The North American Free Trade Agreement as a Two-Level Game and Implications for the Free Trade Area of the Americas

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The North American Free Trade Agreement as a Two-Level Game and Implications for the Free Trade Area of the Americas

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ABSTRACT

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The purpose of this paper is to break through the complexity of the NAFTA negotiations in order to reveal some of the contentious issues from three stages of the NAFTA bargaining process: the fast track agreement, the negotiations under President Bush, Sr., and the side payments under President Clinton. Putnam’s two-level game theory will help describe how the interests of business, environmental groups, and labor unions influenced the outcome of the NAFTA through their respective win-sets, domestic and international power relations, and side agreements. Extrapolating from Putnam’s model and the success in NAFTA bargaining, we can predict that the ongoing Free Trade Area of the Americas (FTAA) negotiations are more likely to succeed if international representatives strategize to create favorable conditions for domestic ratification through understanding the domestic constituencies and win-sets of the players.

To my mom and dad for believing in me.

You brought me here.

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Introduction

Throughout the 1980s and 1990s, the world came to grasp a new theory for economic development: the neoclassical model. The neoclassical model "favored supply-side macroeconomic policies, rational expectations theories, and privatization of public corporations"[1] for developed nations. For growth in developing countries, the model suggests "freer markets and the dismantling of public ownership, statist planning, and government regulation of economic activities."[2] The model blames too much government regulation for the lack of economic growth. Leaders and educators in the United States are strong advocates of the neoclassical model for growth. Because of the US influence in both the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (the World Bank), these institutions also currently adopt the ideology of neoclassical economics. Around the world, then, various countries seeking growth began adopting the ideology of reducing government controls over trade and industry.

The spread of this ideology is characterized by the recent number of countries joining other countries through multilateral agreements in order to open trade barriers. This recent trend in opening trade barriers is a direct response to the economic model where economic growth derivates from opening barriers to trade. Some of the agreements include Southern Common Market (MERCOSUR) initiated in 1991, and the Asia-Pacific Economic Cooperation (APEC) initiated in 1989. In addition, in 1993, fifteen countries of the European Community joined to strengthen their collective economic power in an

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[1] Todaro, Michael P. and Stephen C. Smith. *Economic Development*. 8th edition. Boston: Addison Wesley, 2003. p. 128

[2] Todaro 2003, 128.

area called the European Union (EU). Since 1993, ten more countries have joined the agreement. A few years after the EU commenced, the Reagan administration commenced an agreement with Canadian Prime Minister Mulroney, the United States' number one trading partner, to create a free trade region. The United States and Canadian governments signed and implemented the agreement, the Canada-United States Free Trade Agreement (CUFTA), by 1989.

With the growing influence of these supra-national groups in the global markets, it is no surprise that the George Bush, Sr. administration agreed to negotiate an expansion of the terms of CUFTA to include Mexico upon Mexican President Salinas de Gortari's request in 1990. The concept of opening trade areas resembles recent US administrations bargaining to expand the NAFTA to the Western Hemisphere as a whole in congruence with President Bush, Sr.'s Enterprise for the Americas Initiative of 1991. Throughout their histories, the United States has had a longstanding interest in Latin American markets. By initiating a free trade agreement with Mexico, the United States would be well situated for future extensions of free trade agreements with the rest of Latin America. The extension of the NAFTA agreement into Latin America is the Free Trade Area of the Americas (FTAA), which is currently under negotiation.

The NAFTA negotiations provide an opportune test of Robert D. Putnam's theory of "two-level bargaining games."[3] With NAFTA, the governments of Mexico and the United States sought to implement an international policy that would accomplish the goals that neither government could achieve without international pressures. Because the agreement necessitates international pressures, there must be impeding interests in the

[3] Putnam, Robert D. "Diplomacy and domestic politics: the logic of two-level games." *International Organization*. Vol. 42 No. 3 Summer 1988, 427-60.

domestic arena that would prevent such an agreement from occurring. For this reason, the countries' leaders must appease the conflicting domestic interests in order to achieve ratification by constituents. In fact, domestic political influences often make it very difficult for international representatives to achieve ratification. At many points along the negotiation process of the NAFTA and other international agreements, deals came very close to failing due to the competing interests, but in the end, the negotiators achieved an agreement. Robert Putnam's theory on two level bargaining is a useful tool for understanding why and how this agreement succeeded.

The purpose of this paper is to break through the complexity of the NAFTA negotiations in order to reveal some of the contentious issues from three stages of the NAFTA bargaining process: the fast track agreement, the negotiations under President Bush, Sr., and the side payments under President Clinton. Putnam's two-level game theory will help describe how the interests of business, environmental groups, and labor unions influenced the outcome of the NAFTA through their respective win-sets, domestic and international power relations, and side agreements. Extrapolating from Putnam's model and the success in NAFTA bargaining, we can predict that the ongoing Free Trade Area of the Americas (FTAA) negotiations are more likely to succeed if international representatives strategize to create favorable conditions for domestic ratification through understanding the domestic constituencies and win-sets of the players.

Brief History of Mexico's Political Economy

When Carlos Salinas de Gortari came to office in Mexico in 1988, he faced numerous challenges to the legitimacy of the Mexican government. First, the Mexican state was facing political legitimacy problems in terms of the single-party rule of the

Partido Revolucionario Institucional (the Institutional Revolutionary Party, PRI). The PRI had won every election in Mexico since the end of the Mexican Revolution (1910-1917). However, at the time of Salinas' election, the PRI was facing its first major challenge to authority from the opposition group the Partido Revolucionario Demócratcio (the Democratic Revolutionary Party, PRD). The PRD had won seats in municipalities and in some of the Mexican states by taking advantage of the internal divisions within the PRI. The party that resulted from the split was the Frontera Democrática Nacional (The National Democratic Front, FDN). Historically the PRI won 70 to 90 percent of the national votes, but in the 1988 elections, the PRI had only won 51.36 percent followed by 31.12 percent to the FDN.[4]

In addition to growing influence from opposition parties in Mexico, Salinas had to deal with the accusations of electoral fraud in the 1988 elections. Because of the influence of the opposition in Mexico, the race between the PRI and FDN candidates, Carlos Salinas and Cuauhtémoc Cárdenas respectively, was very close. Citizens based their claim of fraud in the computer glitch that occurred when Cárdenas took the lead in the polls. When the computers came back up, Salinas was back in the lead, and ultimately, he took the presidency.[5] Because Cárdenas was such a popular candidate in Mexico, much of the Mexican public held a grudge against the new president. Because of the authoritarian rule of the PRI in Mexico, there were few outlets for their frustrations. Facing such political problems, Salinas obviously had to reinstate his party's legitimacy in order to ensure the reelection of his party.

[4] Quiroz 2001, 67.
[5] Meyers 1993, 1.

Unfortunately for Salinas, in addition to political crises in Mexico, the country was also facing severe economic problems. Many Mexican presidents seemed to face an economic crisis in the beginning of their terms. The crises came in a pattern called *sexenios*, referring to the six-year terms of Mexican presidency. In the 1970s, developed countries offered numerous loans to developing countries. The common ideology of growth was a concept called Import Substitution Industrialization (ISI). This method of growth intended to reduce imports by manufacturing and producing domestically goods that were commonly imported. With the loans from developed countries, governments around the world sought to invest in and develop these industries. Ultimately, though, many Latin American (and other developing countries) industries could not compete with large economies of scale producing quality products for cheaper in developed countries. For this reason, the governments increased tariffs and other trade regulations to make the imported goods more expensive for domestic consumers, thus protecting the domestic industries.

Though these measures protected domestic industries, they often created problems internationally for developing countries. For example, the high tariffs in Mexico against American goods would spawn American tariffs against Mexican goods. In the long term, the domestic economy would not be able to absorb all the products manufactured by these industries, but the domestic products were not competitive internationally. In addition to these problems, when oil prices fell after a long upward trend developing countries faced enormous debts and increasing interest rates. The culmination of the severity of the Debt Crisis occurred when, in 1982, the Mexican government announced that it could not even pay the interest portion of its $92 billion in debts.[6] Various other countries around the world soon joined suit. Following the immense economic problems that plagued Latin American countries during the 1980s, the 'Lost Decade,' Latin American leaders sought a new model to follow to achieve economic growth in place of ISI. With neoclassical suggestions, many countries in Latin America and around the world began initiating agreements with foreign governments to create common free trade areas. The Mexican government had to devalue its currency because of its artificially high numbers at the time, causing even more problems for the struggling economy of Mexico.

Facing a severe economic crisis, the Mexican president turned to the IMF and World Bank for financial help. The IMF and World Bank drew up packages of 'structural adjustments' for reform policies in order to help countries around the globe (including Mexico) rebuild their economies. As mentioned above, the paradigm followed in the IMF and World Bank in the 1980s involved neoclassical reforms. For this reason, the adjustments involved opening Mexico's economy to outside capital, privatizing government-regulated industries, cutting state subsidies and other government spending, and dismantling the agrarian reform policy.[7] The structural adjustment reforms are very abrupt and harsh for the economic situation of an already fragile country. By enforcing the structural adjustment reforms, Salinas created an economic environment open to direct foreign investment from business interests from developed nations. Further, Salinas hoped that such reforms would help the administration to gain credibility in the international arena for taking such economic strides in order to participate in the global

[6] Mayer 1998, 23.
[7] Meyers 1993, 2.

market economy.[8] Salinas truly believed that the NAFTA would be Mexico's ticket to becoming a first world country.

It was during the peak of the Debt Crisis that President Miguel de la Madrid took office. The structural adjustments and economic reforms were not enough to save the economic situation over night. The economy continued to suffer immensely. The soon-to-be president, Carlos Salinas, was an economic 'technocrat' or economic advisor to de la Madrid during his presidency and had a firsthand observation point to see the future of Mexican economic growth. After de la Madrid's failed austerity programs, an earthquake in 1985, the fall of oil prices in 1986, and the stock market crash of 1987, the Mexican economy remained in a severe state of detriment. It was under these conditions that Salinas entered the political scene following the 1988 elections.

With so many obstacles, it is not surprising that Salinas had to take drastic measures to preserve both the autonomy and authority of the PRI in Mexico. Salinas' presidency proved to be crucial in providing a solid future for the PRI. Since most Mexican presidents' success in the eyes of the public is determined based on economic performance during their terms, Salinas had to generate and carry out a strong economic plan in order to secure the future of the PRI in Mexican government. Under this domestic context, the Salinas administration began to reform the economic system of Mexico to promote development in 1988.

Educated at both Harvard and Massachusetts Institute of Technology in the United States, Carlos Salinas had been trained with the ideologies of neoclassical (or

[8] If Cárdenas had won the elections in 1988, he would probably have reversed Salinas' market-oriented reforms and returned to Mexico's protectionist past. (Meyers 1993, 2)

neoliberal) economics, or free market economics. This training led him to advocate a reduced role of the state in the functions of the economy with an ultimate aim in free trade. By opening trade barriers, neoliberal supporters believe that economies can develop more efficiently. Both the International Monetary Fund (IMF) and the World Trade Organization (WTO) embrace this ideology as productive development support programs for developing nations. The reforms that Salinas initiated under his presidency reflected his neoliberal education. During his term, Salinas undertook various structural adjustments to address the economic crises of 1988 and to pave the way for his most notorious neoliberal policy, the North American Free Trade Agreement (NAFTA) with the United States.

In 1990, Mexican President Carlos Salinas de Gortari approached the President of the United States George Bush, Sr. with the idea of opening trade between Mexico and the United States. The new agreement would be modeled on the already existing agreement between the United States and Canada, the CUFTA. Because of the tenuous political and economic situations in Mexico and the free market economic training that Salinas received from American universities, the Mexican president decided that a favorable policy for the future progress of the Mexican economy would be an agreement with the United States.[9] This was not only a bold economic move, but up until this point no president in recent Mexican history had accepted such a dependent role on the United States.[10] The negotiations for the trade agreement lasted from the spring of 1990 until fall

[9] Before the public announcement of Salinas' decision, he reported to his closest economic advisors his intentions to follow this type of agreement. Initially, the similarly trained economists were wary of such an agreement, but eventually came to see the benefits of such a bold economic move for economic growth in Mexico. (Mayer 1998, 27)

[10] In his book, Frederick Mayer briefly outlines the historical relationship between Mexico and the US. He discusses the history of American aggression and suggests the common aphorism: "Poor Mexico. So far

of 1993. The policies of the NAFTA agreement went into practice starting on January 1, 1994. To understand better the interactions of the actors and development of core issues in the bargaining situation, it is important to outline how the trade negotiations of NAFTA played out in terms of international relations theory.

Levels of Analysis for International Relations

International relations discourse categorizes events based on three different levels of analysis: the international, domestic, and individual levels. First, the international level focuses on the interactions of states within the global arena as well as the influence of international events in policymaking. Second, the domestic level involves the roles of ideologies and groups within the given state as well as the political processes and how they influence policy making. Finally, the individual or cognitive level concentrates on individual figures with influence within the system and their individual interests in policies. Depending on the case at hand, scholars usually describe events based on one or more of these categories to show the context surrounding the event that came to influence foreign policy outputs.

The case of the NAFTA negotiations presents a complex decision making process. The international level of analysis would show that the US and Mexican presidents would enter a free trade agreement because of international pressure. It is true that both countries faced an increasing threat from the formation of the European Union as a free trade area as well as other trade areas around the world. In addition, the idea of NAFTA was partly a result of the recent commencement of the CUFTA. In the context of the international arena, both countries' leaders had interests in approving an extended

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from God, so close to the United States." He also asserts the feeling of distrust for the US. (Mayer 1998, 22-3) version of CUFTA in order to boost their economies. This, however, does not provide important details about the internal divisions that existed before the countries ratified the policy.

For internal dynamics, one must look to the domestic level of analysis. Here, policy outcomes are the result of competing groups within the state. The groups with the most power and influence will have their voices heard. This level, then, demonstrates the interests of powerful groups within both Mexico and the United States that fought for certain policies. In the case of NAFTA, the interest groups include business, agriculture, free trade proponents (as well as opponents), labor unions, environmental groups and more. The internal divisions became the central issue when the debate centered on proponents of free trade (open markets) and proponents of the status quo (the current system).[11]

In Mexico, the domestic politics were such that the president's party was losing legitimacy from failed economic growth and development in the past. The interactions among groups within the state would then influence the policy outcome of the NAFTA negotiations. The problem, however, with focusing on the domestic sphere is that it does not account for the international or individual influences on outcomes. For example, the threat to US economic hegemony from the European Union does not play a direct role in domestic politics; neither do the influences of the presidents' personal interests in such an agreement.

On the individual level of analysis, international relations scholars focus on the influence of individuals' values and beliefs and influence on political decisions. In the

[11] To be discussed in further detail later.

case of NAFTA, an individual level of focus would be on President Bush, Sr. or President Salinas and their general interests in policy outcomes. Because of Salinas' training in free market economics and the problems that he faced with lacking legitimacy, would likely have a personal interest in pursuing free market policies. Obviously, focusing on this level leaves out much of the complexity of the negotiations for NAFTA. Like the other levels of analysis, taken on its own, the individual level is insufficient for understanding each country's objectives in accomplishing the agreement for free trade.

The more complex a decision-making process or event becomes, the more likely it will cross the different levels of analysis. In other words, most situations and policies can best be understood by addressing more than one (if not all) of these levels at one time to gain the most holistic understanding of the outcome. For the case of NAFTA, the best way to explain the outcomes is with a theory that encompasses the interaction of both the domestic and international levels with a consideration for the role of standard operating procedures and political processes. A complex model often provides a more efficient explanation for a complex event or policy. A theory that coincides with this idea is Robert Putnam's two-level game analysis.

Robert Putnam's Two-Level Bargaining Game

In an article from 1988 called "Diplomacy and domestic politics: the logic of two-level games," Robert Putnam, a political scientist at Harvard, outlines a theory on the interaction between international and domestic politics in international relations. He claims that the two-level game is an efficient way to understand trade agreement negotiations and outlines the various patterns in which the two levels tend to interact. In a later book, *Double-Edged Diplomacy: International Bargaining and Domestic Politics*, [12] Putnam joins other authors in an attempt to provide numerous examples of successful and unsuccessful agreements that model the two-level theory. The authors use the examples to explain why some countries could implement agreements and why others failed to ratify the terms of agreement.

To justify his theory, Putnam gives examples of the context of various international agreements, ratified and not ratified. Through his examples, Putnam asserts that representatives tend to pursue international policies that they would not normally be able to pursue in the domestic realm because of international pressure, a concept that Putnam calls a "synergistic linkage."[13] Putnam defines synergistic linkages as the type of issue linkage at the international level that alters the feasible outcomes at the domestic level.[14] In other words, a member of the domestic level will not change their preferences and suddenly ratify an agreement outside of their interests. Instead, an international agreement creates a new policy option that domestic constituents would not ratify through domestic control only. A negotiator will use the international pressures to pursue policies and/or reforms that would not be possible in only the domestic form. For example, if a president has an interest in lowering trade barriers with another country, he/she may not have the domestic support to do so. That is, unless another country is willing to make an international agreement to mutually reduce protections on trade. Putnam argues that, with international pressure, the necessary conditions exist for a

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[12] Evans, Peter B., Harold K. Jacobson, and Robert D. Putnam, eds. *Double-Edged Diplomacy: International Bargaining and Domestic Politics*. Berkeley: University of California Press, 1993.
[13] Putnam 1988, 429
[14] Putnam 1988, 447.

policy shift to occur.[15] With international pressure, then, Putnam claims that domestic constituents will be more likely to consider an agreement outside their interests.

Because of the nature of international policies, usually the opponents of the policy outnumber the proponents of the policy in the early stages of negotiations. For instance, the US government could not ratify a free trade agreement because the opponents would easily outnumber the proponents initially. Without international pressure, then, the Bush, Sr. administration could not have achieved such an agreement. Another example from the Mexican perspective is that Salinas used the international trade agreement as a means to overcome domestic political opposition to neoclassical reforms. Because Cárdenas or any other opposition party president would undo the market-oriented reforms Salinas had implemented and return to protectionist policies, Salinas could use the contractual agreements of the NAFTA to lock the Mexican economy into open markets in the future.[16]

Another part of Putnam's argument is that the representative of a country cannot pursue a policy that has no support within the domestic realm because the chief negotiator must act on behalf of his country's interests as well as his individual interests in pursuing such policies "even though not all his aides agreed."[17] According to Putnam's theory, then, President Bush, Sr. had to believe that the influence of the free trade proponents in the United States could outnumber the opponents in order to invite NAFTA negotiations because of the international and domestic entanglements. Bush, Sr. would also have believed that the free trade agreement would be beneficial to the United States

[15] Putnam 1988, 430.
[16] Meyers 1993, 2.
[17] Putnam 1988, 430.

in order to gain public support of his decisions. Here, for the first time, it becomes evident that there are entanglements between international and the domestic influences, thus two-level games or double-edged diplomacy. Because of the overlapping of influence between the president and domestic politics, it becomes necessary to understand the negotiations in terms of these international and domestic political entanglements.[18]

A Two-Level Game

The first level in Putnam's theory of two-level game is the international negotiations where "national governments seek to maximize their own ability to satisfy domestic pressures, while minimizing the adverse consequences of foreign developments."[19] In Level I, the main figures are the international representatives or chief negotiators. They are usually heads of state, but more generally are representatives of the potential constituents to the agreement acting on behalf of some larger group. The NAFTA negotiations were held mostly between three trade representatives, Jaime Serra from Mexico, Carla Hills from the United States, and John Crosbie from Canada. The international agents meet and discuss the potential elements of a future agreement and make a temporary outline.

Throughout the process, the chief negotiators serve as the mediators between Level I negotiators and Level II constituents. Level II is the domestic level, where "domestic groups pursue their interests by pressuring the government to adopt favorable

[18] Putnam notes, "A more adequate account of the domestic determinants of foreign policy and international relations must stress *politics*: parties, social classes, interest groups (both economic and noneconomic), legislators, and even public opinion and elections, not simply executive and institutional arrangements" (Putnam 1988, 432).
[19] Putnam 1988, 434.

policies, and politicians seek power by constructing coalitions among groups."[20] Most of the complexity of negotiations comes from this level of Putnam's analysis. The domestic groups that Putnam mentions include "bureaucratic agencies, interest groups, social classes, or even 'public opinion.'"[21] Putnam includes here any group inside the country with the power to influence the outcome of the agreement, be it completed or failed. According to Putnam's model, chief negotiators will come from Level I to Level II to 'sell' the domestic groups on the details of the agreement.[22]

In Putnam's two-level game theory of international politics, there is a distinct interaction between Level I and Level II. Level I has limited ability to strike a deal without the input and support of Level II. At the same time, Putnam admits that a negotiation that seems rational on the first level may prove irrational or ill judged at the second level.[23] For example, if Mexico were to leave the oil industry fully within the scope of the NAFTA negotiations because of its inefficiencies the decision may be rational for Salinas, but for the Level II domestic interests, the agreement may seem quite irrational. PEMEX, the Mexican oil industry, employs hundreds of thousands of Mexican citizens and provides a significant amount of money to the state. Further, officials strictly outlined domestic control of the Mexican oil industry in the Mexican Constitution following the Mexican Revolution.

[20] Putnam 1988, 434.
[21] Putnam 1988, 436.
[22] Putnam 1988, 435.
[23] Putnam 1988, 434.

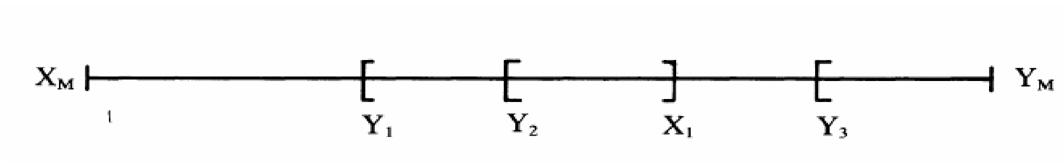

Figure 1 Visualization of Putnam's win-sets between countries X and Y[24]

Win-Sets

One of the key terms that Putnam uses to describe the entanglements of negotiations is "win-sets." The win-set is a point of intersection of interests of the various constituents that may lead to an agreement. A "win-set" is a collection of all possible points of agreement with which the constituents would be willing to consent. Where the win-sets intersect is where the negotiators will likely be able to reach and ratify an agreement. It would follow, then, that larger the win-sets are for countries, the more likely the agreement will succeed ratification. In this case, the countries have more room to negotiate when the area of intersection between the two countries is larger. On the other hand, if the win-set is small, the negotiations are likely to fail because there is less room for requests. This could potentially lead to failed ratification by Level II constituents.

Figure1 above from Putnam's article provides a visual demonstration for the logic of the win-sets based on agreement between two countries, X and Y. The graph portrays the ability of countries X and Y to achieve ratification on both Levels I and II. X_M and Y_M from the figure represent the maximum outcomes that each country would want from

[24] Source of Figure: Putnam 1988, 441

an agreement. X_1 and Y_1 symbolize the minimum outcomes that each level will accept, or the absolute minima they would need to reach an agreement. If country Y were to make an offer in the area of Y_2, country X would be willing to agree to the policy because it is in their win-set, or in the area between their minimally acceptable terms. If Y approached X with an agreement in the area of Y_3, there is no room for agreement with country X. The terms simply will not work for country X because it is not in their win-set. In this case, the negotiations would fail.

There were various issues on the table between Mexico and the United States during the debates on the NAFTA. Because of the organization of lobbies in Washington D.C., the issues of auto, agricultural, labor, and environmental issues became the sticking grounds for serious negotiations in terms of accomplishing an agreement. For this reason, the negotiators had to work very hard to create an agreement with which the conflicting interests would reach an agreement. To add to the complexity of the negotiations, Putnam suggests that what may be rational for the international representative to pursue does not necessarily prove harmonious with domestic interests.[25] For this reason, representatives will opt for an international solution to domestic issues through the two-level game. At the same time, to reiterate, the representative must understand that, in order for the issue to become solidified, there must be domestic support for it.

There are three determinants of win-sets that Putnam puts forth in his article: Level II preferences and coalitions, Level II institutions, and Level I negotiator's strategies.[26] Putnam's first determinant of win-sets is that "The size of the win-set depends on the distribution of power, preferences, and possible coalitions among Level II

[25] Putnam 1988, 434.
[26] Putnam 1988, 442.

constituents."[27] In order to demonstrate the interactive nature of the two levels of negotiations, one must understand the influence that the Level II actors have over the Level I negotiator. Like the international relations concept of the domestic level of analysis where groups within the state compete for their interests, Putnam addresses the distribution of power and its influence with the Level II constituents. These groups form based on their preferences or interests. For example, the United States has agricultural, labor, and environmental lobby groups that are very powerful in policymaking. When these groups pool their power together in support of a given policy, they are more powerful in influencing negotiations. As William P. Avery, a professor of political science with specialization in Latin America, suggests, "negotiators must always be aware of the constraints imposed on them in Level I deliberations by Level II constituencies."[28] Avery's statement reaffirms Putnam's claim that Level I negotiators must anticipate Level II interests in ratification.

In relation to the size of the win-set, Putnam talks about the weight of no-agreement. This essentially means that constituents determine the size of the win-set according to the expected benefits if a country ratified the agreement compared to the status quo.[29] If the cost of no-agreement is low, then the win-set must be small and vice versa. If there is little value in the agreement for the constituents, then they will likely not work to ratify the policy. For this reason, policies with small win-sets and low costs of no-agreement will often fail in negotiations. At the same time, if the cost of no-agreement is high, then coalitions will form and create more support for the agreement to follow

[27] Putnam 1988, 442.
[28] Avery, William P. "Domestic Interests in NAFTA Bargaining." *Political Science Quarterly*. Vol. 113 No. 2 Summer 1998, 281-305.
[29] Putnam 1988, 443.

through. Groups, therefore, would be more likely to be flexible in establishing details for the policy.

There are various ways for negotiators to demonstrate power in bargaining situations. First, when Level II constituents consider the policy at hand, they must weigh the costs of the agreement against the costs of no-agreement. For the Salinas administration, the costs of no-agreement in terms of NAFTA would be much more detrimental for the future of the presidential party politics because Salinas' training led him to believe that free trade would help the Mexican economy. For proponents of the NAFTA, the main strategy would be to paint an unfavorable picture of no-agreement with NAFTA. Also, if the other country has a large stake in agreement, they will often concede more to the first country in order to prevent a no-agreement situation. This is usually advantageous for the country that holds the power. In the case of a self-sufficient country like the United States, Putnam would argue that they tend to push the terms of an agreement further because they have less to lose than other countries.

An example of the importance of the cost of no-agreement was the fast-track negotiations in the United States. Congress voted for the fast track authority in the 1974 Trade Act to aid the General Agreement on Tariffs and Trade (GATT) negotiations. For fast track authority, the Congress votes to grant its own negotiating power to the president so that he may negotiate on behalf of the Congress. Congress, therefore, limits itself to a vote of either yes or no on the results of the negotiations as is, thus denying itself the ability to amend or add on issues from the outcome of the trade negotiations. Fast track authority advantageously keeps Congressional interests at bay, thus decreasing the likelihood of stalemate. Historically, achieving fast-track authority was relatively easy for presidents. Congress would grant presidents the authority with little necessity for significant political persuasion. In 1988, the US Congress granted the president fast track authority for three years with the opportunity to renew for two more years upon achieving a majority vote in both houses.[30] This would become a major issue in the NAFTA negotiations. Because Congressional officials could only vote yes or no to the policy outcome without amending it further, the cost of no-agreement would play a large role in the decision-making process for the NAFTA.[31]

The second determinant of the size of a win-set depends on the Level II political institutions.[32] Institutions include the country's ratification procedures that can influence the size of their win-set. The US win-set has many advantages over that of the Mexican government. Because of the necessity of the US Senate to have a 2/3 majority in order to pass legislation, its win-set is smaller. In addition, the separation of powers in the United States creates a tighter system of control over the bargaining process. For this reason, countries entering agreements with the United States will have to concede more to the US interests if they really want to reach agreements. The Level I agreement must rely on the support from Level II constituents in this case. Because the agreement must have domestic support, Putnam argues that the United States will have more bargaining power. If the other country really wants to strike a deal, it must accommodate US interests in the agreement that goes before the Senate.

Conversely, the win-set of Mexico is much larger than that of the United States. Mexican officials essentially had the power to suppress internal domestic challenges. At

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[30] Mayer 1998, 45.
[31] To be discussed in more detail later in the paper.
[32] Putnam 1988, 448.

the same time, the Salinas administration had much more to gain and lose in an agreement with the United States to recover their political and economic legitimacy. For this reason, the Mexican administration is more likely to be flexible in the negotiation process. Also, because of the less democratic political system, their bargaining power weakens internationally because outside countries frown upon (public) agreements with such leaders. In fact, until the US elections began to influence the decision-making processes, the win-set situation basically forced the Mexican government to be flexible with how they reached agreements. Once US election campaigns began to question the policy of NAFTA, Mexico had more power to influence the outcomes.[33]

Finally, the third determinant of size for win-sets depends on the strategies of the Level I negotiators.[34] Since each Level I representative has a general interest in reaching an agreement, he also has an interest in achieving ratification in the other representative's country. That is, he has an interest in the other side gaining the most out of the agreement, but not to the detriment to his own win-set. For this reason, countries often have to concede to offering Level II negotiators "side payments" in order to change the support systems in favor of the policy.[35] In the event that a representative at Level I can no longer negotiate with the Level II groups, he can increase his win-set with side-payments. The other side is more or less willing to accept the conditions of the side payments because it means that the policy will be ratified (ratification is greater than the cost of no-agreement). Side payments, then, are one of the techniques that negotiators can use to secure support. This strategy, however, does not work to change the minds of

[33] Outlined in more detail later.
[34] Putnam 1988, 450.
[35] Putnam 1988, 450.

people at Level II that have already chosen a side. Negotiators can usually only utilize side payments to influence the decisions of those who have not yet decided firmly their positions on the agreement.

Uncertainty Affects Bargaining

Putnam also addresses the effects of uncertainty in bargaining tactics among countries. As Putnam states, “Level I negotiators are often badly misinformed about Level II politics, particularly on the opposing side.”[36] First, the country may not comprehend properly the actual size of the other’s win-set, or how far they might be willing to go in negotiations. The misinformation lies in the political indifference curves mentioned above. This, as Putnam explains, can serve as either a bargaining device or a restraint on negotiations. In some cases, one chief negotiator will take advantage of internal divisions within the other state. In other cases, uncertainty may create worries in a country about the possibility or risk of involuntary defection from the deal. This is especially troubling when considering side payments. If the first country made side payments to get the policy ratified, the second country must be able to ratify these agreements at home. Countries can play this same card in order to gain a more beneficial offer by creating a fake sense of doubt in the country’s Level II arena.

NAFTA as a Two-Level Game

Actors and Interests

Throughout the agreement process, many actors expressed contradicting opinions on various components of the trade opening policy. These opinions came to influence the agreement process as well as the policy output in very important ways. Because of the

[36] Putnam 1988, 452.

sweeping reforms required by NAFTA, the project had to be broken down into sectors in each of the negotiating countries. In the United States, officials broke down the agreement parts into advisory panels. On top was the Advisory Committee for Trade Policy and Negotiations (ACTPN), a set of 44 business leaders representing the range of the US economic groups.[37] The next level of advisors included seven committees whose job was to supply information and advice to the industry, agriculture, labor, etc. sectors.[38] Finally, the third level included various technical and sectoral advisory committees who provided information on the impact of changed policy on various sectors of the US economy.[39] Similar advisory positions existed in the other countries of the NAFTA that served similar purposes.

Fast Track Authority

As mentioned above, the fast track authority grants the president the power to negotiate an agreement to which the Congress can only vote yes or no without adding any amendments. The president's fast track authority was due to expire on June 1, 1991, so the president had to make a request for renewal by March 1. Typically, achieving this authority had not garnered much interest from the public. When the time for renewal approached, there were no expectations because it was essentially an auto-renewal unless the House or the Senate voted to deny. In fact, in the fall of 1990, the Assistant United States Trade Representative took an inventory on various committees in Congress about

[37] Avery 1998, 4.
[38] Ibid.
[39] Ibid.

the upcoming renewal of fast track and claimed, “There was not much interest… that’s next year’s issue.”[40]

In January of 1991, however, a coalition of labor, environment, farm, consumer, religious, and human rights groups gathered in Washington D.C. to generate attention to the renewal process. The coalition represents Putnam’s concept of the Level II, or domestic influences, of the debate. The meeting sparked the desired media coverage to gain public attention. Though some of the opposition came from free trade opponents, or those who favored existing government protections, this group was not considered the most serious political threat. As Frederick Mayer suggested, the government could make promises for these groups to coerce them through side payments that would win their support. [41] The president would institute an example of Putnam’s idea of a side payment that would include longer transitions with taking away protections for US interests. The biggest threat in opposition to the fast track and the NAFTA negotiations in the Level II area was the new alliance between labor unions and environmentalists, two major lobbies in Washington D.C.

Labor unions

The biggest fear that the labor unions had was the loss of jobs to Mexico if there was a free trade agreement. The unions pointed to the existing Maquiladora Program initiated in 1965, which created a free trade zone along the shared border region between Mexico and the United States.[42] The free trade zone created an area in northern Mexico where US businesses could build assembly plants and utilize Mexico’s cheap labor. The

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[40] Mayer 1998, 46.
[41] Mayer 1998, 47.
[42] Gruben, William C. “Was NAFTA behind Mexico's high maquiladora growth?” *Economic & Financial Review*, Vol. 3 July 2001, 11-23.

intention was to drive down the desire to migrate to the United States by offering opportunities for employment within the borders of Mexico. Products could freely pass the borders without duties or tariffs from this zone. Since the Debt Crisis in 1982, the Maquiladora Program became increasingly popular for US businesses to relocate and make use of the cheap labor.[43] By 1989, there were about 1500 maquiladora sites in Mexico employing some 400,000 Mexican workers.[44]

The early argument from the unions, of course, was that the maquiladoras were already taking thousands of jobs away from the working class Americans.[45] If the free trade zone from 1965 opened up to a full-on free trade agreement for the area, the unions argued that there would be an increase in the maquiladoras, not only along the border, but also throughout the country.[46] For this reason, they claimed that the free trade agreement with Mexico would take away more working class jobs as US businesses relocated their assembly plants to Mexico to benefit from the low wages and standards for working conditions.[47]

Later in the fast track debates, the labor unions shifted their approach from a focus on US jobs lost to a focus on the poor working conditions in Mexican maquiladoras.[48] Because of the extreme income disparity in Mexico, the rich businessmen and politicians (with the PRI) have lots of money and power in politics and

[43] Gruben, 2001, 11-23.
[44] "On Uncle Sam's coat-tails." *The Economist*. Vol. 312 No. 7620 Sept 16, 1989, 82.
[45] "AFL-CIO, Other Unions Blast Free Trade Pact as Prescription for U.S. Job Loss," *BNA International Trade Daily*, 13 August 1992.
[46] "AFL-CIO, Other Unions Blast Free Trade Pact as Prescription for U.S. Job Loss," *BNA International Trade Daily*, 13 August 1992.
[47] Gruben, 2001, 11-23.
[48] Mayer 1998, 48.

the poor are very poor financially and politically.[49] Therefore, the businessmen and politicians have similar interests of maintaining their powerful status. One of the ways in which the powerful dominate the general public in Mexico is by keeping them in poor working conditions with little opportunity at social mobility. The Mexican government did not allow for strong union activity. The conditions, then, that the Mexican workers faced were those of sweatshops. Perhaps worse is the fact that these are the exact people who lack the political power to make changes for themselves and who keep so busy trying to survive that they probably will not organize and fight for themselves. For this reason, the Mexican government can discard their demands without severe repercussions.[50]

Frederick Mayer quotes Mark Anderson of the American Federation of Labor and Congress of Industrial Organizations (the AFL-CIO) on the reason for the shift: "Environment became a means of drawing attention to poor company practices in the border. Nobody cared about a worker losing his job in Illinois. They were much more sensitive to toxic dumping in Mexico."[51] To increase public attention to their cause, unions stressed the lack of worker rights for the media insisting on the existing problems of toxic dumping reported from the Maquiladora Program. Again, with a free trade area, the problem could only grow worse for workers and for the environment, the union's new ally.

Environmental Groups

[49] Reding, Andrew and Christopher Whalen. "NAFTA and Mexico: The Perfect Dictatorship, Repression and One-Party Rule in Mexico. *Multinational Monitor Quarterly.* Vol. 14 No. 10 October 1993, 26-31.
[50] Reding 1993, 26-31.
[51] Mayer 1998, 48.

The other main player of the Level II constituents was the environmental groups. In debates for fast track, the environmentalists brought one main fear to the table: an international free trade agreement would overstep domestic environmental standards.[52] In other words, the international agreement would find the environmental standards in the United States to be too severe and put pressure on the US representative to accept less than current standards in an agreement. Environmental groups outlined three main fears with the extension of the NAFTA. First, the growth of the Maquiladora Program caused an almost spontaneous migration to the northern industrial cities. The population explosion on the region put too much pressure on the infrastructure of the city causing unsanitary living conditions. The groups argued that without additional environmental standards, the free trade agreement could result in further strains on the Mexican environment.[53]

Secondly, similar to the unionists, environmentalists worried that US companies would flee the relatively high US environmental standards for businesses (and costly production inputs in general) and take environmentally risky jobs to Mexico, where similar standards do not exist.[54]

Finally, and perhaps more importantly, the environmental groups worried that international law would supercede domestic laws.[55] This fear grew out of the Mexican tuna issue of the early 1990s when Mexican fishing vessels killed more dolphins than US regulations allowed for domestic fishing boats. Tuna anglers use the location of small groups of dolphin to locate swarms of tuna in deeper water. In the United States, the

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[52] Mayer 1998, 49.
[53] Mayer 1998, 49-50.
[54] Ibid.
[55] Ibid.

Marine Mammal Protection Act (MMPA) prevents anglers from exploiting this method of fishing. For this reason, the cost of Mexican tuna was competitive because they did not have to pay the higher costs of locating tuna. Mexican tuna locating methods resulted in approximately 50,000 to 100,000 dolphin deaths each year.[56] Environmentalists in the United States supported an embargo on Mexican tuna as a result of their production methods. When the GATT concluded "a contracting party may not restrict imports of a product merely because it originates in a country with environmental policies different from its own," environmentalists were outraged at the power of an international trade body to overrule national environmental laws.[57]

The results of the GATT decision launched a debate that threatened the Bush, Sr. administration's NAFTA negotiations about the roles of national environmental standards in international trade agreements.[58] Mexico decided not to press the issue further in the face of the NAFTA negotiations. Rumors surrounding the debate suggested that President Bush, Sr. suggested that Mexico take the embargo issue to GATT in the first place, which the environmentalists used against the president in the NAFTA negotiations.[59] Obviously, these accusations provided fuel for the environmentalists' fire about the fears that international trade would overrule domestic regulations.

Pressure for a Side Agreement

For both environmental and labor groups, the fast-track vote was a means to demonstrate the power that they had over public opinion. In other words, the environmentalists saw the debate as an opportunity, not a threat. As mentioned, the labor

[56] "Divine porpoise." *The Economist*, Vol. 321 No. 7727 Oct 5, 1991, A31.
[57] Ibid.
[58] French, Hilary F. "The Tuna Test: Tuna-Dolphin Dispute." *World Watch.* Vol. 7 No. 5 Sept-Oct 1994, 9.
[59] "Divine porpoise." *The Economist*, Vol. 321 No. 7727 Oct 5, 1991, A31.

unions shifted their focus from a loss of domestic jobs to poor working conditions in Mexico, an argument more in tune with the environmental fears of avoided environmental regulations. Because the labor unions saw fast track as a threat, they would not accept anything less than a denial of fast track. Putnam would categorize this issue under his concept of win-sets and the cost of no-agreement. The labor unions had a very low cost of no-agreement causing their win-set to be too small to negotiate on agreeable terms. Putnam's theory would suggest that the Level I negotiator would not come to an agreement with this Level II group because of their inability to be flexible.[60]

The groups in opposition to the fast-track debate on Level II of the negotiations formed a formal coalition of 62 environmental, labor, religious, consumer, and community interests, known as the Mobilization on Development, Trade, Labor and the Environment (MODTLE, later nicknamed the "motley crew").[61] Putnam outlines the idea of power relations in his theory by stating that a good theory would outline the influence of *politics* including roles of parties and interest groups.[62] He also discusses briefly the effects of their relative power and influence in the outcomes, almost a bureaucratic politics theory of competing interests. With MODTLE, the groups with lobbying systems in Washington D.C. formed an alliance against the government, representing Level II groups with the power. The policy results, then, will account for the interests with the most influential lobbying power, but only if the win-sets overlap with the international negotiator's win-set.

[60] Putnam 1988, 443.
[61] Mayer 1998, 51.
[62] Putnam 1988, 434.

Both labor and environmental issues became extremely important in the debate because they were typically issues for the Democrats. Because of the Democratic majority in Congress at the time of the vote, the Republican Bush, Sr. administration had to gain the Democrats' confidence for approval of the fast track. Because of the Democrats' majority in Congress, the administration understood that it could not win the fast-track authority if both the labor unions and the environmental groups did not support passage (two strong Democratic issues), but it could win with support from one of the two: divide and conquer. Because the labor groups were opposed to the fast-track authority altogether, the administration could not appease them (as Putnam's theory would predict). For this reason, the goal was to break the environmental group, not because they had the power, but because the administration wanted to create a positive public opinion of fast track.[63] Favorable press coverage could sway public opinion and ultimately Congressmen to pass the authority. In doing this, the administration could neutralize environmentalists' influence on the Democratic voters in Congress.

One of the most important figures in the fast-track decision was Majority Leader Richard (Dick) Gephardt, the main representative for Democratic issues such as labor and environment. Early in the fast-track talks, Gephardt had publicly denounced the NAFTA agreement on behalf of its environmental and labor issues.[64] In a letter from March 7th, two Democratic chairmen from the Ways and Means Committee of the Senate, Dan Rostenkowski and Lloyd Bentsen, sent a letter to President Bush, Sr. stating that they could not support fast track authority for the president without dealing first with the

[63] Mayer 1998, 54.
[64] Mayer 1998, 52.

issues from labor and environment.[65] With these major influences, the Bush, Sr. administration had to come up with an action plan to effectively split the environmental groups.

The Bush, Sr. administration decided to focus on national environmental groups such as the national Wildlife Federation, the National Audubon Society, the Natural Resources Defense Council, the Environmental Defense Fund, and the Nature Conservancy.[66] These groups tend to have the most input in environmental policies because of their ability to lobby and organize on a greater scale than most grassroots groups. The grassroots environmental movement generally does not trust national policymaking, so like the labor group there was no room for negotiations. With support form the mainstream environmental groups, the fast-track authority might gain the necessary environmental coverage to allow Democratic Congressmen to vote in favor of the trade authority.

To gain support from the mainstream environmental groups, the administration would have to meet the demands that the environmental groups and Gephardt laid out in what Putnam calls side payments.[67] First, the administration would have to promise to protect US sanctity of environmental laws. Second, they would have to ensure that Mexico enforced its environmental laws. Third, the administration would have to enact a plan to clean up the environmental spills at the border. Fourth, they had to promise the environmentalists a seat at the negotiation table. Gephardt suggested that the administration also create measures that would ease the transition for American workers

[65] Mayer 1998, 53-4.
[66] Mayer 1998, 54.
[67] Mayer 1998, 55.

with a worker adjustment program that would provide assistance and retraining to people displaced from jobs going to Mexico.[68]

The Action Plan and Reactions

The Bush, Sr. administration considered the environmental groups and Gephardt's suggestions when they shaped the Action Plan, or the outline of the side payments to which the administration would concede. The plan was presented first to Rostenkowski, Bentsen, and Gephardt through personal memos from the president. The Action Plan revealed that the president was "committed to working with the Congress to ensure that there is adequate adjustment assistance and effective retraining for dislocated worker,"[69] in congruence with the demands that Gephardt put forth. The memo also stated the president's promise to "develop and implement an expanded program of environmental cooperation parallel with the free trade talks."[70] This basically promised more close negotiations with environmental groups throughout the bargaining process, but did not assure the seat that the environmentalists wanted in negotiations. Further, he promised to "expand US-Mexico labor cooperation"[71] to appeal to the labor groups. Finally, the Action Plan announced the plan for cooperation with environmental groups to build a new proposal for cleaning up the border.

The reactions to the Bush Action Plan varied across the board. Rostenkowski and Bentsen were very happy with the terms of the side agreement. MODTLE members, however, announced their dismay with the "inaction plan" that the administration put

[68] Ibid. 55-56.
[69] Ibid. 58.
[70] Ibid. 58.
[71] Ibid. 58.

forth.[72] When the National Wildlife Federation declared its support for the fast-track authority, however, the administration had achieved its goal of neutralizing the environmental argument. With the US administration's concessions on the table in the side payments, Gephardt could announce his support for the Action Plan and the fast-track authority though he also swore that he would hold the president to his promises throughout the NAFTA negotiation process.

Putnam's theory on bargaining proves to be a useful tool for understanding the outcome of the fast-track agreement with each level and their win-sets and the final side payments. On May 23rd and 24th, both houses of Congress approved the president's request for an extension of fast track for two more years. Clearly, domestic politics played an important role in the outcome of the fast track debate as environment and labor pressured the administration for a side payment. Without the side payment, Congress could not approve the authority because of the Democratic majority and their interests in environment and labor issues. To the administration, the cost of no-agreement was too much to deny the groups a side payment. Ultimately, though, a comprehensive agreement proved greater than no agreement and the administration made promises that the dissenters could approve. Without the side agreement, Democrats could not have voted in favor of the extension.

NAFTA Negotiations

With the fast track debate out of the way, the administration could now focus on the meat of the NAFTA, the international agreements among Level I negotiators. With time constraints, different levels of economic development, promises made to the

[72] Ibid. 59.

American public, and the touchy subject of decreasing protections, the international bargaining would not be an easy task. The goal of the NAFTA agreement was to eliminate, over time, most barriers to trade in goods and services. By reducing the trade barriers, the three members hoped to promote investment in the other countries to spark economic development opportunities for each one. Early on in the United States, however, the administration focused more on finishing the GATT negotiations first, so NAFTA did not have full access to Washington D.C.'s resources.

In the early bargaining process, the member countries laid out the issues that would absolutely not be part of the bargain. For the United States, the NAFTA would not include any immigration policies. For Mexico, the government could not open Mexican oil because it was a matter of national sovereignty.[73] After CUFTA, Canada warned Mexico about the important "rules of origin" and a clarification of these terms.[74] Canadian automakers wanted high rules of origin to limit foreign competition, while Japanese and European transplants in Mexico wanted lower rules of origin. Further, each country seemed to have certain interests in opening trade with the other countries. For instance, the US farmers wanted to preserve sugar protections, but Mexican farmers with the comparative advantage in sugar production wanted to reduce the barriers. Within Mexico, banks wanted to keep the United States and Canada out, but industry wanted access to the lower interest rates that comes with competition.[75]

If the Level I trade representatives had been left to themselves to make a decision on the issues of the NAFTA, they could probably have hammered out the agreement

[73] Ibid. 71.
[74] Ibid. 71.
[75] Ibid. 71.

relatively quickly. The Level I negotiators, however, are entangled with the domestic interests at Level II that they represent. To work through the thousands of issues at hand, the US trade representatives broke down the issues into workable parts. By mid-fall, the representatives decided to discuss six major issues: market access, energy, automotives, agriculture, financial services, and services and investment.[76]

In terms of market access, the representatives had to agree on how to classify the issues. After agreeing that there would be no exception to the eventual elimination of trade barriers (except for those issues already states as off-limits), the only objective left was to plan a timeline for each issue. For this reason, representatives agreed on further classifications for each issue according to its sensitivity. The four categories were A, B, C, and C+. For trade with classification A, the barriers could be lifted immediately because there was little to no problem with eliminating the barriers; for classification B, within five years; for C, within ten years; and for C+ (a category requested by the US representatives), within fifteen years for goods that have extensive protections.[77]

The next issue was energy. Powerful groups in the United States and Mexico were often divided on the terms of NAFTA. Energy was a major interest in the trade negotiations between Mexico, Canada, and the United States. The US lobby groups, mostly from the Texas region, favored potential control of the Mexican oil sectors. Those with interests included President George Bush, Sr., a well-known business leader in oil producing companies from Texas. For Mexico, however, oil is a contentious issue, one that severely affected their national sovereignty. As a result of United States and British refusal to uphold the labor rulings in the Mexican Supreme Court in 1938, the

[76] Ibid. 74.
[77] Ibid. 74.

government nationalized the oil industry (now the Petroles Mexicanos, or PEMEX) and included the components of the agreement in the national constitution. Nationalizing the oil industry provided a great portion of the state's income in addition to jobs for hundreds of thousands of Mexican workers. The Mexican government could not afford a nationalist backlash to the NAFTA with regard to their oil holdings.

Upon hearing a rumor that Mexican officials were considering opening Mexican energy as part of the NAFTA, Mexican citizens were outraged with the possibility. As a result, Mexican officials announced "Five Noes" for negotiations: "no reduction of control over ownership, exploration or development of petroleum, including basic petrochemicals; no loss of control over storage and distribution; no foreign ownership of gas stations; no guarantees of supply to foreign countries; and no equity contracts for exploration."[78] Because of PEMEX inefficiency and the need for foreign investment, however, the Salinas administration was willing to consider some negotiation. The terms for negotiation involved primary and secondary oil products.[79] Primary petrochemicals, including exploration, drilling, and refining, would remain off limits to foreign control. Secondary petrochemicals, on the other hand, including products made from oil and some service contracts were left open in the agreement for US and Canadian investment.

[78] Ibid. 75.
[79] Ibid. 75.

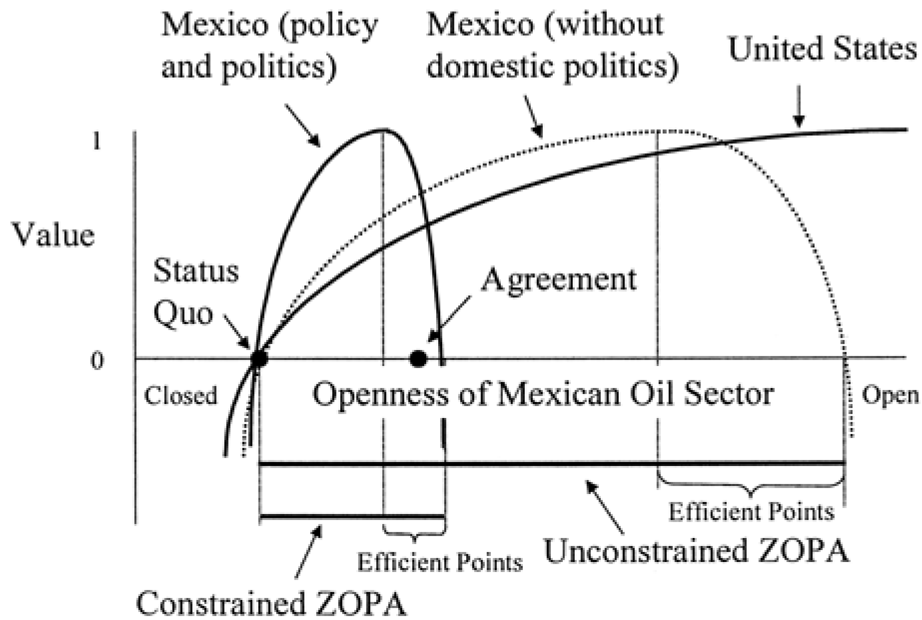

Figure 2 This figure demonstrates the zone of possible agreement (ZOPA) of the three negotiating countries concerning the opening of the Mexican Oil Industry. [80]

Again, the circumstances of the bargaining match Putnam's theory. The US win-set in terms of complete control Mexican oil was out of reach of the Mexican win-set. Until the Mexican representative announced that they would consider opening non-primary oil products, the win-sets did not overlap to reach an agreement. Further, like the case of the fast track influencing the side payments, the fact that the oil protections were written into the Mexican constitution forced the United States to agree to less than full access to the industry. Figure 2 presents a visual depiction of the various tradeoffs and win-sets of each country in terms of energy outcomes. The figure shows where the outcome of the agreement falls in terms of all potential outcomes. According to Putnam's

[80] Source of figure: Mayer 1998, 101.

theory, institutional arrangements can influence win-sets and therefore outcomes of the policy agreements as they did with the case of energy negotiations.[81]

Another industry that affected the negotiations of NAFTA was the automotive industry. Automobiles account for the most volume of trade among the three member countries of the NAFTA. Automobiles represent 14 percent of US exports to Mexico, 30 percent of Mexican exports to the United States, and 6 percent of US-Canadian trade. [82] Here, the Mexican government had much to learn from the failures of CUFTA to define proper terms of trade. With the CUFTA, the lack of proper definition could have potentially led the United States to take advantage of the other countries' auto industry. For this reason, the automotive industry was very heavily debated for reasons of clarification from the CUFTA.

Although the United States and Canada traded automobiles and parts mostly freely, Mexico had very high trade protection on automobiles to protect foreign investment and domestic employment. In order to sell an automobile in Mexico, according to their trade regulations, the car had to be made in Mexico. Because of this policy, many big automobile industries (including the United States' "Big Three" auto producers General Motors, Chrysler, and Ford and some European and Japanese car companies) relocated facilities inside of Mexico to gain access to the Mexican auto market and consumers. The NAFTA negotiations, then, had to address each country's willingness to concede to relieving trade protections.

The major debate with automotives involved the contentious issue of "rules of origin." Rules of origin are the terms that decide how much of a car has to be produced in

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[81] Putnam 1988, 432, 448.
[82] Mayer 1998, 76.

North America to be marketed as a North American car. In the United States, the "Big Three" car companies were torn because they wanted access to Mexican markets and therefore lower rules of origin, but they did not want such low barriers as to make it easier for European and Japanese competitors with locations within Mexico.[83] US automakers wanted to prevent Mexico from creating an environment conducive to foreign auto markets taking advantage of free trade to sell international cars in the United States at discounted prices. At the same time, they wanted to be able to use imported parts from Mexican maquiladoras in US vehicles. In addition, because GM often collaborated with Canadian car producers, they wanted to keep the percent of domestic production low (around 60 percent) in order to continue their joint venture.[84] Producers like Ford and Chrysler pushed for higher percentages in the 70 percentile range, and the UAW pushed for close to 80 percent.[85] These groups had stakes in keeping the production within the US borders with US workers.

Figure 3 below presents a graph of the Level I negotiator interests in the United States and the Level II constituent interests in rules of origin on the same graph. The Big Three companies wanted lower rules of origin than the UAW. Because the labor unions were not willing to concede any further, their argument was largely overlooked in the final agreement. From the graph, it is clear that the only overlapping win-sets fall between 60 and 70 percent rules of origin. To make a decision, the USTR split the

[83] Ibid. 72-3.
[84] Ibid. 77.
[85] Ibid. 76.

difference between the US automakers' demands and requested a 65 percent rule of origin.[86]

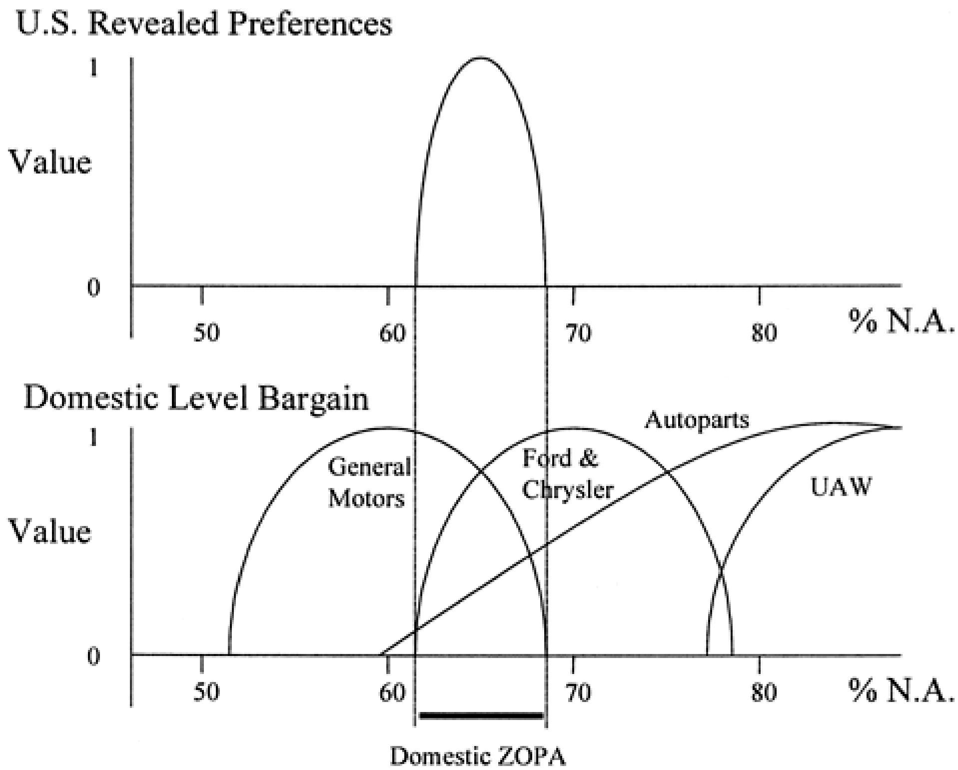

Figure 3 This figure demonstrates the zone of possible agreement (ZOPA) among the three negotiating countries concerning the automotive rules of origin. [87]

In Mexico, the Big Three companies provided numerous jobs for the Mexican people. At the same time, however, the Mexican trade representatives (like their Canadian counterparts) did not want to concede too much to the United States so as to lose European and Japanese investments in the auto industry.[88] Mexico followed Canada in agreeing to 60 percent. After a long time of halted deliberation, the three countries finally agreed with the USTR concession to split the difference between 60 and 65

[86] Ibid. 88.
[87] Source of figure: Mayer 1998, 102.
[88] Mayer 1998, 96.

percent to make a 62.5 percent rule of origin.[89] Some automakers were concerned about the concession, but Katz reminded them that it was only "a 2.5 percent difference on a 2.5 percent tariff."[90] Of course, the unions were unhappy with the results of the negotiation, but the administration could not guarantee their support if the rules of origin were higher.

Putnam's two-level game comes into play in this aspect of the bargaining process, also. The Big Three automakers in the United States have strong political influence in the US government. The Level I negotiators still need domestic support for the agreement; therefore it is in their interest to uphold the interests of the Level II constituents. When the companies suggested percentages, the Level I trade representatives listened because the automakers had the power to make or break the deal. Unfortunately, at the international level, 65 percent was not in the other countries' win-sets. For a long time, it seemed that the three countries would not come to an agreement. In the end, however, the United States had to concede because the cost of no-agreement on 2.5 percent of a 2.5 percent tariff was great enough to make a concession.

The next NAFTA issue has to do with the agricultural sector. Obviously, those groups who had been receiving trade protections and subsidies from their governments were not willing to give up their favored treatment to face the competitive advantage in agriculture of another country. In the United States, for example, farmers wanted protection for those items that Mexican farmers could make more cheaply: vegetables, fruit, and sugar. The US government provided subsidies and strong protectionist policies for these items. For Mexico, the agricultural industry felt it could not compete with US

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[89] Ibid. 89.
[90] Ibid. 89.

corn and grain production because of their inefficient methods. These groups had also been receiving government subsidies and protection from the Mexican government. Figure 4 offers a graphic representation of the agricultural aspect of bargaining.

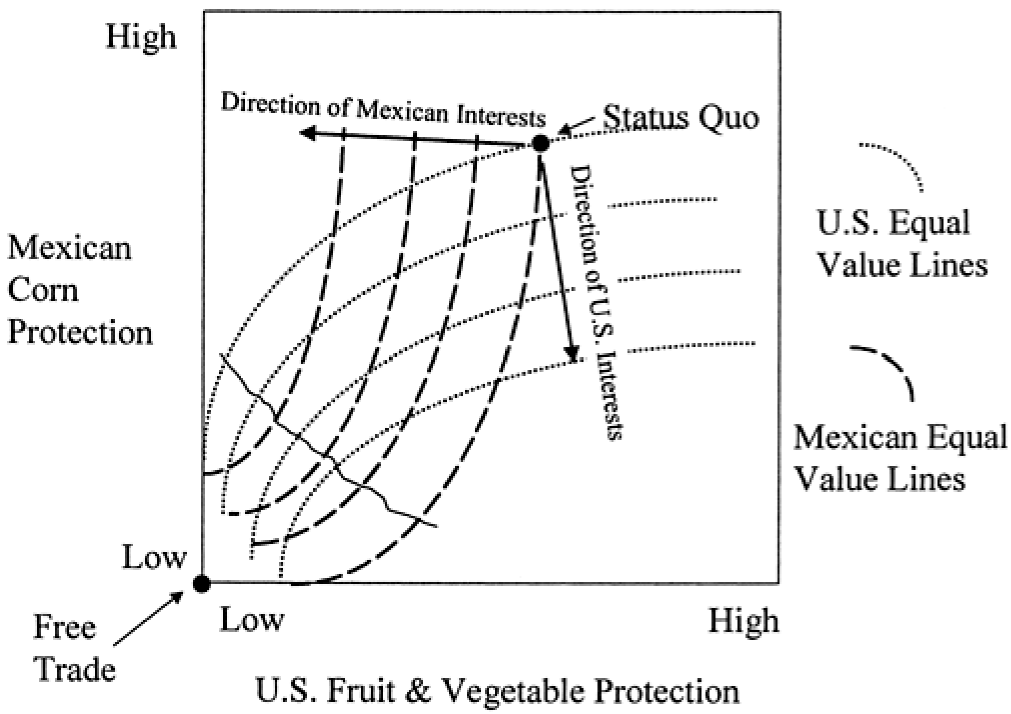

Figure 4 This figure demonstrates the trade-offs possible between the interests of Mexican and US constituents regarding the protections on corn and fruits and vegetables, respectively.[91]

Both Mexico and the United States had interests in keeping protection of agriculture, but they agreed in the beginning that nothing would be exempt from the agreement. In Mexico, the agricultural sector employed nearly 30 percent of the entire Mexican population, most of which involved corn production.[92] Yet Mexican corn was highly protected in the market because of their inefficient methods of production

[91] Source of figure: Mayer 1998, 100.
[92] Mayer 1998, 78.

compared to US farmers. The Mexican president, however, was ready to open corn in return for concession in other areas of agriculture that the US government protected, for instance, oranges.[93] Figure 4 shows the direction of Mexican interests in having less US Fruit and Vegetable Protections while having less Mexican corn protections showing graphically their willingness to trade off. The same willingness to trade off is visible in the US direction of interests.

Still, the US government faced similar arguments from farmers about giving up their farming protections since eliminating barriers could cause these industries to collapse. For this reason, the negotiators decided that the agricultural industries would receive the longest transition periods (the C+ category of sensitivity).[94] Further, in the event that an import surge threatens American producers, the NAFTA called for a temporary reinstallation of the tariffs.

The Florida Agriculture Commissioner requested that winter produce be exempt from the NAFTA completely.[95] The warm weather fruits and vegetables could not compete with Mexican advantages such as free and subsidized land, child labor, no minimum wage protections, and no environmental or job safety regulations. Since the USTR could not exempt agriculture, the political pressure pushed the representatives to get the longest transition protection for citrus, tomatoes, onions, eggplants, chili peppers, squash, watermelons, etc.[96] The USTR also allowed protection from import surges during the transition period.

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[93] Ibid. 92.
[94] Ibid. 78.
[95] Ibid. 78.
[96] Ibid. 87.

Like the labor groups before, the fruit and vegetable lobby in Washington D.C. was not willing to compromise or guarantee its support for the free trade agreement if the USTR met their demands. Because of the inflexibility and low cost of no-agreement, Putnam states that their interests will not lead to an agreement. For the USTR, the cost of no-agreement in the NAFTA was increasing. The best case for the USTR was to classify the sensitivity of the fruit and vegetable transitions to a C+ categorization giving the farmers a 15-year window.

As a tradeoff, the Mexican representatives offered to open its grain and corn markets in exchange for the US opening of warm fruit and vegetable markets. Both countries, however, faced strong domestic resistance to the policy. One major sector within the United States that had great influence was the sugar lobby. When Mexico asked for an increase in the US quota for Mexican sugar from 7200 tons to 1.5 million tons a year, the American Sugar Beet Growers Association called the request 'outrageous and greedy.' [97] The USTR and the Agricultural Department countered that Mexico was not a net exporter of sugar. Furthermore, Mexico would probably not become a net exporter if the barriers dropped. The sugar lobbyists argued that Mexican sugar producers could make alternate sweeteners using their surplus corn, or Mexico might import sugar from other countries such as Cuba and export sugar that they produce to become net exporters.[98] Because the Level I negotiators need the support from Level II voters, the USTR included a clause in the NAFTA to ease the sugar lobby's fears. The clause stated that, if Mexico becomes a net exporter of sugar, the trade quota would increase from

[97] Ibid. 86.
[98] Ibid. 86.

25,000 tons yearly for the first six years to 150,000 tons yearly.[99] The provisions, however, did not include corn sweeteners, which left sugar producers troubled.

The next area of interest was financial services sector, which includes banking, insurance, credit and securities. US investors had great interests in opening the financial services sector to foreign investment since the Mexican government had traditionally held such high controls and restrictions on market access to finance. For instance, no foreign banks or insurance companies could provide services in Mexico, and foreign holdings in Mexican banks were limited to 30 percent and in insurance companies to 49 percent.[100] The Mexican trade representative, however, understood that Mexican banks were not competitive, but rather were highly inefficient. For this reason, though opening the financial services would be painful for Mexican banks, it would be, overall, beneficial to the economy to experience the lower interest rates that US banks could offer. [101]

In early bargaining, however, the protectionist arguments won the Mexican president's support. Because of the inefficiency, the banks could simply not compete with US banks. President Salinas' bargaining position was greatly influenced by political ties with financial services in favor of continued protection of the sector. Like the powerful political groups in the United States, the financial groups had influence in the Mexican government to convey interests in policy outcomes. As Putnam notes, those groups with power will influence the Level II win-set to alter the outcomes in favor of their interests, and thus affect ratification.[102] Therefore, Salinas decided initially that there could be a gradual opening of financial services, but he decided to cap foreign participation in

[99] Ibid. 86.
[100] Ibid. 78.
[101] Ibid. 78.
[102] Putnam 1988, 434.

Mexican banks at 5%.[103] The Mexican government faced strong resistance to further concessions, but eventually Salinas was able to offer a 12% cap instead of just 5%. [104] US and Canadian representatives had hoped for more influence, but recognized the difficulty that the Mexican government faced. Later, however, the US trade representatives faced strong resistance from its own banks who were against any ceilings. The USTR, then, had to return to the Mexican bargaining table to eliminate the ceilings. Eventually, Mexico abandoned its permanent ceilings requesting instead a longer transition and safeguards against rapid increases in foreign holdings.

Environmental Concerns Looming

In the meantime, there were other events that spurred the environmental groups to voice their opinions of the negotiations, and the Democratic National Convention was drawing nearer, thus pressing time constraints. First, the tuna-dolphin case outlined above caused fury among environmentalists. When the USTR released the provisions of the Integrated Environmental Border Plan, environmentalists could not distinguish this plan from the already existing plan. They were outraged that the United States only committed to spending $379 million on border cleanup and Mexico only $460 million, falling short of the billions that the environmental groups felt was necessary.[105] Other than the money situation, the plan in general was not sufficient to appease the environmental groups; it was dubbed “a plan to plan.”[106]

After a leaked version of the NAFTA seeped out to the environmental groups, they rejoined forces to fight the lack of environmental protections. They prepared another

[103] Mayer 1998, 85.
[104] Ibid. 85.
[105] Ibid. 88.
[106] Ibid. 83.

new list of demands from the text. Again, considering the cost of no-agreement from environmental groups' influence in the Democratic Congress, the USTR agreed to open up portions of the NAFTA text for "greening."[107] The Mexican negotiators were extremely upset with the prospect, but the environmental additions were a better option to no-agreement. The final addition included measures to protect human, animal, and plan life and health and that no country may lower its health, safety, or environmental standards in order to attract investment.[108] The problem, however, was a lack of enforcement provisions included in the additions.

Elections on the Horizon

As negotiations seemed to be getting close to finished, the Democratic National Convention had already passed in mid-July. The negotiators decided to try to finish the details before the Republican National Convention of mid-August. In fact, after 14 months of negotiations, the trade representatives from the three member countries shook hands to symbolize agreement on August 12, 1992. For Bush, Sr., the administration saw NAFTA as a good policy for his own reelection. Further, it would put Governor Bill Clinton on the defensive because the two strong Democratic lobbies, labor and environment, did not approve of the NAFTA.

Essentially, the agreement itself was going well, but the ratification potential was still in need of attention. Business groups were happy with the agreement, but the opposition groups from the fast-track fight had not dissipated entirely in the 14 months of deliberations. The labor unions did not support the agreement, especially due to the

[107] Ibid. 83.
[108] Ibid. 84-5.

‘trickle down’ effect of jobs going to Mexico.[109] Environmental group reactions ranged from lukewarm to boiling. The Action Plan was becoming more of an issue as the environmentalists did not see any action arising from the plan. In other words, though the representatives had closed the agreement, the ratification process was only just starting. The fate of the agreement was still undecided.

The Bush, Sr. administration figured that Governor Clinton would probably have a hard time offering support for NAFTA because of labor and environmental dissenters. Unfortunately for Bush, the environmental and labor groups had the same idea. To ratify the NAFTA agreement, the president would have to prove his intentions with the Action Plan side payments. Without the side payments, the Level I representatives will not have overlapping win-sets with the Level II voters, as was the case with the fast-track authority approval. Because Clinton was a Democrat, the opposition coalition would have more power and influence with a Democratic president. As Clinton began leading in the polls, environmentalists and unionists saw a new opportunity.

Clinton’s Side Payments

In September of 1992, it became clear that Bush, Sr.’s popularity was ebbing, and Clinton was leading in the polls. With these changes, few groups were willing to cut deals with President Bush, Sr. as they looked for a better opportunity for change with a Democratic administration. Clinton had decided not to release any comments on the NAFTA until after he had seen the text for himself. In the meantime, environmental, labor, and business lobbies focused extensively on Clinton from the start. After obtaining a copy of the agreement, Clinton was forced to take a side on the agreement. Eventually,

[109] Ibid. 90.

Governor Clinton announced that he would support NAFTA, but to soften the blow to his Democratic loyalists (and to take the middle course), he also announced his plan to include additional clauses in favor of labor and environmental interests before Congress would vote for approval.[110]

When Clinton announced his support for the agreement with provisions for environment and labor without having to renegotiate the whole deal, the side payments became the central focus of Clinton's NAFTA. To help him with both GATT and NAFTA negotiations, the new president appointed a new United States Trade Representative, Mickey Kantor. Kantor had been President Clinton's campaign manager with ties to the union, but he had no experience with trade issues.[111] It was a tough position for him, especially with the trade priorities of GATT and NAFTA as well as negotiations with Japan and China on trade. Unfortunately for Kantor, there were no models or precedents to which he could look for help with the upcoming side agreements. One potential benefit to the administration, however, was the new Democratic majority in both houses.

The difficulty for the Clinton administration in the side payments would be to balance any payments to environment with those to labor; Clinton could not give more attention to environmentalists than to workers.[112] In January of 1993, Senator Max Baucus suggested that the side payments include "something with teeth but which recognized national sensitivities," probably referring back to when Bush, Sr. reopened the

[110] Ibid. 87.
[111] Ibid. 106.
[112] Ibid. 106.

negotiations because they lacked enforcement.[113] The concept of ‘teeth,’ or power to enforce regulations, would become an important metaphor throughout the side payment negotiations. One way to have ‘teeth,’ according to Baucus, was to impose trade sanctions for lack of performance. After Baucus’ statement, enforcement in terms of ‘teeth’ became the central issue in the debate for Clinton’s side agreements.

Groups divided themselves based on the idea of sanctions that would result from a lack of enforcement of labor and/or environmental standards. Trade Representative Kantor was convinced that Mexico was vulnerable enough to agree to sanctions, though early in the negotiation, he did not push the issue. Kantor, however, remained unconvinced and the opposition was ready to insist on sanctions included in the agreement. The three trade representatives met and Mexico and Canada outright rejected any use of sanctions or labor commissions with inspection powers.[114]

Environmental Groups

As mentioned, with Clinton, labor and environmental groups finally saw an opportunity to influence the outcome of the negotiations. Based on lessons learned from the fast-track fight, the Clinton administration knew that it had to divide the environmental movement in order to neutralize the issue. This would be slightly more difficult given the time that had passed since the fast-track debate. The groups had time to grow and organize around their issues. While split on some matters, most of the environmental groups agreed that NAFTA was detrimental.[115] For this reason, the groups announced their demand that NAFTA had to include better enforcement of environmental

[113] Ibid. 112.
[114] Ibid. 112.
[115] Ibid. 111.

laws in Mexico, guarantees of the sanctity of US environmental laws, greater environmental cooperation between the United States and Mexico, and more funding for cleaning up the border region.[116] The environmental groups already showed divisions between grassroots and national environmental organizations. In order to unite the environmental groups, they would have to agree on the degree of enforcement necessary for the NAFTA provisions, but fortunately for the US administration, this seemed highly unlikely to occur.

Labor Groups

Labor, as in the fast-track debates, was in less of a position to influence the outcome of the side agreements because of their inflexibility. Still, they demanded a social charter for labor while leaving no guarantee that better working conditions in Mexico would ensure labor unions' support. In general, the unions tended to find all parts of NAFTA to be bad. Some outcomes, however, would be worse than others in their opinion.[117] Because the new president had vowed in his earlier remarks to consider environmental and labor concerns, President Clinton proved willing to concede in some areas in order to achieve approval.

In order to influence the decision makers, the union groups looked to their most vocal and powerful political voice in Dick Gephardt. Gephardt was the most vocal skeptic of the "Bush NAFTA" among the Democrats and had the authority to signal to the Democrats their support for the NAFTA. To reinforce Clinton's remarks on labor concerns in the side agreements, Gephardt insisted on increased working standards in Mexico, better retraining provisions in the United States, and better infrastructure in the

[116] Ibid. 111.
[117] Ibid. 113.

border region.[118] Because Gephardt represented the Democratic majority now in both houses, the administration would have to spend more time working with him than any other member of Congress in order to gain Democrats' approval of the NAFTA.[119] With Gephardt's backing, many Democratic members of Congress would have the political cover to vote in support of the NAFTA.

The other consideration had to be Mexico's willingness to agree to the side agreements. Labor, in particular, was tricky given the Mexican political situation. As mentioned, the ruling party had strong ties to the business interests in the country. Further, there was a close relationship between the national unions and the PRI. For this reason, some of the demands for child labor laws, minimum wage, and the right to organize were politically problematic, especially when inspected at the international level.[120] It would be easier to pass regulations on environment through Congress than on labor. Serra announced he could only consider health and safety standards early in the negotiations. After many months of stalemate, the Mexican trade representative conceded to open minimum wage and child labor, but not industrial relations.[121] He also promised to link minimum wage and productivity as Gephardt had also suggested.

Business Groups

The business community also voiced its position in the face of Clinton's promises to environment and labor. They warned the administration that they were happy with NAFTA the way it was with Republican President Bush, Sr. The group was worried about Clinton's promises to supplement NAFTA with trade sanctions tied to labor and

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[118] Ibid. 114.
[119] Ibid. 114.
[120] Ibid. 121.
[121] Ibid. 126.

environmental issues.[122] The business groups argued that this would provide new non-tariff barriers, the exact opposite of the goal of NAFTA in the first place. They also warned the administration that sanctions could potentially set a precedent for sanctions against the United States for violations of their own labor, human rights, civil rights and other unfavorable behaviors. More immediately, they worried that the agreements would take too much time and perhaps increase the risk of no agreement at all.[123] In all, however, they wanted to assert that Republican support for the final NAFTA was not automatic; they did not like the idea of linking environment and labor into an international trade agreement.

The Clinton Administration's Proposal for Side Agreements

The differing positions on 'teeth' deliberated for months without coming to any concrete decisions. Each position held steadily to their beliefs about sanctions in the NAFTA side agreements until the stalemate caused supporters to push their win-sets to their absolute limits. The further concessions from Mexico came in and Clinton and Salinas sealed the deal at 3 a.m. on August 13, 1993. The representatives decided on the more moderate approach calling for a commission with reasonable power and independence that would investigate allegations of non-enforcement by governments, individuals, or the secretariat of the commission.[124] The commissioners would have the ability to request information from the government and to suggest adjudication in an international dispute panel for a pattern of non-enforcement. If a majority of the panel decides that the regulation is in violation, they would be subject to fines up to $20

[122] Ibid. 115.
[123] Ibid. 115-6.
[124] Ibid. 117.

million.[125] In the event that the country or company does not pay the fines, the other governments can enforce trade sanctions.

This political decision worked to appease the interests of most groups. For those opposed to sanctions, the representatives could count on paying fines and not needing to go so far as sanctions. For those who wanted teeth, the sanctions were there as a back up after the fines. Mexico accepted the full dispute resolution process on enforcement of child labor and minimum wage laws.[126] The Mexican administration also signed a contract that would promise links between productivity and minimum wage, and Clinton agreed to exempt the politically charged industrial relations. [127]

Congress Votes

After the three member countries agreed to the terms of the side agreements, the NAFTA went to Congress for its up or down vote. In the three months between the end of side agreement negotiations and the Congressional votes, the various constituents lobbied and used the media to convince members of Congress of the implications of the NAFTA. Just two weeks before the vote, the Vice President of the United States, Al Gore, organized a publicized debate on Larry King Live against Ross Perot, an explicitly anti-NAFTA millionaire who spoke of “the giant sucking sound” of jobs going to Mexico.[128] The Vice President held up very well in the debate and clearly won the audience over, which caused some Republicans and Democrats to join the pro-NAFTA side at the last minute. Finally, on November 17, 1993, the House of Representatives voted 234 to 200 in favor of adopting the NAFTA, winning with 102 Democrats and 132 Republicans. The

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[125] Ibid. 124
[126] Ibid. 126.
[127] Ibid. 126.
[128] Ibid. 145.

margins of the results were much greater than expected. Just three days later, on November 20, 1993, the Senate followed suit with a 61 to 38 vote in favor of adopting the NAFTA, demonstrating the confidence of voters after the results of the House vote. After three years of negotiating and deliberating, the agreement was finally completed.

Conclusion and Analysis

Because of the constant interaction between international and domestic actors (Level I and Level II), the existence of the win-sets, and the influence of the chief negotiator that occurred with NAFTA negotiations, this trade agreement confirms elements from Putnam's argument providing support for the existence of entanglements between domestic and international agreements. Without the domestic influence on the international bargaining representatives, the NAFTA would probably have looked like the NAFTA articles itself. In other words, it would not have had included Bush's Action Plan or, later, Clinton's Side Payments. Furthermore, the NAFTA may not have included the long transitions that the countries granted to various sectors. However, because the domestic constituents in favor of labor and environmental supplements flexed their muscles to sway the outcome of the approval process, the international representatives had to make further requests from Mexican officials in order to gain domestic support from environmental and labor. Moreover, the NAFTA would have never taken place, as Putnam argues in his theory, without international pressure and a mutual agreement to tear down protectionist barriers.

One important step that aided NAFTA process to approval was the consent for fast-track authority given to the president to negotiate an international trade agreement without the input of the Congress. By extending this privilege to the president, the

Congress could only vote yes or no on the final product of the NAFTA bargaining process. The Congress, then, does not have the same input into the agreement, thus inhibiting the domestic value complexity that comes from competing interests, potentially leading to a stalemate in an international agreement. Without so many domestic interests coming through, the negotiators could focus the bargaining process more easily.

The fast-track authority, however, does not completely deny any domestic influence to domestic constituents. The Congress still has the power to approve the outcome of the agreement. In order to gain some Congressmen's support, therefore, the side agreements become necessary, as Putnam outlines in his theory. These side agreements must be within the other countries' win-sets for domestic approval to prevent a case of no-agreement. In the case of NAFTA, the Mexican administration had little influence with the US representatives, as the Salinas administration relied heavily on the successful outcome of the NAFTA negotiations. Further, because Mexico had higher protections before the NAFTA, the administration had more issues to which to concede, which is evident in the NAFTA bargaining process itself.

In Putnam's theory, he allows for influence from organizational processes in the creation of the win-sets. In the NAFTA, for instance, the fast track organizational process itself influenced the outcome of the NAFTA as an operating procedure. Fast track is a process in place to ease international trade negotiations. If the fast-track authority had not been a potential path for the administration, it is probable that the agreement would have never reached Congressional approval because there would be too many interests at play. With the authority, on the other hand, the executive has more power to control the negotiations and keep the environment and labor interests at bay. The fast track authority will be a major necessity to work out the details of future US trade agreements to prevent the problems associated with value complexity from creating a stalemate.

Implications for the Free Trade Area of the Americas

Based on the processes of the NAFTA agreement, there are certain issues that must be of great concern to the negotiators of the FTAA. Firstly, the administration would do well to get fast track authority again. It would prove extremely helpful to the international trade negotiators. As mentioned numerous times throughout this thesis, the fast track takes away some of the pressures from domestic interests during the negotiations until it comes time for Congress to vote on the agreement's approval. Since the NAFTA fast track debate, however, it has proven very difficult to achieve the authority to control trade agreements.

This leads to the second point that, in the time that has lapsed since the fast track and NAFTA negotiations, the dissenters have had lots of time to organize themselves more effectively against the possibility of an FTAA as well as the president's ability to negotiate without Congress. With the chance that the administration does not achieve its fast track authority, these groups become even more powerful. Further, with a Democratic majority in Congress as it was before the current Congressional makeup, the environment and union groups have preserved power over the Congress members who are the usual sympathizers of these issues. Perhaps with the current Republican majority across the US administration and Congress, there is a chance that they might approve the FTAA.

Another means of prevention of the FTAA is the number of protections, not just environment and labor. Since the FTAA negotiations began, various groups have sought protections on their interests. Three major players in the FTAA are textiles, steel and agriculture. This may go hand in hand with the lack of fast track authority, because these groups do not want to lose their markets to cheaper producers. Also, the worries are not fully coming from the United States, but from countries like Brazil and Chile that are troubled about opening trade in every industry. Now there are even more interests involved than just those of Mexico and Canada. By retaining protections, however, the countries are defeating the purpose of having FTAA in the first place to reduce protections overall. If these groups gain power, though, it will prove very difficult for the administrations to bargain their way out of, at least, side payments.

In all, in terms of Putnam's theory of two-level bargaining, one can conclude that the implications for the future of an FTAA agreement is bleak. If the administration cannot control the value complexity resulting from competing domestic interests in the United States, it will prove extremely difficult to reach an agreement that will truly reduce industry protection. According to Putnam's theory of domestic and international entanglements, an international agreement can generate policy that a country would not necessarily commence without domestic influence. However, because the international pressures exist, the administration will work with other nations to achieve the agreement if it is in its national interest. In other words, the Bush, Sr. administration, or Level I negotiators, would not have initiated domestic policy to voluntarily reduce protections on trade, but with international incentives, they pursued the agreement. Of course, he could have achieved full approval without domestic consent in Congress, or Level II negotiations, potentially through side agreements. The FTAA, as a NAFTA on a much greater scale, has multiple levels of bargaining that must come together in order for it to reach its ultimate approval, which ought to be many years away, if it happens at all.

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