sup>43</sup> After it was widely established that majority of Mexican policemen are on the payroll of the drug lords, the U.S. administration pushed for Mexican military to step in and lead the fight against drugs. This was not the brightest idea, since it did not take long and even some of the army generals got on the payroll of narcobosses, creating a situation potentially more dangerous than if only the police force were corrupt. Political assassinations of presidential candidate of the PRI Donaldo Colosio and secretary general José Ruiz Massieu in 1994 are widely believed to have some connection with illicit drugs and show how potentially destabilizing the effects of drug trade are for Mexico.

## 7 Effects of asymmetric integration in the United States

*“We can – and we must – use America’s leadership to harness global forces of integration, reshape existing security, economic and political structures, and build new ones that help create the conditions necessary for our interests and values to thrive.”*

Bill Clinton, National Security Report to Congress, 1997

The effects of NAFTA on the U.S. have not been that far-reaching as on Mexico, yet some lessons were learned about the position of the stronger partner in asymmetric integration.

### 7.1 Influence and responsibilities

In the long run, probably the most important benefit the U.S. got out of NAFTA is its increased role in Mexican affairs, both economic and political. Mexico’s traditionally closed economy has been successfully penetrated and

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<sup>43</sup> Allegedly even the family of President Salinas, the chairman of Banco Nacional de México and top-level army generals, <http://www.narconews.com/pressday2000.html>, 18. 3. 2003.

the mutual relationship has got new foundations, allowing for much more influence of the United States. This is no meager accomplishment, given the troubled relationship in the past. However, there was a price to pay for this influence.

By increased integration with Mexico, the U.S. assumed more responsibility for the development south of its borders.<sup>44</sup> This was demonstrated for example by the conduct of the U.S. government during the Mexican peso crisis in 1995. Bill Clinton invested considerable political capital into the passage of NAFTA through U.S. Congress and the financial trouble in Mexico could undermine the whole agreement. Therefore, 30 billion USD bailout package was issued to help Mexico get over the crisis.<sup>45</sup> U.S. has now much higher stakes in Mexico's democratic political system as well as human rights record, since any bad news coming from Mexico is potentially embarrassing for its partner in the NAFTA and casts doubt on the viability of the market-led neoliberal asymmetric integration as a model *per se*.

The U.S. was able to exploit its role as the stronger party in the North-American partnership, and therefore was able to control the level of further cooperation unilaterally. Instead of any sensible anti-drug and migration policy, the U.S. chose to fortify the border in highly publicized operations, using hi-tech military equipment and erecting traditional fences and walls reminiscent of the Cold War. Reasonable cooperation with Mexico on these matters does not really occur, mainly because overriding security concerns in Washington prevent constructive dialogue.<sup>46</sup> Even in trade dispute settlement, the prime domain of NAFTA, the U.S. has found ways to circumvent NAFTA regulations by using domestic procedures, to the great dismay of both Canadian and Mexican businesses, albeit such cases are not frequent.<sup>47</sup> After September 11, this trend was only deepened and demonstrated the power relations and limits to further integration.<sup>48</sup>

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<sup>44</sup> Much like Saint-Exupéry's maxim concerning Little Prince and his rose.

<sup>45</sup> It is necessary to emphasize that these were no gifts but mere credit guarantees to stabilize the currency, Mexican government later repaid all these credits.

<sup>46</sup> Drache, D.: "Trade Blocs: The Beauty or the Beast in the Theory?", Stubbs, R. and Underhill, G. D. (eds.): *Political Economy and the Changing Global Order*, pp. 184–197, 2nd edition, Oxford University Press, Oxford, 2000.

<sup>47</sup> Bendesky, L.: "Mexico: From Euphoria to Sacrifice", in: Dallmeyer, D. G. (ed.): *Joining Together, Standing Apart: National Identities after NAFTA*, pp. 63–73, Kluwer Law International, Hague, 1997.

<sup>48</sup> This frustrated Mexican foreign minister Jorge Castañeda and contributed to his resignation. "Castañeda, de canciller a activista por el cambio", *El País de domingo*, 26 enero 2003.



## 7.2 Unemployment and competitive edge

One of the principle fears in the U.S. was that due to integration with Mexico, where cheap labor was so abundant, companies would relocate their manufacturing activities to Mexico, causing higher unemployment and downward pressure on wages in the U.S. manufacturing sector. This main argument of the opponents of NAFTA was proven wrong at least in the unemployment data (see Table 13). Although some controversies about the net loss or gain of jobs caused by NAFTA remain, overall low unemployment ratings suggest that the effect of NAFTA on unemployment has been marginal at best.

Table 13: *Unemployment in the U.S., 1987–2000 (in percent, civilian, labor force, persons 16 years of age and older, annual averages)*

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Unemp.	6.2	5.5	5.3	5.6	6.8	7.5	6.9	6.1	5.6	5.4	4.9	4.5	4.2	4.0

Source: *World Almanac and Book of Facts 2002*, World Almanac Books, New York, 2002, p. 140

However, the effect of NAFTA on the downward pressure on wages, worsening quality of new jobs created and weakening of bargaining position of trade unions might have been rather significant, as some statistical data suggest (see Tables 14 and 15). Some authors speak of the “brazilianization” of labor market, meaning increasing divisions between highly paid specialized professionals and low-skilled workers. Long-term effects of this development are hard to assess, apart from growing distrust of the desirability of the neoliberal model among the people hit by it.

Table 14: *Manufacturing Productivity and Wages in NAFTA*

<b>Productivity</b> (value added per worker, in thousands dollars year)	1980	1985	1990	1995
USA	40.1	57.2	75.5	98.2
Mexico	17.8	20.0	19.3	33.4
Canada	32.2	42.0	60.0	68.6

<b>Average Wage</b> (including supplements, US\$'000 per year)	1980	1985	1990	1995
USA	20.4	27.9	33.6	31.8
Mexico	5.8	4.2	3.9	5.1
Canada	15.3	19.2	27.5	28.0

Source: FitzGerald, E. V. K.: "Trade, Investment and NAFTA: The Economics of Neighbourhood", in: Bulmer-Thomas, V., Dunkerley, J. (eds.): *The United States and Latin America: The New Agenda*, pp. 91–123, Harvard University Press, Cambridge, 1999, p. 119

Table 15: *Wage as percentage of productivity*<sup>49</sup>

	1980	1985	1990	1995
USA	50.9	48.7	44.5	32.4
Mexico	32.5	21.0	20.2	15.2
Canada	47.5	45.7	45.8	40.8

Source: my calculations from Table 7

The plight of the workers on one hand is counterbalanced by the satisfaction of the U.S. business community, which was able to increase its competitive advantage *vis-à-vis* Japan and EU by reducing production costs when manufacturing in Mexico. Furthermore, the emerging Mexican market is bound to be dominated by U.S. companies and products and less so by their foreign competitors.<sup>50</sup>

### 7.3 Immigration and transformation of the U.S. Southwest

Despite vigorous border-enforcement efforts, market-oriented reforms of which NAFTA was an important part caused significant increases in

<sup>49</sup> This table shows how many percent of the produced value goes back to the worker as his wage.

<sup>50</sup> "I would like to invoke the late George Orwell and begin by asserting that the widespread usage of the term *free trade agreements* (FTAs) to describe what are really preferential trade agreements (PTAs) is nothing but Orwellian newspeak." Bhagwati, J.: *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy*, The MIT Press, Cambridge, 1998, p. 289.

migration<sup>51</sup> from Mexico to U.S. Causes of this flow are many, the dramatic wage difference being quoted most often<sup>52</sup> (see Tables 3 and 9). However, it would be simplistic to see this factor as decisive – as Table 16 shows, historically, immigration from Mexico was relatively limited even if the wage differences stayed the same and border enforcement was not that strict. Traditional demand for Mexican labor by U.S. employers dating back to the Bracero program during World War II<sup>53</sup> combined with practically no enforcement against U.S. employers employing illegal migrants contributes greatly to the migration phenomenon.<sup>54</sup>

Table 16: *Immigration to United States from Mexico*

Years	All countries	Mexico	Mexico as % of All
1820–1860	5,062,414	17,776	0.35
1861–1900	14,061,192	10,237	0.07
1901–1920	14,532,297	268,646	1.85
1921–1930	4,107,209	459,287	11.18
1931–1940	528,431	23,319	4.22
1941–1950	1,035,039	60,589	5.85

<sup>51</sup> In U.S. literature the term “illegal migration” is commonly used, however I consider this term to be far from neutral, its negative discourse connotations preventing reasonable solution to the problem, so I prefer to use the term migration. Legal migration also exists, but is lower than illegal one.

<sup>52</sup> If poor Mexicans behaved like ideal *homini economici*, they would probably all be happily crowded in Californian prisons by now. Thurow, L. C.: *The Future of Capitalism*, Penguin Books, New York, 1996, p. 92.

<sup>53</sup> Suárez-Orozco, M. M.: “Latin American Immigration to the United States”, in: Bulmer-Thomas, V., Dunkerley, J. (eds.): *The United States and Latin America: The New Agenda*, pp. 227–247, Harvard University Press, Cambridge, 1999.

<sup>54</sup> The policy of government agencies can be summarized as “once you are in, you are in”. Orrenius, P. M.: *Illegal Immigration and Enforcement along U.S. Mexico Border: An Overview*, *Economic and Financial Review*, First Quarter 2001, available online at <http://www.dallasfed.org/htm/pubs/pdfs/efr/efr0101a.pdf>, 20. 3. 2003.

Years	All countries	Mexico	Mexico as % of All
1951–1960	2,515,479	299,811	11.92
1961–1970	3,321,677	453,937	13.66
1971–1980	4,493,314	640,294	14.25
1981–1990	7,338,062	1,655,843	22.56
1820–1990	56,994,014	3,888,729	6.82

Source: U.S. Department of Justice, Immigration and Naturalization Service, *Statistical Yearbook 1990* (Government Printing Office, Washington D.C., 1991), quoted in Pastor, R. A.: *Integration with Mexico: Options for U.S. Policy*, The Twentieth Century Fund Press, New York, 1993, p. 12

Last but not least, the lack of adjustment mechanisms under NAFTA and the general introduction of market principles had the side effect of pushing many young Mexicans on the road, first to Mexican cities, then to the cities on the North of Mexico and ultimately to the U.S. Southwest. Economically, this type of migration does not cause a problem for the U.S. economy, on the contrary. The issue is much more sensitive on political and cultural level in the non-Hispanic U.S. society, where anti-immigrant sentiments are easily invoked, as was shown for example in the referendum on Proposition 187 in California under conservative governor Pete Wilson in 1994. American pundits were appalled at the sight of Mexican flags waving at the mass pro-immigration demonstration in Los Angeles. The mariachi version of “Star-Spangled Banner” sung at this event only added to the feeling that traditional American values are threatened.<sup>55</sup>

Examples of tensions in the Southwest related to immigration are many, ranging from Los Angeles street riots to Texas volunteer-militias patrolling the border. These incidents did not cause that much alarm in

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<sup>55</sup> Gutierrez, D.: “Migration, Emergent Ethnicity, and the ‘Third Space’: The Shifting Politics of Nationalism in Greater Mexico”, available at <http://www.indiana.edu/~jah/mexico/dgutierrez.html>, 20. 3. 2003.

Washington, yet. However, the trend is continuing (by now the Hispanic community in the U.S. surpassed the Afroamerican one in population) and at some point it will pose a serious challenge<sup>56</sup> for the U.S. society, which might be forced to redefine some of its characteristics. Cultural impact has been significant as well, but thanks to the diverse structure of U.S. media market, the mainstream U.S. media has not changed dramatically.<sup>57</sup>

All this comes as an unintended consequence of the asymmetric integration, where it was originally supposed that with Mexico being modernized, the immigration to the U.S. would eventually decrease as more economic opportunities would be created at home. The inertia of the ties created by NAFTA means that the Latinization of the U.S. Southwest is extremely difficult to reverse even if the U.S. administration chose to do so. Some hope for the possibility smooth mutual coexistence might be seen in the converging of attitudes between Mexicans and Americans, as some empirical studies show (see Table 17).

Table 17: *Changing Attitudes Toward Authority at Work*

	USA		Canada		Mexico	
	1981	1990	1981	1990	1981	1990
Follow instructions	68	61	55	52	33	39
Use your own judgment	37	39	45	48	67	61

*Question:* People have different ideas about following instructions at work. Some say that one should follow the instructions of one's superiors, even when one does not fully agree with them; others say one should follow one's superior's instructions only when one is convinced that they are right. With which of those two opinions do you agree?

Source: 1981 and 1990 World Values Surveys, quoted in Nevitte, N., Basañez, M., Inglehart, R.: "Directions of Value Change in North America", in: Randall, S. J. (ed.): *North America Without Borders? Integrating Canada, the United States and Mexico*, pp. 245–261, University of Calgary Press, Calgary, 1992, p. 255

<sup>56</sup> In this respect meant as challenge to deal with, not necessarily challenge to fight.

<sup>57</sup> Silverman, S.: "Reflections on the Cultural Impact of a North American Free Trade Agreement", in: Randall, S. J. (ed.): *North America Without Borders? Integrating Canada, the United States and Mexico*, pp. 307–313, University of Calgary Press, Calgary, 1992.

## 8 Asymmetric integration – Conclusions

### 8.1 General observations

*“The division of labour among nations is that some specialise in winning and others in losing.”*

Eduardo Galeano

After exploring the North American integration in some detail and having in mind especially the Southern enlargement of the EC as another relevant example, some limited observations can be made concerning asymmetric integration in general.

First, we can see what the motives of the weaker countries are when they pursue the integrative path with stronger partners. They are driven by the vision and hope that the integration would bring them up on the same level as the stronger countries. The stronger countries see in the integration process an opportunity to enhance their sphere of influence and widen the zone of stability where they can exercise some degree of control. Seen from this angle, the Machiavellistic and selfish motivations of the states definitely play an important role.

The fact that states continue to play an important role in this process can be demonstrated by their readiness to act unilaterally if they feel their vital interests are threatened.<sup>58</sup> The stronger states are much more likely to choose such a course of action, since they have less to lose. In this respect, if defined as independence of action, the degree of sovereignty within asymmetrically integrated structures is thus greater in the stronger states. The predictions of some academics that states will cease to have their importance within supranational superstructures<sup>59</sup> will need more time to materialize.

Second, the impact (both positive and negative) of asymmetric integration is disproportionately greater in the weaker countries, both politically and economically. Economically the proportion of adjustment costs to the whole economy is much higher. When not successfully tackled, this can result in trade deficit, higher unemployment or slower economic growth.

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<sup>58</sup> Unilateral steps taken by the U.S. concerning Mexican migrants or recent rift in the EU over Iraq can be examples of such behavior.

<sup>59</sup> Giddens, A.: *Runaway World: How Globalization is Reshaping Our Lives*, Profilebooks, London, 1999, p. 14.

If this is to be avoided, active and well-designed policies have to be pursued both in the private and the public sector.

Perhaps more importantly, asymmetric integration tends to “lock in” certain policies and political structures and values in the weaker countries, which might otherwise be dismantled in the future had the country remained outside of the integrated structure.<sup>60</sup> The reason for this “lock in” is the inertia effect, once a country gets into the integrated structure and starts adjusting itself to the new environment, it is then difficult to get out of this process. Historic evidence shows that the rate of states leaving international organizations is low, which sharply contrasts with the difficulties and delays many states face if they actually want to get into an integrated organization. This political “lock in” effect can be seen as having negative influence on the legitimacy of the state, since the ability of the population to change the course of public politics becomes limited.

Unlike economic and political influences, culture<sup>61</sup> seems relatively unaffected by the asymmetric integration. This might be caused by the fact, that if a country is weaker in the economic sense, this weakness does not automatically translate into the weakness of cultural life in that country. On the contrary, culture of the weaker country might challenge the cultural models of the stronger country.<sup>62</sup> Lifestyle, especially on the surface, is more sensitive to asymmetric integration, as it is more dependent on the economic variables that are undergoing transformation. Regular Saturday visits to shopping malls have become favorite family past time not only in Northern Mexico, but Southern and Central Europe as well, reflecting the changing patterns of economic life.

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<sup>60</sup> Opening of Mexico to the U.S. or the Europeanization of politics in Spain, Portugal and Greece can be seen as prime examples of this process.

<sup>61</sup> In this respect I mean the narrower definition of culture, based on Bell's description: “The modalities of culture are few, and they derive from the existential situations which confront all human beings, through all times, in the nature of consciousness: how one meets death, the nature of tragedy and the character of heroism, the definition of loyalty and obligation, the redemption of the soul, the meaning of love and sacrifice, the understanding of compassion, the tension between an animal and a human nature, the claims of instinct and restraint.” Bell, D.: *The Cultural Contradictions of Capitalism*, Basic Books Publishers, New York, 1978, p. 12.

<sup>62</sup> As is to a certain extent the case in the Southwestern United States where Latino culture is successfully penetrating even the mainstream media. Gutierrez, D.: “Migration, Emergent Ethnicity, and the ‘Third Space’: The Shifting Politics of Nationalism in Greater Mexico”, available at <http://www.indiana.edu/~jah/mexico/dgutierrez.html>, 20. 3. 2003

On the international level, consolidating and institutionalizing relations between integrated partners is obviously the most important factor. Especially when the free trade areas are viewed more like preferential trade areas,<sup>63</sup> possible exclusion of third states (both economic and political) becomes relevant. For the weaker partners this might not be the most desired of outcomes, since it increases their dependence on the stronger partners, making diversification strategy harder to achieve.

Lastly, it is important to emphasize that asymmetric integration does not cause any economic growth for the weaker participants per se, even if it might attract increased foreign direct investment. More likely, asymmetric integration is set to liquidate uncompetitive elements in the national economy, while at the same time presenting stable framework and opportunities for export growth. The adequate use of these opportunities then determines the success of the integration endeavor.

## 8.2 Value judgments

*Ma foi, pas si bête; chacun pour soi dans ce désert d'egoïsme qu'on appelle la vie.*  
Stendhal, *Le rouge et le noir*

Apart from general observations independent on value judgements, some sort of evaluation of the concept of asymmetric integration is also necessary. Given the complexity of the objectivity question (see the Methodology section above), this is by no means easy. There are three main issues that deserve attention in this respect, namely the notion of equality, legitimacy and independence.

Concerning equality, the critical question is whether it is an important objective that should be strived for at all. In the neoliberal worldview, this is definitely not the case, as long as fair procedures are used. However, in more liberal view (in the American sense of the term), steps should be taken to alleviate inequalities, since persisting patterns of inequality are considered immoral. These controversies in mind, we can now look at the concept of asymmetric integration. Two questions arise in this respect.

First, does asymmetric integration help the integrated states to become more equal in their mutual relations? The answer would be: not really.

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<sup>63</sup> Bhagwati, J.: *A Stream of Windows: Unsettling Reflections on Trade, Immigration, and Democracy*, MIT Press, Cambridge, 1998, p. 289.



Asymmetric integration does not alter the relative positions of states; it just transforms the ways and means how they can use their influence within the integrated platform. If some states are better prepared to use these new means, they can gain temporary advantages, but otherwise asymmetric integration has little influence on the inequality between states; power relations between integrated countries change by other means. However, asymmetric integration might help the weaker countries to improve their position *vis-à-vis* countries outside of the integrated structure, because they are perceived to have the backing of this larger international structure.

Second, does asymmetric integration diminish inequalities within the integrated states? The answer is again: not automatically. Asymmetric integration only tends to strengthen and support the domestic political model of the stronger partners. If they are dedicated to neoliberal reforms (as was the U.S. in 1990s), this was a signal that inequalities within Mexico are not given the highest priority. If the stronger partners are dedicated more to solidarity and social justice (as were the governments in EC in the 1980s), the poorest regions in Portugal, Spain and Greece could have looked forward to structural adjustment funds and overall effort aimed at inequality reduction.

There is no doubt that integration pushes the decision-making one step further from the people in the direction of supranational unaccountable governance, be it a binding treaty with significant economic consequences or unelected bureaucracy. The weaker countries are particularly sensitive to this shift of decision-making, since they usually have less influence on the supranational structure under asymmetric integration. Such development is considered undesirable for the advocates of the popular participation, who see this as an infringement on people's right to choose and regularly legitimate the government. Given the difficult nature of getting out of integrated arrangements, asymmetric integration is seen as negative in this respect. However, other writers see this same development as positive, as long as the integrative framework provides the democratic political system with stability needed for future development. As long as this framework is seen as positive and democratic, supporters of integration do not see such a problem in the loss of direct popular participation.

Third important controversy related to assessing asymmetric integration is the question of independence. The nation state is far from dead, yet, and the vision of national independence is appealing to both politicians and the general public, especially in weaker countries subject to foreign intervention

or interference. Integration can in this connection be seen as a voluntary entry into a dependent position, sanctioned by international treaty, thus abandoning the noble ideal of national independence. It cannot be denied that foreign influence becomes much greater in the weaker countries, to the chagrin of the nationalist forces. On the other hand, in the world of today, the decision is often between independence, backwardness and closeness on one side<sup>64</sup> and (inter)dependence, openness and progress<sup>65</sup> on the other. For many this presents a hard choice indeed, but it is the lack of viable options that leads even the countries with strong nationalistic tradition (like Mexico) to the cooperation with and (inter)dependence on its stronger Northern neighbor.

### **8.3 The Czech connection**

Given the fact that the Czech Republic is about to enter the EU in the near future and that this would be a prime example of asymmetric integration process, I deem it appropriate to allocate one section to connect the findings of this thesis to the possible developments in this example, although it is impossible to take direct lessons from the U.S.-Mexican example, one reason being that the economic differences are much stronger in the case of the NAFTA partners. Nevertheless, some similarities arise.

Stabilization of domestic politics along European lines will definitely be an important factor. This process of Europeanization of politics will encompass among other things diminishing threat coming from parties potentially hostile to the democratic regime. Other features will include less discretion in the fiscal and monetary policies and restriction on some other policies which would violate the EU law (e.g. excessive subsidies for certain sectors of the economy, policies concerning ethnic minorities, etc.). Since Europe is by no means homogenous by now, the Europeanization of politics can include diverse influences from different EU countries, be it Germany, U.K., Austria or Italy. This could give the Czech politics a variety options all within the European area. I would see it as an advantage as political models can be chosen which adapt best to Czech particularities.

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<sup>64</sup> In this respect, one of the most independent countries in the world would be Myanmar, not a very shining example indeed.

<sup>65</sup> The economic success of East Asian developing countries was based on export economy, thereby extremely sensitive to and dependent of the international business climate.

The adjustment process might not be that easy at all, uncompetitive businesses, especially those still relying on state support, will be forced to close down, causing rise in unemployment levels. The overall outcome of the integrative process depends on the successful use of structural adjustment funds and on competent seizing of the newly open export opportunities.

Some increases in the foreign direct investment can be expected as well, but as we have seen especially in the Mexican case, the economy based on steady flow of foreign direct investment is very vulnerable to external shocks. If the economic growth is to be more stable, it should rather have solid domestic foundations, like in the case of Spain or Portugal, especially when the speculative capital can leave the country in minutes.

In this respect one negative example from Mexico should definitely be avoided, which is the growth of assembly plants where underpaid workers are assembling imported parts for re-export, adding only little value to the product and having little or no linking to other sectors of the national economy. Such scenario might solve the high unemployment issue in the short term, but would have negative longer-term consequences like not creating demand for highly skilled professionals and increasing income inequality. Emphasis on quality education on all levels could be a solution to this potential problem.

The symbolic significance of joining the EU might be the best asset the Czech Republic is going to get from this asymmetric integration process. Economically speaking, some old options will not be available anymore, and it is up to the skills of our entrepreneurs, politicians and bureaucrats if they will be able to make the economic opening beneficial for the country as a whole.