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**The Growth of a Myth:
A Case Study of Chile's Accession to
the North American Free Trade Agreement**

Gisela Frias

A Thesis

in

The Department

of

**Political Science
(Public Policy and Public Administration)**

**Presented in Partial Fulfilment of the Requirements
for the Degree of Master of Arts**

**Concordia University
Montreal, Quebec, Canada**

May 1996

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ABSTRACT

The Growth of a Myth: A Case Study of Chile's Accession to the North American Free Trade Agreement

Gisela Frias

This study is an investigating analysis of the North American Free Trade Agreement (NAFTA) in the context of capitalism and its internationalisation, globalisation. The emphasis is placed on the relationship between neoliberalism and NAFTA through a comparative study of neoliberal policies implemented in Chile since 1973 and NAFTA provisions. Some of the issues to be addressed are: the shared ideology behind neoliberalism and NAFTA, the interest behind the agreement, the use of the agreement to consolidate neoliberal reforms, the social costs of implementing NAFTA and the social discontent it has generated.

ACKNOWLEDGEMENTS

The research and writing of this thesis has been greatly aided by many friends who have encouraged me through conversations and discussions over the past year.

I gratefully acknowledge both the intellectual and moral support of friends, family and Concordia faculty. In particular, I owe thanks to Dr. Harold Chorney for his dedication and his encouragement and to Dr. Julio Tresierra for his insightful contributions and suggestions to this thesis.

Special thanks must go to my friends Rowena Pinto and Collette Shaw who took the time to carefully read and make comments on my thesis and Sandra Morales for helping me with research.

Finally, I would like to thank my father, Felix Frias, for his support and for always believing in me.

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"If the free traders cannot understand how one nation can grow richer at the expense of another, we need not wonder, since these same gentlemen also refuse to understand how within one country one class can enrich itself at the expense of another" Karl Marx, "Address on the Question of Free trade, 1848," *The Poverty of Philosophy* (New York, 1963), 223.

INTRODUCTION

The literature pertaining to the North American Free Trade Agreement (NAFTA) has produced several interpretations of the agreement contributing to the inevitable confusion of those attempting to grasp an understanding of the true nature of the agreement and its significance. Numerous studies are characterised by a forthright polarization of variables. Most outlooks in the literature include isolated economic, political or sociological perspectives. Furthermore, most articles, journals and books published have tackled the analysis of NAFTA by studying the agreement as a static, independent phenomenon in international relations and have ventured into looking at sectoral, national or ecological effects, with most studies insisting on the virtues of the agreement or at least agreeing on its unavoidable nature.

The contextualisation of the North American Free Trade Agreement within capitalism is seldom established. Instead, most studies have dealt with free trade at a high level of abstraction, a practice that has led to the creation of distorted studies of the real effects that free trade, and other stages of the globalization of capitalist production

have and continue to incur on society. The evaluation of free trade is seldom placed within the historical context of capitalism, the economic system that gave rise to the agreement. Accordingly, exposing of the ideology that supports it, as an attempt to develop political accommodations to the economic and social conditions created by the economic system, is virtually absent from the discussion concerning the agreement.

This analysis of the North American Free Trade Agreement starts by locating the agreement in the context of capitalism and the process of the spread of capital and its internationalisation, globalization. Moreover, I shall argue that there are substantial reasons to believe that NAFTA, as a device for the spread of capitalism and the institutionalisation of neoliberal economic policies, is sure to widen the income gap between the underdeveloped and developed economies as well as increase inequality within national borders. These social "contradictions" of the system's globalization, these social "failures" associated with the successful spread of the capitalist system, should come as no surprise. The real outcome, "contradictions" and social "failures" are the logical consequences of the process of capitalist development. A process that throughout its history has demonstrated its destructive nature alongside its accomplishments.

Uncovering the myths and ideology propagated by the defenders of free trade is a must if we are to find alternatives to lead ourselves away from the grim future that present economic decisions are imposing on all of humankind. It is unrealistic to imagine that the vision of the next stage in the advancement of civilization can be formulated without a thorough examination of the attitudes and assumptions that currently underlie approaches to economic development. We must begin with a true understanding of our

global conditions, with the acknowledgement of the facts, facts that demonstrate the decay of living standards in the developed world and the accelerated decay of living conditions of the majority of the human population living in the underdeveloped world. Myths and ideology, used to cover up the unacceptable reality we live in, have worked against a true understanding of our current predicament. But, reality remains independent of our acknowledgment or denial. It is with the hope that by unveiling the myths of free trade and by exposing reality we may search for alternative economic solutions for the true service of humanity.

A homogenised world economy is being institutionalised through international trade agreements and through brittle and unfounded promises of unlimited growth, alluring promises of boundless commodity consumption and false guarantees of economic development. The reality of the increasing globalization of international capital is that it is founded on the exploitation of nature, it thrives on inequality and human suffering and promotes the erosion of the sovereignty of nations and the representation of citizens. The North American Free Trade Agreement (NAFTA) is but a mere tool for the institutionalisation of the autocratic governance of international capital. NAFTA is the next step towards the globalization of unregulated capitalism, the consolidation of economic liberalism.

The myth of NAFTA is that it will facilitate the continuity of growth, during a period of stagnation, in developed nations as well as foster economic development in the less industrialised world, primarily in Latin America. Seductive myths and promises of development through neoliberal economic policies and trade liberalisation however, must

be confronted with real implications of their implementation. A study of such promises reveals the contradictions of NAFTA and other steps of globalization. NAFTA is a tool for the internationalization of finance capital which will further increase the gap between those who have and those who have not, within nations and among nations, it will do so by exploiting nature and eroding the accountability of governments to their citizens.

Chile's recent invitation to join the three NAFTA members, the U.S., Canada and Mexico, has been internationally interpreted as a symbol of "recognition" of the southern country's economic success. The negotiations with Chile have ignited discussion on the country's position as the most robust economy in Latin America as well as discussions on further benefits that Chileans will enjoy from joining the NAFTA. Chile's neo-liberal economic model, which has been categorised as the most orthodox and monetarist case in Latin America, is being praised as a successful case of free market economics. Propositions suggest that following the neoliberal model may lead underdeveloped countries to enjoy the international recognition that Chile enjoys today. The model, which required political repression and economic liberalism, for two decades or more, promises followers the emergence of a stable economy with a valuable currency, increasing rates of growth and record levels of foreign investment. However, Chile's macroeconomic indicators display an abstract and contradictory view of tangible conditions.

Social indicators show a different side to the success of the Chilean model. In 1995, 45 percent of the population was living under the poverty line and the gap between the rich and the poor has widened. Today the richest 20 percent of the population enjoys

a greater share of the national income than ever before. In 1992, 20 percent of the population received 60.4 percent of total income and the poorest 20 percent only received 3.3 percent.¹ Moreover, there is indication that NAFTA will intensify the detrimental social implications of past neoliberal policies, leading to further deterioration of living standards of the Chilean people. We may also expect an additional increase in inequality as well as an overt social uprising of those more directly affected by the impacts of NAFTA, the labour class, rural communities, native communities and those living in absolute poverty in the proliferating shantytowns of urban Chile.

¹"Workers in an integrating World," World Development Report 1995 (Oxford University Press, 1995), 221.

CHAPTER I: THE GROWTH OF A MYTH

THE REALITY OF NAFTA: GLOBALIZATION OF THE CAPITALIST SYSTEM

Inequality and increased polarisation has become the imminent product of the global expansion of a system that for the first time in history has included most people of the planet, that system being capitalism. The spread of capitalism, the process of globalization, has expressed itself through an "explosive growth in the past twenty to twenty five years of huge multinational corporations and vast pools of capital that have crossed national borders and penetrated everywhere"². To secure the successful internationalization of capitalist exchange and production relationships, corporate international power has mounted an aggressive ideological campaign; the neoliberal argument about the "natural" and "inevitable" primacy of the market over politics and the state has been revived and its consolidation, through NAFTA, is a reality.

Advocates of NAFTA make several arguments for the agreement. The most typical claim being that free trade always creates benefits for all participants and that the only other option "protectionism" is bound to fail. Prominent proponents of the agreement such as Mexico's Secretary of Commerce, Jaime Serra Puche, have repeatedly argued that "there is no possibility of debating the economic effects of NAFTA"³ as these benefits are considered unquestionable and scientifically proven. Those who are most

²Michael Tanzer, "Globalizing the Economy: The Influence of the International Monetary Fund and the World Bank," Monthly Review (Sept, 1995), 1.

³James M. Cypher, "The Ideology of Economic Science in the Selling of NAFTA: The Political Economy of Elite Decision Making," Review of Radical Political Economics Vol. 25, No. 5, 1993, 147.

active in the project to promote NAFTA however, include multilateral institutions and a network of corporate interests that have an ideological commitment to market driven models of economic development.⁴ The International Monetary Fund (IMF), the Inter-American Development Bank (IDB) and the World Bank (WB), multilateral institutions that share a fervent promoters of NAFTA are also strong supporters of ultra-free market ideology.

Another strong force behind the promotion of NAFTA has been corporate interests, expressed through the involvement of the Trilateral Commission (TC). This Commission, made up of more than 300 members primarily presidents and CEOs of global corporations, bankers, politicians and a few academics, is the most powerful and elite organization for world planning known to exist⁵. Designed to "minimize the friction and competition that divide the corporate giants and make them vulnerable to the organizing efforts of the poor"⁶, the TC's lobbying efforts have concentrated on encouraging NAFTA and its expansion in order to eliminate "interference" from government and encourage the "withering" of the nation state⁷.

Understanding the history and development of the economic system that governs the world today, capitalism, allows us to acquire a more accurate understanding of our present plight and to more reliably predict where the movement of the system will lead

⁴James M. Cypher, State and Capital in Mexico (Boulder: Westview Press, 1990), Ch.6.

⁵Joyce Nelson, "The Trilateral Connection," The Canadian Forum Dec. 1993, 5.

⁶The formation of the TC was described in Barnet and Muller, Global Reach (New York: Simon and Schuster, 1974).

⁷Joyce Nelson, "The Trilateral Connection," 9.

us to in the future. Thus, by contemplating how capitalism generates and expands itself, by carrying out the task of discovering its logic, we may understand the reasoning behind the institutionalisation of NAFTA, what interests lay behind it and what we should expect from the implementation of its neoliberal agenda.

The fundamental reality of capitalism, its non static nature, an indisputable truth, has remained partially ignored by some branches of the academic discipline of economics. The discipline of economics has failed to integrate the modern transnational corporation (and capital mobility) into a coherent theory of trade. The failure of the discipline in dealing with the changes of the capitalist economic system, the system it seeks to explain, is evident as we approach the twenty first century. Economic policies today should reflect lessons learned in the twentieth century. Instead they reflect outmoded nineteenth century theories.

The textbook model of capitalism, repeatedly cited by economists, and by businessmen (women) and politicians alike, are models that fit the structures of the system at its beginning and fail to depict a true picture of capitalism today. While economists today still struggle to apply the doctrines developed at the time the system first came into existence, capitalism follows its course of "continuous development"⁸. Furthermore, the system has accelerated its pace of change and in the last two decades the discrepancy between what the initial model and theories portray and the capitalism that we live today has become significant. What has not changed however, is what constitutes capitalism's

⁸"On understanding the History of Capitalism," Monthly Review Vol. 44, No. 5 October 1992, 2.

driving force, capital accumulation.

Understanding that the driving force of capitalism throughout its history, always has been, and always will be the process of capital accumulation and that "the real tendency of capitalism as it develops and matures is not to accumulate less but to accumulate more"⁹ is a starting point towards understanding how the "success" of capitalism lies in the creation of inequality, in the accumulation of more and more riches in fewer hands. To use Heilbroner's characterization of the process of capital accumulation, "the activity that lies at the heart of the order", "the *energy* that capitalism generates"¹⁰ is both its heart and energy as well as the seed of the system's social failures. Capital accumulation can be best described as the process of taking money to make more money. The process involves the creation of profits or surplus capital value through investment which cyclically provide further profits. These profits are then reinvested or used to augment the capital stock. The further accumulation of capital leads to more profits, which leads to more accretion and as such the system continues its upward spiral. However, the "engine of growth" breaks down as accumulation takes place and inequality grows.

Capital accumulation, the mechanism that sustains economic progress in the capitalist economic system, is responsible for simultaneously creating wealth as well as misery. In capitalism, capital and income grow and become increasingly concentrated in

⁹"On understanding the History of Capitalism," 5.

¹⁰Robert Heilbroner, Twenty-First Century Capitalism (Concord: House of Anansi Press, 1992), 26.

relatively fewer hands. Today, transnational corporations and international financial institutions combined generate a growing flow of surplus capital which searches, throughout the world, for investment outlets which will most likely result in future economic growth. A limitation to that promised growth however, is the high level of inequality, created by increasing capital accumulation, resulting in underconsumption. Underconsumption besides its social effects undermines the system that depends on the demand for consumption.

The process of globalization of the capitalist system of production and growth has gone hand in hand in the history of capitalism. However, it is essential to keep in mind that neoliberal policies of unregulated international commerce and reduction of state services have not been a foundation of capitalist expansion.¹¹ NAFTA is quite explicitly an agreement that pushes out the boundaries of unfettered capitalist production. This time globalization does not only involve the relentless penetration of private capital and market principles into every arena of life but, its powerful restructuring force is being consolidated incurring great implications for the possibility of future implementation of progressive alternatives. NAFTA places the unregulated market as the determinant of our social exchanges.

NAFTA: THE CONSOLIDATION OF NEOLIBERAL REFORMS

Through their relationship with the IMF and World Bank, Mexico and NAFTA's

¹¹Arthur MacEwan, "Globalization and Stagnation," Monthly Review Vol. 45 No. 1, April 1994, 4.

latest proposed member, Chile, are familiar with formal process of conditioning of their economies to neoliberal reforms. Today, NAFTA, with the strength of an economic constitution, is not only a tool for the globalization of the capitalist mode of production but a tool for the consolidation of neoliberal reforms. The agreement is driven by a marriage of corporate interests with a resurgent neoclassical economic theory. Accordingly, a powerful laissez-faire ideology of deregulation, privatisation and liberalization runs through the agreement.

The goal of neoliberal reforms is in principle to liberalize markets and deregulate them to provide the "cleanest" market signals so that agents can respond to price incentives. With agents free to pursue private interests, Adam Smith's "invisible hand" is left to promote social interests. It follows then that state enterprises should be privatized, product and factor market activity should be deregulated, finance and trade liberalized and subsidies or other forms of government intervention in direct market activities eliminated.

NAFTA represents a high level of conditionality, since it is (or is supposed to be) permanent. It locks in economic reforms simultaneously locking in their effects. Favourable rules of origin; protection for intellectual property rights; "national treatment" for foreign investment; and securing access to natural resources, particularly oil and natural gas are all policy choices which must be met by their effects: the erosion of social programs, downward harmonization of environmental, labour and health standards, and a permanent shift of political and economic power to large corporations and international capital.

For the Mexican and possibly Chilean economy, NAFTA creates new, stronger conditionality than that imposed by IMF policy packages, GATT membership and the foreign debt. NAFTA serves as the entrenchment of economic liberalization and significantly raises the costs for a future government that might consider alternative reforms, reforms that decaying human conditions make obviously necessary.

THE PROBLEM: THE TREATMENT OF NAFTA

The concept of free trade has become a myth. There is no other economic doctrine that is more widely accepted than free trade nor another that is so extensively filled with contradictions and rhetoric. Today to be for free trade has come to mean to be for laissez-faire and "to be for laissez-faire is to be for *progress, prosperity, and peace*"¹². Free trade has become a goal in itself or a means to achieve abstract goals such as a true "competitive system" based on true "comparative advantage". Furthermore, the liberalisation of markets has been interpreted as "freedom" as well as the only tool for the development of the undeveloped world. Reducing and redirecting the role of government while, greatly enhancing the role of the market in shaping our society is NAFTA's objective. So, mistakenly and misleadingly named, "free trade" is more a neoliberal economic constitution for the Americas, one that promotes and consolidates the forces of the market as the determinants of our economic relations. I shall return to the relation between NAFTA and neoliberalism further on, through the study of the neoliberal

¹²Ravi Batra, The Pooring of America Competition and the Myth of Free Trade (New York: Macmillan Publishing Company, 1990), 1.

experiment in Chile. Now let us simply look at the foundations of the arguments used for the promotion of free trade.

The Principle of Comparative Advantage

Listening to free trade promoters today, one would never guess that the doctrine of "free trade" was invented in the late eighteenth and early nineteenth centuries, when conditions were totally different from our own. The principle of "comparative advantage", first enunciated nearly two hundred years ago by classical economist David Ricardo, is the best known and most widely accepted proposition in international economics. Among orthodox economists the "law" of comparative advantage has become the pillar of free trade. The doctrine, which has become an integral part of the general laissez-faire policy advocated by the classical economists, is the argument most often cited to promote the "unquestionable", due to its theoretical base, desirability of free trade.

Before examining the doctrine of comparative advantage however, it is interesting to point out that the consistent advocacy of free trade might seem surprising in view of the fact that rarely during the past two hundred years have the governments of the major capitalist countries pursued such a policy. Most of the time they have erected a wall of tariffs to keep out foreign goods. Furthermore, the major industrial nations of the world developed their economies behind high walls of protection. This not only included Japan, Korea and Taiwan in our own century, but also the United States, which for two hundred years prior to the end of World War II was a thoroughly protectionist nation. This

reflects the choice of economists to focus on the ideological rather than the historical study of the economy leading to serious distortions between the analytical tools developed, as predictive devices, and the effects of their implementation.

In its simplest form, the proposition of comparative advantage says that when two countries enter into voluntary trade using the unregulated market mechanism, there are potential economic gains from trade even when one country is absolutely more productive in every line of production. This is an example of a proposition from the social sciences which is widely acclaimed as both true and non-trivial and from which many pro NAFTA arguments have developed. As argued by one of few NAFTA critics, the assumption that "everyone *knows* that free trade always creates benefits for both sides and that protectionism is bound to fail"¹³ must be contested. Its irrefutability must be challenged.

The doctrine of comparative advantage could be quite correct given the assumptions on which it rests, but unfortunately one of the assumptions does not hold today: that capital is immobile internationally. The doctrine maintains that it is in every nation's interest to participate in a world economy, to accept international specialization of production, and to trade freely for products, rather than attempt to produce everything itself.¹⁴ The theory is supposed to work as follows: The nation which is best suited to produce a certain product, because of natural or other advantages, should specialize in producing that product and export the surplus. In return it should import other products

¹³Jeff Faux, "the Crumbling Case For NAFTA," Dissent Summer 1993, 313.

¹⁴William McGaughey, A U.S-Mexico-Canada Free Trade Agreement Do We Just Say NO? (Minneapolis: Thistlerose Publications, 1992), 36.

which other nations are better suited to produce. The argument relies on the efficiency of production.

When in international competition the relatively inefficient activities lose out and jobs are eliminated, at the same time the relatively efficient activities (those with the comparative advantage) expand, absorbing the labour and capital that were freed from less efficient activities and capital and labour are reallocated within each country, specializing according to that country's comparative advantage. This argument for free trade and increased efficiency, the doctrine alleges, remains valid even if a nation can produce all or most products more efficiently than other nations. The simplicity of this theory is deceptive. When we consider that both capital and goods are mobile internationally then the results vary.

At the time that the doctrine of free trade was introduced, companies were grounded in a specific country and not footloose to open and close factories whenever they found lower wages and taxes or weaker health and safety standards. In those days business capital was not mobile in the way it is today and was normally guided by national interests and loyalty to the country of its origin. Once capital is mobile then the entire doctrine of comparative advantage and all its comforting demonstrations become irrelevant. The principle of comparative advantage relevant in Ricardo's day no longer holds. Ricardo himself pointed out that if capital were to be mobile then trade between two countries becomes governed by the labour theory of value (absolute advantage in terms of labour costs) rather than by comparative advantage. Ricardo's assumption of capital immobility was based on the community and the unwillingness of capital holders

to leave their community. These feelings of community according to Ricardo "induce most men of property to be satisfied with a low rate of profits in their own country, rather than seek a more advantageous employment for their wealth in foreign nations".¹⁵ Today there is no allegiance or loyalty to the nation except to global expansion and financial profit.¹⁶

The free flow of capital and goods means that investment is governed by absolute profitability and not by comparative advantage. Capital will and does follow absolute advantage, the highest absolute profit, to low wage countries rather than reallocate itself according to comparative advantage within its home country.

The Liberal Perspective: The Role of Foreign Direct Investment

Neoclassical trade theory is unable to explain why firms engage in foreign direct investment (FDI), or why multinational corporations (MNCs) exist. Under the traditional theory, there is no reason for firms to invest abroad. However, the growth of MNCs and FDI are the most important recent developments in the world economy. Between 1970 and 1989, world GDP, measured in current dollars, increased by 400 percent. Total world exports grew twice as fast as total output, and FDI increased by over 1,400 percent, 3.5

¹⁵David Ricardo, Principles of Political Economy and Taxation (Cambridge: Sraffa Edition, 1951), 136-137.

¹⁶Edmund G. Grown, Jr., "Free Trade is not Free," in The Case Against "Free Trade" GATT, NAFTA, and the Globalization of Corporate Power, Ralph Nader, ed. (Berkeley: North Atlantic Books, 1993), 65.

times as rapidly as world GDP¹⁷. By the end of 1990, FDI reached \$1.5 trillion and in the 1980s alone the amount of FDI tripled, certifying a prominent trend in its importance as well as its acceleration¹⁸.

In 1987, MNCs generated 90.7 percent of all U.S. exports and 75.6 percent of all U.S. imports. Almost half of all trade took place entirely within MNCs and their affiliates. The growth of FDI and the dominant role of MNCs are two of the most important features of the international economic landscape of the late 20th century, and yet, the theory of comparative advantage is unable to explain their existence. Economic liberalism however, provides the justification for both the emergence of MNCs and FDI. It analyzes the effects of market imperfections on development and views international trade and investment as the motor forces of economic growth and development for the underdeveloped world, accordingly, argues for the reduction of barriers to international commerce and investment.

It is usually argued that "liberalization" of the market is the key to development policy reform and that this will lead to the realization of comparative advantage and maximization of the gains from international trade. The argument follows that in the presence of widespread market imperfections and distortions it may be preferable to remove as many restrictions affecting the free play of market forces as possible rather than to retain some intervention in the market in an attempt to overcome the consequence

¹⁷Robert E. Scott, "Flat Earth Economics: Is There a New International Trade Paradigm," Challenge (September-October, 1993), 33.

¹⁸"Globalization to What End? Part I," Monthly Review (Feb, 1992),1.

of some market imperfections. Intervention to counteract the effects of a market distortion will have ambiguous effects in the presence of other market distortions.¹⁹

According to the liberal perspective, the emergence of a homogeneous "world economy" is a beneficial factor in economic development; interdependence and economic linkages of advanced economies with less developed economies are regarded as favourable for all players in the market. Through trade, international aid and FDI, less developed economies are believed to acquire the export markets, capital, and technology required for economic development. Flows of goods, capital and technology through MNCs and FDI, increase optimum efficiency in resource allocation and therefore transmit growth from the developed nations to the less developed countries. The liberalisation of a market for capital and investment can then serve as an "engine of growth" as the less developed economy gains capital, technology and access to world markets²⁰.

For neo-liberal economists, economic development requires the removal of political and social obstacles to the functioning and effectiveness of a market system; they are therefore primarily concerned with the determination of how this is to be accomplished. Under this perspective, the process of capitalist internationalisation, through the removal of all barriers that may obstruct the reallocation of international capital and foreign investment, is seen as the process that can bring about efficiency in

¹⁹David Evans, "Visible and Invisible Hands in Trade Policy Reforms," in States or Markets? Neo-Liberalism and the Development Policy Debate, Christopher Colclough and James Manor, ed. (Oxford: Clarendon Press, 1993), 50.

²⁰A. W. Lewis, Dynamic Factors in Economic Growth (Bombay: Orient Longman, 1974), 49.

the capital market, as it theoretically does for all other markets. The creation of an international market for capital, guided by the laws of supply and demand, is supposed to lead to the most efficient allocation of financial resources.

The liberal conception of the relationship between foreign investment, growth and development is built around the notion that foreign inputs bring essential ingredients that are considered, by neo-liberal ideologues, as necessary and often missing in underdeveloped countries. Chief among these ingredients are the capital, technology, and entrepreneurial talent that host underdeveloped countries sorely need in order to promote growth. The introduction of these necessary components for growth and development through MNCs and FDI are then of most notable importance. Creating growth requires much larger quantities of capital than often are available in poor countries and foreign investment may make an important contribution to overcoming this problem. Beyond this, multinational corporations are seen as bringing to the local scene technology that enhances growth by increasing the efficiency of industrial production.

In addition to direct positive effects, foreign investment and MNCs are regarded as having a positive indirect impact. The foreign owned subsidiaries are often seen as "much more than conduits of foreign capital; they are mobilizers of local resources"²¹. Local resources are depicted as being stimulated in four ways. The first involves putting non-used resources to work. One wave of consequences can usually be seen in the mobilizing of some added local funds which are often acquired by rescuing them from idleness. A second, is the product of the stimulation of economic activity by local

²¹R. Vernon, Storm Over the Multinational (Mass.: Harvard University Press, 1977), 171.

entrepreneurs who act as suppliers and distributors for the foreign corporations. A third stimulation is a product of the dissemination over time of the efficient foreign product techniques and management styles to local business²². Finally, foreign profits from local operations are depicted as leading to reinvestment and to higher tax receipts, which bring on greater domestic investments and higher government expenditures. In each case, foreign investment is as responsible for enhancing local resource availability, either through higher domestic investment or through higher government expenditures and the end product is a higher rate of growth in the manufacturing sector.

Regarding the effects of foreign investment in natural resources and resource extraction, the liberal view stipulates that extraction investments allow a country to tap resources that otherwise would have been untouchable, making capital available for the development of infrastructure (transportation and communication) and manufacturing. As development occurs in these sectors, it is stipulated that it will lead to growth in other areas. Thus, liberal theorists tend to see foreign investments as having benefits that lead to growth in all areas of the host economy.

Neo-liberal theorists do not deny that foreign influences encourage consumption by the elite, but they argue that the result is not a grossly distorted class structure and a refusal to institute social reform. Instead, they see a "trickle down effect" wherein corporate activities and increases in investments lead to an expansion of resources that result over time in new social programs to help the masses.

²²T. H. Moran, "Multinational Corporations and Dependency: A Dialogue for Dependence and non-Dependence," International Organization 32 (Winter), 87.

The deleterious effect of FDI and Multinational Corporations (MNC) in developing economies however, are not addressed by liberalism. An examination of the common practice of "repatriation" reveals that the workings of FDI and MNCs are not as simple as proposed by the advocates of free trade. Foreign investors make money but they send it back home, for that, after all, is their *raison d'être*. The practice of repatriating profits is depicted as soaking up domestic capital and transporting it abroad, which results in lower domestic investment and substantially reduced ability to promote the much desired economic growth. Through repatriation of profits abroad and their superior access to local finance, multinationals drain the host country of development capital and prevent the rise of indigenous entrepreneurship. Multinationals' declared profit levels are often higher in the Third World than in the West. Their executives would argue that they have to be to justify the political risks. Profits of American companies between 1965 and 1968 averaged 17.5 percent in less developed countries against 7.9 per cent in developed countries²³. The usual defence of profit is that it is essential for new investment. But this rationale simply does not apply for multinationals in the Third World. They take out every year, in declared profits alone, three times what they put in²⁴.

The consequences of corporate behaviour are great when one considers the impact of multinational firms upon under-developed societies, maintaining that the strength of the corporation is such that it is very difficult for Third World states to compete effectively as agents shaping the structuring of the economy. Foreign investors seize

²³Paul Harrison, Inside the Third World (London: Penguin Group, 1990), 350.

²⁴Harrison, 350.

control over the most dynamic and strategically important sectors of the host economy and by doing so their relative control over the constitution and structuring of the host economy is exacerbated²⁵. This allows foreign capital to regulate growth and development in the host country and only permit such economic development that is "geared toward the needs of the dominant economies"²⁶.

Certain domestic environments are perceived by corporations as more conducive to doing business than others. Accordingly, Third World nations restructure their economies to attract and maintain the inflow of FDI that promises growth and development. In general, the predominant view found in the literature regarding the type of environment the corporation prefers indicates to one of liberalised markets and minimum government intervention. As to a point it can be argued that foreign investors prefer repressive and non-reformist social policies to ensure that they will obtain the maximum return in profits from their operations.

The Third World as a whole remains what it has been throughout the history of capitalism, the locus for capital accumulation and profit making by giant corporations and financial institutions of advanced capitalist nations.

IDEOLOGICAL DISTORTIONS

²⁵T. Dos Santos, "The Structure of Dependence," in Readings in U.S. Imperialism, K.T. Fann and D.C. Hodges ed. (Boston: Porter Sargent, 1971), 230.

²⁶T. Dos Santos, 230.

Liberalism, as a system of thought and belief, has played a large role in the way orthodox economists and trade analysts have explained the operations of NAFTA as well as in the choice of realm they have chosen to evaluate it. The ideology behind NAFTA itself is seldom questioned and its principles seldom challenged. Most analyses of the agreement are elusive and are a response to the interest of specific groups, finance capital and transnational corporations. Top policy makers in the U.S. such as the U.S. Special Trade Representative, the U.S. International Trade Commission, the Secretaries of Commerce and institutions such as the Brookings Institution and the Heritage Foundation have vaunted research supporting NAFTA as "scientific" and "authoritative".²⁷ The fact that their understanding of social forces is shaped by ideological concerns, without the least recognition of the degree of subjectivity that is involved, must be challenged in order to unveil the realities of NAFTA.

Numerous publications from the business and academic professions have constructed an ideological justification for the creation of a global economy through free trade, increased FDI and the spread of transnational enterprises. Invoking the classical doctrine of "comparative advantage" and through the development of orthodox models, NAFTA promoters argue that the agreement will bring about prosperity to all participating nations and the much desired development to its underdeveloped members, Mexico and soon to be member, Chile. Through the use of orthodox models, NAFTA promoters have

²⁷For a sample of this literature see Barbara Franklin, "The NAFTA: Challenging Its Critics," The Heritage Lectures No. 448 (May 6, 1993); Nora Lusting, Mexico: The Remaking of an Economy (Washington: Brookings Institution, 1992); Inter-American Development Bank, Economic and Social Progress Report (Washington, 1992) .

attempted to "intellectually hegemonize"²⁸ the debate over the effects of NAFTA.

Modern free trade ideology justifies the rise of finance capital and MNCs by defining global unregulated markets as a realm of freedom and by invoking the magic of the market to disguise the reality of control. The historical significance of Liberalism, the ideology of capitalism, invites scrutiny of the modern free trade doctrine in light of the issue of power. Free trade continues to produce economic transformations that shape the dimensions of power in the world economy. Modern free trade ideology, like the original liberal ideology, has become an apologia for the control of the means of production by a privileged class, finance capital and MNCs.

Liberalism is also an ideological doctrine developed under specific historical circumstances and fashioned to justify particular class interests and objectives, which seek to universalise its claims by appealing to all classes. Liberalism has always justified class interests and in consequence relationships of power. Moreover, the universal claims of liberal ideology, combined with its historic aversion to the idea of power in the market place, have effectively obscured its political significance as a dominant ideology. In the liberal tradition, the rising bourgeoisie must define the market as the realm of freedom, apart from the coercive realm of government or the state, so that it might accomplish its objectives of restructuring relationships of control through the transformation of the law. Thus, behind the idealism and utopian visions of the corporate internationalists lies the

²⁸Term borrowed from James M. Cypher, 147.

reality of control.²⁹

The ideologists of free trade have argued that a true world economy promises to close the gap between rich and poor nations by unleashing the potential of all peoples through the market system. In the tradition of liberal ideology, modern free trade ideology seeks to universalize its claims by appealing to all participating members. It attempts to appeal to developed as well as underdeveloped nations by proclaiming that all nations benefit through the pursuit of comparative advantage. Indeed "the one real hope for most of the developing countries"³⁰ is proclaimed to be their full integration into the emergent global economy.

The classical doctrine of laissez faire holds that market forces, if allowed free to reign, not only determine economic behaviour, but produce social and political harmony as well. It attempts to unite as one the interests of different classes within states as well as between them. It is an attempt to defy the inequality created by the economic policies it justifies by claiming that free trade allocates resources to their most efficient use as well as increases the growth rate of per-capita income³¹.

"Free trade", "efficiency", "market economics", all positive sounding phrases that in reality are public relations terms designed to conceal what they really stand for; the forced abandonment of local controls on development, ownership, trade, wages, prices,

²⁹Scott R. Bowman, "The Ideology of Transnational Enterprise," The Social Science Journal Vol. 30 No. 1, 1993, 56.

³⁰Bowman, 53.

³¹Robert L. Hetzel, "The Free Trade Debate: The Illusion of Security Versus Growth," Federal Reserve Bank of Richmond Economic Quarterly Vol. 80, Spring 1994, 39.

or lifestyle in favour of centrally conceived concepts and interests protected by bureaucracies.³² These terms mask what is actually a new and very aggressive economic arrangement that is centrally structured, has fixed rules of procedure, makes exceptions of individual cases and is anything but free. The only freedom it provides is the freedom of transnational corporations to circumvent national laws that would otherwise impede their self-interest.

The omissions from the neoliberal discussion of trade policy stemming from their narrow focus on market liberalization should not be overlooked. Left out of the neoclassical model is any serious concern for distribution and any recognition whatsoever of biophysical constraints on economic growth. The economic arguments in favour of free trade are powerful. Yet, for most of us it is not the soundness of its theory, but the widely promoted idea that free trade is an inevitable development of our market system which makes us believers³³. The belief that there are no alternatives holds us back.

Political leaders often claim empathy and opposition to the suffering of the masses; but they also say that while there is no alternative to this suffering, as the virtues of the market finally work themselves out, everyone's life will improve. The reality, however, is that there are no mechanisms within the market today to prevent the living standards of most people from falling indefinitely. The promise of ideologues, as always,

³²Jerry Mander, "Megatechnology, Trade and the New World Order," in The Case Against "Free Trade" GATT, NAFTA, and the Globalization of Corporate Power, Ralph Nader, ed. (Berkeley: North Atlantic Books, 1993), 19.

³³David Morris, "Free Trade; The Great Destroyer," in The Case Against "Free Trade" GATT, NAFTA, and the Globalization of Corporate Power, Ralph Nader, ed. (Berkeley: North Atlantic Books, 1993), 18

is false.

The rhetoric of free trade must be unmasked as it is invoked to deny rights and freedoms. Free traders declare that the motivation for NAFTA came from a desire to provide a "healthy economic environment" in which free countries could flourish. Some have gone as far as proposing that free trade is essential for the elimination of poverty in under-developed countries. The argument formulated states that "the specialization that free trade makes possible raising living standards, especially for small countries, which lack a large internal market"³⁴. In addition, the United States is declared a contributor to an increase in LDC living standards, especially in Latin America, by allowing its entrepreneurs to use their management skills to organize the labour force in these countries.

Free trade arguments are part of a system of beliefs or ideas that tries to explain and justify the economic and social divisions of the capitalist world, of developed and underdeveloped nations. There is nothing that is natural about free markets that through specialization rule people's lives and determine their only possibilities of employment, limit their choices and destroy the natural environment.

NAFTA has been separated from its real effects and instead it is placed within the abstraction of competitive markets and with an emphasis on "optimal allocation of resources". Proponents of free trade argue that it fosters growth by removing artificial barriers, thus rewarding efficient firms. All nations benefit without tariffs and subsidies, countries specialise in goods they make relatively cheaply. Higher efficiency means

³⁴Hetzel, 46.

lower prices, so workers see their purchasing power grow. So the theory goes. In the real world however, the touted benefits have not come to pass and the reality of increasing inequality and deepening poverty persists.

REALITIES OF NAFTA

Globalization of capitalism is exacerbating income inequality all around the world. While free market ideology is on the rise, the rise of inequality has also demonstrated itself clearly. In 1970 the richest 20 percent of the world's population had an average income 32 times that of the poorest 20 percent; by 1991 that ratio had almost double to 61 times³⁵. Inequality is a fundamental limitation of the capitalist system. The system works in many ways not only to produce and expand itself but to further increase the extent of the built-in inequality. Accordingly, the success of globalization has increased income inequality, a social failure but not a contradiction.

Growing inequality has been a trend throughout the capitalist world, between 1977 and 1989 the richest 1 percent of families in the U.S. obtained 60 percent of the after tax income. In Mexico, since the government began to move strongly with the program of neoliberal reforms, inequality grew, indeed a worsening distribution of income was the general rule in Latin American countries during the 1980s a decade in which the debt crisis brought the full burden of globalization to bear upon the region.³⁶ These trends

³⁵Human Development Report, 1992.

³⁶Arthur MacEwan, "Globalization and Stagnation," Monthly Review Vol. 45. No. 11 (April 1994), 2.

run parallel to the "successful" internationalisation of capital and its ascendance, as can be observed in the rate of growth of FDI and MNCs. Accordingly, we may ask; is greater FDI necessary for the elimination of inequality or are MNCs needed for the introduction of development into the Third World?

The role of FDI and MNCs is clearly not that of reducing poverty as claimed by those who promote their growth and strength. Their role is the accomplishment of a tighter integration of peripheral countries into the global capitalist economy. If free markets were the key to prosperity, one has to ask why, after several centuries of participation in global trade and finance, Third World countries are still so underdeveloped. Why have centuries of production for the world market left the majority of Third World people with appallingly low living standards? One answer, is that the global capitalist economy itself reproduces underdevelopment and poverty in the Third World.

NAFTA serves as a restructuring tool or to put it differently as a conditioning institutional framework that promotes and consolidates neoliberal restructuring. It encourages the drive to privatize, deregulate and liberalize the economy, with large national and international corporate capital playing a key role in the private sector and in consolidating these relations³⁷. NAFTA, like other steps in globalization, will generate greater income inequality both between and within countries. During the last few decades, as we have witnessed a surge in the spread of capitalism and neoliberalism, we

³⁷Ricardo Grinspun and Robert Krekewich, "Consolidating Neoliberal Reforms: "Free Trade as a Conditioning Framework," Studies in Political Economy Vol. 43 (Spring 1994), 33.

have also seen a widening of the income gap between the underdeveloped and developed economies. Within nations, recent years have also seen rising inequality. Evidence is found of this new trend in the U.S., Canada, Mexico and Chile.

NAFTA is a response of the global capitalist economy to accommodate the needs of international finance, the system's latest economic leader. As the volume of international finance has come to exceed that of trade, finance has transcended its traditional role of facilitator of economic activity and has become the center of a self-generating financial boom. Until recently capital circulated mostly in a space commanded by national financial borders. Today however, that is no longer the case. The integration of financial markets globally is becoming a reality. This internationalization and deregulation of capital, through NAFTA, will further accelerate its circulation. IMF studies warn that it may result in destabilizing and inefficient capital markets speculations. However, the blind belief that efficiency in the capital market can be achieved through liberalisation is stronger. Accordingly, governments are willing to internationalise their financial markets and to give up a large degree of their autonomy in domestic fiscal and monetary policy.

Perhaps the most damaging social consequence of globalization is its impact on democracy. NAFTA provides the illustration of the general process because this agreement enshrines "the market" as the principle by which economic activity shall be organized. It does so by direct statement of principles; it does so by prohibiting governments from developing new public sector productive activities; and it does so by effectively limiting the power of government to regulate private business. NAFTA, is

quite explicitly an agreement that pushes out the boundaries of unfettered capitalist production, and in so doing it limits democracy by limiting people's power to exercise political control over their economic lives.

These social contradictions of globalization, these social failures associated with the successful spread of capitalism, should come as no surprise. The rationale for including Mexico and Chile into NAFTA is less the promotion of further economic restructuring and more the entrenchment of economic liberalization. The agreement significantly raises the costs for a future government that might consider national reforms.

CHAPTER II: THE CHILEAN ECONOMIC "MODEL"

CENTRAL FEATURES OF THE EXPERIMENT

The *Coup d'etat* of 1973 marked the beginning of what has been called the Chilean economic model, a model rightly identified with neoliberal economics and monetarist doctrines. The model, founded on an unquestionable faith in free markets and their ability to guide an economy towards higher growth and stability, is not unique to the Chilean case. The radicalism and purity with which the model has been implemented in Chile however, has made this case unique among its Latin American neighbours. An analysis of the economic policies implemented during Augusto Pinochet's military regime and the succeeding civilian regimes of Patricio Aylwin and Eduardo Frei, exposes these policies as the basis for Chile's internationally acclaimed economic success. Furthermore, social conditions emerging parallel to the implementation of neoliberalism reveal where the costs of this success have been bared. A study of these policies also allows further understanding of what made Chile a predictable candidate to join NAFTA. It exposes the agreement as an instrument for the consolidation of the implemented neoliberal economic reforms and the perpetuation of the social costs that these have incurred in Chilean society. More than about trade, NAFTA is about consolidating a neoliberal economic constitution.

Chile was the first country in the Latin American region to adopt a neoliberal structural adjustment and a stabilization program. Following the *Coup d'etat* the Pinochet regime blamed what it perceived as the "social, political and moral" crisis affecting Chile

in 1973 upon an "incredible misunderstanding of the role which the state should fulfil"³⁸. Consequently, the regime set out to reverse the "transition to socialism" pursued by the Allende regime. The military regime's instruments to secure the standstill of socialism in Chile did not stop at the use of brutal force and repression against the Chilean people. The regime's plan included the institutionalisation of a state strong in nature but subjected to the markets. The military regime's goals were directed at generating a transformation in the fiscal, financial and labour sectors, international economic relations and public ownership of the means of production³⁹.

Patricio Aylwin, and the Concertacion de Partidos por la Democracia coalition (Concertacion), ensured the continuity of the neoliberal economic model and contributed to the political legitimation of the drastic process of capital restructuring originally implemented by his predecessor Augusto Pinochet. The post Pinochet regime's policies were firmly directed towards expanding the export and financial sector in the Chilean economy as well as sustaining the leading economic groups that control the international circuits. Within the top echelons of the capitalist class, the financial and banking sector, both domestically and overseas, played a decisive role in the economic decisions implemented by Aylwin's government. This is indicated by the primary role Alejandro Foxley, Aylwin's finance minister, gave to inflation and fiscal balances⁴⁰ during his

³⁸J.C Mendez,ed. Chilean Economic Policy (Santiago: Central Bank of Chile, 1979), 185.

³⁹Ricardo Ffrench-Davis, "The Monetarist Experiment in Chile: A Critical Survey," World Development Vol. 11, No. 11 (1983), 907.

⁴⁰James Petras and Fernando Ignacio Leiva, Democracy and Poverty in Chile (Oxford: Westview Press, 1994), 89.

ministerial term.

Eduardo Frei, the candidate of the Christian Democrats, the leading party within the Concertacion de Partidos por la Democracia, won the presidential elections of December 1993. Frei, who took office in March 1994, maintained the free market orientation of his predecessor, Patricio Aylwin. Frei's regime is committed to continue Chile's pro-business policies, liberal foreign investment regime and prudent fiscal management that have made it and continue to make it a strong magnet for international capital. The international acknowledgement of the economy has also been reinforced by a steady GDP growth and substantial governmental efforts and progress in battling inflation. The export sector of the economy continues to expand and the fast-growing mining sector continues to draw the bulk of foreign capital. Forestry, energy and the fisheries also continue to provide good investment prospects for foreign capital and a new privatisation program has been given new life by the government's decision to sell its share holdings in four of the remaining publicly held companies, including the national airline Lanchile ⁴¹.

Frei's platform during the presidential campaign centered on social issues, poverty being the number one concern. The new regime however, has clearly chosen to build on and continue the same economic policies, in all important aspects, above all and at all costs to secure conditions to the owners of capital. It fosters the concentration of power and wealth while it implements minimal token programs to subside the eminent side effects of its policies, the augmenting levels of poverty. Working against

⁴¹Margaret Orgill, "Chile," Business Latin America Vol. 29, No. 28 (July 18, 1994), 4.

Frei's favor is the scaling-down up of public expectations about what democratic governments should be able to achieve and dissatisfaction is creeping in.

Privatisation Regime

The free market or neoliberal ideology of "less government is better government", maintained by Pinochet's economic advisors, led to the privatisation of the Chilean social wealth and to the alteration of the role of the Chilean state. The implementation of this principle, through several waves of privatisation, transferred the function of structuring the country's economy from the state to the market. The Chilean state was transformed from a historically prominent and active player in the organisation of the Chilean economy to a player subjugated to private interests. The privatisation waves were also responsible for deepening social inequalities by privatising in a few private hands the wealth of the Chilean people.

In the language of neoliberal ideologues public ownership became synonymous with inefficiency and financial losses and the transformation rather than the elimination of state participation in the economy became a goal. The radical change of the role of the state entailed on the one hand, the privatisation of state firms thus, eliminating government's role as a direct producer; on the other hand, it also required an interventionist state able to extend the reach of legal and institutional arrangements to promote the successful emergence of private firms. The interventionist role, played by the government during the Pinochet's regime, was overtly obvious in the function played

by government policies in the expansion of finance capital.⁴² What changed was the direction of the state intervention and not its existence.

The privatisation process has been intense. The initial reform was not limited to the privatisation and restitution of business which had been taken over or expropriated during the regime of President Allende. Privatisation was also extended retroactively to enterprises created in the successive governments that ruled Chile from the time of the establishment of the Chilean Government's Economic Development Agency (CORFO) in 1939⁴³. For three decades CORFO had provided credit, conducted research and development and fostered numerous public enterprises and mixed private-public companies. The fact that the balance sheets revealed successful profit making activities in the public sector became irrelevant and privatisation, then exposed only as a technocratic exercise was started. The execution of this "simple technocratic exercise" however, has had severe social consequences.

Today, the institutional consolidation of privatisation and its wealth concentration effects have become a legacy of Pinochet's "Constitution of Liberty". The Chilean Constitution, crafted in 1980, imposes severe limits to future entrepreneurial activities that could be performed by the state. In fact, the creation of any new state enterprises requires a special law with high majority of congressional votes (*ley de quorum calificado*). This strict requirement, has in practice, greatly reduced the entrepreneurial

⁴²The role played by government in the rise of finance will be discussed further, later in this study.

⁴³Ffrench, 908.

role of the state in the economy and makes it extremely difficult to create new state enterprises. Moreover, very few of the remaining state owned enterprises enjoy a monopoly position and if in any event a state monopoly or state enterprise "violates" what is seen as free competition practices, it can be sued and sanctioned just as any private company.⁴⁴

The reduction of public ownership, through the privatisation of state enterprises and the means of production, began in 1974 and continued until 1981.⁴⁵ The magnitude of this reform was enormous. By 1975 all properties expropriated during the Allende regime were returned to their previous owners. What has been identified as the first of two waves of privatisation covered the 1975-1981 period. During this period the government focused on the privatisation of the financial sector, traditionally dominated by the public sector. At this time entire banks were sold to single buyers resulting in further concentrating wealth among families which had traditionally dominated Chile's finance and manufacturing industry during the previous half century⁴⁶. In 1980, 25 enterprises, including one bank, remained in public sector from a state control of more than 500 enterprises and banks in 1973.⁴⁷

⁴⁴Fernan Ibanez and Felipe Larrain, Chile's Readiness for NAFTA Accession: Business Opportunities for Canada (Santiago: Canadian Embassy in Chile, 1994), 40.

⁴⁵Vincent Parkin, "Economic Liberalism in Chile, 1973-82: a model for growth and development or a recipe for stagnation and impoverish?,"Cambridge Journal of Economics Vol. 7, 1983, 105.

⁴⁶Joseph Collins and John Lear, Chile's Free Market Miracle: A Second Look (Oakland: Food First Books, 1995), 51.

⁴⁷ Petras and Leiva, 22.

Privatisation did not come to a halt in 1981. The second wave of privatisation started in 1985 and was carried out until 1990. Before privatization, many public enterprises were efficient and surplus-producing operations, their privatisation signifying an extensive cost to the public sector. In 1985, profits and taxes from the then remaining public enterprises accounted for 25 percent of government revenues.⁴⁸ As a result of the second wave of privatization, it has been calculated that the Chilean government has lost an annual income stream estimated between \$100 million and \$165 million during the 1990-1995 period.⁴⁹ Furthermore, an estimated \$600 million in state subsidies was provided to private purchasers between 1986-1987.⁵⁰

Between 1975 and 1989, Pinochet's financial advisors sold off government ownership in 160 corporations, 16 banks, and over 3600 agro-industrial plants, mines and real estate holdings, that is in addition to returning property expropriated by the Allende government. Public holdings were sold off at substantially undervalued prices often through government subsidies and low interest credit from CORFO.⁵¹ It was through this process of privatisation that multinational corporations gained a stronghold over the Chilean economy, expanding the control of financial companies.

In the Economic Report of September 1994, CORFO confirmed its plans to

⁴⁸Mario Marcel, "Privatizacion y Finanzas Publicas," Coleccion Estudios CIEPLAN Vol. 26, 1989, 28.

⁴⁹Petras and Vieux, "Myths and Realities: Latin America's Free Markets," Monthly Review May 1992, 13.

⁵⁰Petras and Vieux, 14.

⁵¹Sergio Bitar, Chile Para Todos (Santiago: Planeta, 1988), 77.

continue the gradual reduction of the role it plays as stockholder in state companies by increasing the participation of the private sector. In the areas of economic development programs, CORFO is also transferring the execution of these to its Technical Cooperation Service (Sercotec) and other intermediary private agencies. Consistent with Chile's well-established policy of transferring ownership to or increasing the participation of the private sector in Chile's state-run companies, CORFO's Board of Directors authorised in October of 1994, the sale, by public auction, of 30 percent of the outstanding shares in the Northern Electric Company (Edelnor), a CORFO affiliate. The privatization was estimated to reduce CORFO's interest in Edelnor from 46 percent to 16 percent.⁵²

The privatization of the means of production occurred in a period of internal recession and high interest rates in the Chilean economy. It was through means of foreign credit to domestic and foreign buyers and undervaluation of public holdings that privatisation occurred, leading to an acute concentration of capital ownership in Chile, leading to further polarisation of the society.

Financial Market Liberalisation

After 1973, the role of the financial sector and its impact on the functioning of the economy changed radically. For many years this sector had been totally subordinated to the state through direct public control over financial institutions. Pinochet's economists, the Chicago Boys "formed close relations to large bank-centered conglomerates, Cruzat-

⁵²Corporacion de Fomento de la Produccion, Chile Economic Report (Santiago: September/October 1994), 10.

Larrain, Banco Hipotecario de Chile (BHC) and the Edwards groups"⁵³. Accordingly, they acted to promote the interest of the financial bourgeoisie. Through the liberalisation of finance, they opened the system to the rule of private management and subordinated the state to it. The financial collapse and recession beginning at the end of 1981 however, constituted a major stumbling block for free market ideologues. Private spending financed by public debt became the norm.

The financial market liberalisation process began in Chile as early as 1974 as part of Pinochet's imposed neoliberal model. Liberalisation of finance was a crucial part of the regime's plans to tie future governments to its neoliberal agenda. Based on the assumption that deregulation and exposure to competition would ensure efficiency in this sector and successful integration into the global financial system, social effects were ignored. The regime's financial policies were guided by the orthodox belief that in an unregulated financial environment of freely determined interest rates, investment would be determined by efficiency, thus resulting in growth of the most competitive sectors of the economy. The truth is that financial liberalization significantly intensified the polarisation of Chilean society as well as reduced Chileans' social and political options.

During the 1975-1981 period, the financial system was deregulated almost completely. Interest rates were set free, entry to the banking industry was allowed and the capital account was gradually liberalized. The initial step was the step-by-step denationalization of large segments of the banking sector that were, until then, under

⁵³Manuel Delano and Hugo Traslavina, La Herencia de los Chicago Boys (Santiago: Ediciones Ornitotrinco, 1989), 32-36.

public ownership. Consequently, authorization for the creation of alternative private financing institutions was granted and no restrictions limiting their sphere of operation were established. The alleged objective of these policies was the introduction of increasing competition and the elimination of market segmentation in the Chilean financial market. Initially however, those banks which temporarily remained in public ownership, continued subjected to a legal maximum interest rate. This restriction on public banks remained until their privatisation was finalised, while newly established private financing societies, emerging during that period, were given the authority to lend resources at a freely determined rate of interest.

By 1975 the privatisation of the banks had been finalised and interest rates were left totally free, regulations respecting repayment terms and allocation of credit were eliminated and easy entry to the Chilean financial service market was given to foreign banks. In 1976 the authorities eliminated quotas on private bank lending and began to reduce reserve requirements. Beginning in 1977 they also relaxed previously quite strict control over foreign borrowing by banks. Dollars were borrowed abroad by private Chilean banks and lent to private borrowers at very high interest rates. Thus, by 1981 Chilean financial legislation, both for the domestic and for the international capital flows was considered, even by the most neo-liberals advocates, as "extremely liberal"⁵⁴.

The rise of the financial sector indicated a deeper transformation of the economy. Finance emerged, in fact, as an alternative coordinating sector capable of replacing state activity and regulation. During the expansionary stage, 1974-1977, the financial system's

⁵⁴Ibanez and Larrain, 78.

assets doubled and they more than doubled again by the end of 1980. This extraordinary expansion of finance was not free from certain conflicting characteristics. First, the term structure and the level of domestic interest rates placed a burden on the users of credit, who were confronted with expensive short term credit for medium and long term requirements. Second, the liberalisation of the financial markets, together with a restrictive monetary policy, generated extremely high levels of interests rates, which attracted an increasing volume of short term speculative external capital into the country.⁵⁵

Between the years 1977 and 1981, 80 percent of Chile's acclaimed growth was in the unproductive sectors of the economy and was based to a considerable degree on speculative forms of capital in search of high interest rates on deposits or loans.⁵⁶ The neoliberal projections had not materialised. Capital did not flow to increase the productive capacity of the economy. Over half of the foreign debt went to import consumption goods and most capital entered the circuit of speculative activity, contributing substantially to an explosive imbalance between the supply of capital in circulation and the relative stagnant levels of production. The speculative boom in finance was rooted in the segmentation of capital markets that proved so detrimental to the development of productive activities. Likewise, the expansion of commerce rested on a degree of import-penetration that not only harmed domestic producers but also led to an enormous rise in foreign indebtedness.

⁵⁵Antonio Schneider, "Supply Side Economics in a Small Economy: The Chilean Case," in Free Market Conservatism, Edward J. Nell, ed., 213.

⁵⁶Petras and Leiva, 28.

The strategy pursued after 1974 exhibited a bias, particularly against industry but also against non-exporting branches of the economy. Service activities, specially financial services, on the other hand, flourished. The rapid expansion of the financial sector is reflected in the increasing share in GDP which occurred simultaneously to a decrease in the share of GDP made up by manufacturing. Within this category, banking, insurance and real estate grew at an average annual rate of over 14 percent and commerce at over 8 percent during the period of 1974-1981.⁵⁷

The very process of liberalisation that the theoretical model predicts as necessary to attain high saving and investment coefficients discouraged domestic savings and investment at the expense of consumption and growing foreign indebtedness. Free market doctrine was not invoked at this point. The government did not let the privatised banks fail and declare bankruptcy to its foreign creditors. Instead, the government opted to take over the failed banks and businesses, transforming private spending into public debt. Foreign loans contracted by private banks and companies, adding up to \$4.7 billion, became the responsibility of the Chilean public.⁵⁸ The government gave new meaning to private spending and public debts.

By 1983 bad and high risk loans totalled 350 percent of commercial bank equity, and Chile's private financial system was technically bankrupt. The large increase in Chilean foreign debt during 1977-81 was mostly private. At this time 64 percent of the Chilean external debt belonged to the private sector and more than 80 percent was held

⁵⁷Parkin, 114.

⁵⁸Collins and Lear, 51.

by commercial banks, an significant difference between Chile and other Latin American countries, where the public sector was the main debtor.⁵⁹

To avert total financial collapse, the Central Bank used public funds and intervened in the administration of the most important private commercial banks, making their privately incurred debt a public one. This "nationalisation" however was short lived. In 1985, after the debt crisis was overcome, bank's in which intervention had taken place were re-privatised. Other banks received emergency loans, while bank ownership and management were preserved. Foreign currency debtors received subsidies in the form of preferential exchange rates or "preferential dollars". The growing number of insolvent peso debtors eventually obliged the government to give assistance by redistributing their losses throughout Chilean society. The private financial system rescue caused the public sector to suffer losses estimated at between US\$6 billion⁶⁰, "wage earners sacrificed the most in making available the surplus needed to make payments on the external private debt"⁶¹.

Today there are 36 commercial banks and 4 financial houses (financieras) in Chile. Twenty three out of the 36 banks, or almost two thirds of the total are foreign, accounting for 20 percent of assets of the banking system and 15 percent of its equity.⁶² All domestic banks but one (Banco del Estado), are private and have been so for about 15

⁵⁹Patricio Meller, "Adjustment and Social Costs in Chile During the 1980s," World Development 19, No. 11, 1555.

⁶⁰Petras and Leiva, 174.

⁶¹Petras and Vieux, 15.

⁶²Ibanez and Larrain, 78.

years.

Massive state subsidies to private banks under Pinochet lived on under Aylwin and continue to do so under Frei in the form of the "subordinated debt". It is called subordinated debt (*la deuda subordinada*) because the law stipulates that the Central Bank shall be paid only after the salvaged banks have paid their debts to all other institutions (i.e., the private transnational banks). In 1991, the subordinated debt of ten private banks to the Central Bank totalled approximately US\$3.4 billion. Of the US\$3.4 billion owed, 20 percent of those in debt payed no interests, while the other 80 percent pay a conveniently low 5 percent rate. Because of lenient repayment conditions, banks have engaged in a strong modernizing drive, installing automatic bank teller machines all over the country, knowing full well that their debt is unpayable and that the Frei government will have to decide how to make up the losses.

It is symptomatic of finance capital's continued hegemony that the Frei administration maintains this blatantly unjust mechanism for transferring surplus from the national economy to private banks. The tax reform carried out in 1990 boosted governmental funds available for increased social spending by US\$250 million; during the same year, the favourable terms of interest enjoyed by the indebted private banks represented the transfer of US\$370 million. In other words, during 1990 there was a net transfer of US\$120 million, which were not transferred to the poor but to the private financial sector.

Once again, the situation outlined so far shows that beneath the surface of macroeconomic equilibrium and positive economic indicators there exists a serious

problem of inequality and potential financial instability. The transfer of public funds to private financial institutions is justified by the government as necessary for the stabilization of the economy, even though it defies the rules of free markets. Meanwhile, adequate increases in social expenditure for health and education are denied by using the "rules" as an excuse.

Trade Regime

During the decade of the 70s Chile was introduced to the concept of free trade. Tariffs were reduced from an average of 94 percent, at the end of 1973, to 10.1 percent in 1980, while other restrictions, such as early deposits and import prohibitions were eliminated.⁶³ Under the assumption that in an unregulated and competitive environment economies restructure themselves to achieve greater efficiency, Chile was exposed to foreign competition and unregulated market forces. The magnitude of the reforms had substantial restructuring effects, which involved the expansion of certain sectors of the economy and the contraction and elimination of others.

In the name of efficiency Chile's economy was transformed into an export oriented economy, based on the exploitation of labour and natural resources. The relationship between the economy's restructuring and the declining conditions of the labour force has become evident. As the export oriented sectors of the economy grow and expand, the expansion of low wage employment leaves those dependant on wages,

⁶³Rodrigo Valdes, "Cuantificacion de la Reestructuracion Sectorial Generada por la Liberalizacion Comercial Chilena," Coleccion Estudios CIEPLAN No. 35, Sept, 1992, 55.

which make up the majority of the population, with limited and deteriorating employment options.

As regards international trade, practically all restrictions on imports, other than tariffs, were removed following the *coup d'etat*. After decades of high import restrictions, Chile was rapidly transformed into a country with less effective protection of manufactured goods than nations such as those of the EEC, United States and Japan. Exports, particularly non-traditional exports, were greatly stimulated by a large, real depreciation of the exchange rate between 1973 and 1975. Through cutting real wages, Chile achieved a large real devaluation of the Chilean peso to encourage the nation's exports. Most of the real devaluation was achieved through big cuts in unit input costs, through reduced labour costs rather than higher productivity. During 1983-87 the real wage losses of 20 percent produced a real devaluation close to 40 percent⁶⁴.

A dynamic export growth figure and record levels of international reserves were exhibited at the initial stage of the trade regime and are still exhibited today in the Chilean economy. Exports and imports become an increasingly important part of the Chilean economy. In 1970 exports and imports of merchandise trade represented 13.4 and 11.0 percent of GDP respectively. As Chile opened its economy to world products, trade grew considerably. By 1990, exports and imports doubled as a percentage of total economic output, with each accounting for approximately one-fourth of GDP⁶⁵.

⁶⁴Meller, 1555.

⁶⁵J.F. Hornbeck, "Chilean Trade and Economic Reform: Implications for NAFTA Accession," CRS Report for Congress June 23, 1995, 9.

The nature of exports has also changed however, making the exploitation of natural resources and labour the norm. Poor labour standards and a degeneration of the character of labour conditions indicate the institutionalisation of poverty. The free market's effects on workers are observable throughout Chile. It is evidenced in the small mining towns of Chile's northern regions, in Chile's southern fishing towns and in the urban centres, where a rising number of workers have become temporary workers (*temporeros*) for the agro-export sector. For Chile's workers the free markets have limited employment choices and abolished many of previously obtained labour rights.

There are four pillars to the Chilean export oriented economy: agriculture, mining, forestry, and fishing and fish products. These sectors make up Chile's major export items and are key to Chile's economic growth. The deterioration of working conditions and living standards of Chile's working class however, is also linked to the expansion of this sector of the economy. The competitiveness of the export model depends on keeping labour disciplined. If the level of real wages were to increase, or the peso appreciate significantly, profit margins and the competitiveness of Chile's resource-intensive exports could be seriously damaged. Mining, forestry, fishing and agricultural exports have risen however, the expansion has been based on the suppression of wages to workers, below the value of labour power, loss of defensive organisations for workers and the emergence of short term contract workers (*temporeros*).

Neoliberal supporters of the economic reforms implemented in Chile argue that thanks to the growth of untraditional export sectors, such as today the agro-export sector,

Chilean workers enjoy greater choice of employment than ever before.⁶⁶ The reality for Chilean workers however, could hardly be described as improved or full of choices. Today, at least 700,000 workers migrate from urban centres to rural areas and from north to south looking for employment⁶⁷. The majority of these workers become seasonal and temporary wage workers (*temporeros*) employed in the agro-business export sector, a sector that offers them low wages and no stability. At least 80 percent of fruit industry workers are hired for short periods and then laid off.⁶⁸ If this can be considered a choice, it is only a choice between exploitation or permanent unemployment.

The temporary nature of their employment, the insecurity experienced by the vast majority of the rural work force is the biggest change in Chile's countryside. More and more of the rural workforce has been transformed, in less than a generation, from being workers steadily employed and living in large estates to being workers living outside a farm and getting employed only wherever and whenever there is work. Agricultural workers work only during the seasons they are needed and even within the high peak seasons their employment is not assured as it is dependent on specific harvest times. In agriculture overall, the number of permanent workers has fallen so sharply over the years of the free market model that by 1987 the number of employers surpassed the number of permanent contract employees.⁶⁹

⁶⁶U.S. Embassy, Chilean Agriculture: Integrating into World Markets May 1990, 16.

⁶⁷Petras and Leiva, 154.

⁶⁸Collins and Lear, 193.

⁶⁹Gomes and Echinique, La Agricultura Chilena (Santiago: FLACSO, 1988), 165.

The proportion of seasonal wage workers to the total number of employed Chileans is increasing and the character of this type of employment exhibits declining work standards and the ruralisation of poverty. It stands as evidence that there have not been substantive advances on labour law, salaries and collective bargaining since the return to civilian regimes. Regarding legislation of firings, the present labour law does not offer the least protection: employers need only to cite "the necessity of the firm's operations" to fire workers thus continuing their arbitrary and absolute power to fire any employee.

Under the Chilean Labour Code, enacted in 1979 by Pinochet's free market technocrats, not all workers were granted the right to organize. The Code extended organizational rights only to workers employed for at least six consecutive months. Seasonal and temporary workers, a growing number of the workforce and an overwhelming majority of worker in the growing export sector of the economy, were and remain excluded. The *temporeros* have not been able to solicit effectively for the reenacting of the moderate Labour Law 16625, passed during 1967 by a Christian Democratic government, allowing the unionisation of farm workers⁷⁰. More progressive rights such as the right to strike or to engage in collective bargaining have been denied by the government's refusal to grant the right to unionise to this growing sector of the labour force.

Agriculture in the countryside, mining in the northern towns of Chile's deserts and fishing and forestry in southern small villages, at a local and regional level, are in many

⁷⁰Petras and Leiva, 155.

cases the sole source of income for people. As the expansion of these leading export sectors continue however, employment in higher wage sectors of the economy becomes less probable for all Chilean workers, rural and urban. Better wages, better working conditions and increased labour rights for *temporeros* and all workers in the export oriented sectors of the economy would most definitely improve Chilean workers' labour conditions. However, it is questionable that these sectors of the economy could continue to expand were the Chilean government to implement a more progressive Labour Code. Mining, for example, Chile's largest export sector and the one with the highest rates of productivity, representing 7.8 percent of GDP and generating 1.5 percent of national employment⁷¹ has the lowest wages and the worst labour conditions.

To free market proponents, export sector growth has become equivalent to progress. The fact that "progress" has come at high costs in terms of lower labour standards and workers' rights is dismissed because social costs are not accounted for in the free market equation. The fact that "progress" has come at the cost of Chile's natural resources is also not accounted for. The depletion of natural resources, which represents a permanent loss of key national assets and undermines long term development, is at the heart of the short term gains acquired by the leading export sectors.

As of August 1994, forestry exports totalled US\$978 million, a 22 percent increase over the same period in 1993. Since 1978, this sector has grown at an average annual

⁷¹Foreign Investment Committee, Informe Inversion Extranjera (Santiago:Executive Vice-Presidency of the Foreign investment Committee), 15.

rate of more than 9 percent⁷². The fishing export sector also demonstrates a growing influence in the Chilean economy. A higher ratio of fishing exports to GNP and higher ratios of those employed in this export leading sector have also contributed to the declining living standards of Chileans and to the depletion of species through over-exploitation.

Free trade advocates argue that further trade liberalisation will bring further benefits to Chile by increasing Chilean exports. The validity of this statement itself is questionable due to the already liberal nature of Chile's trade policies. Furthermore, that benefits will be enjoyed by Chilean workers is even less likely. As far as exports and employment trends are concerned, Chile's workers have inherited a legacy of poverty and regressive labour laws which continue to perpetuate declining social conditions.

Foreign Investment Regime

As illustrated in the first chapter of this study, one of the characteristics of globalization of the world economy in recent years is the substantial increase in the flow of foreign direct investment. As a result of a substantial change in attitude toward foreign capital, Chile liberalised restriction and created an open economy with incentives to attract an increasing share of the world's investment capital.

In Latin America, Chile was the first country to establish an open and non-discriminatory policy toward foreign capital. The Foreign Investment Law of 1974 (Decreto de Ley 600) was a substantial change from the more restrictive policies then

⁷²Foreign Investment Committee, 28.

prevailing in the country. The change in foreign investment policy complemented the structural transformation of the Chilean domestic economy, based on the adoption of the free market economic model, which involved the liberalisation of trade and the deregulation of internal markets. Thus, foreign investment became an important part of the liberalisation process by contributing capital for the expansion of export oriented sectors as well as for the process of privatisation.

The legal and economic principles of DL 600, the foreign investment law, are legislated as part of the Chilean Constitution. Under the law any Chilean or foreigner may freely develop any activity, so long as it does not contravene existing laws dealing with public morals, public safety or national security⁷³. Chile grants an important guarantee to the foreign investor by protecting the terms under which the investment is made by a legally binding contract. The contracts signed between the foreign investor and the government are legally binding and cannot be modified unilaterally by the Government, even if it passes a law. Thus, the investor is protected from any subsequent unilateral changes in the law and subsequent governments are locked into legal agreements which they cannot modify.

With respect to the principle of non-discrimination, the Government of Chile guarantees foreign investors equal protection under the law. Thus, under DL 600 foreign investors receive equal treatment and access to all sectors of the economy, including no limit on foreign ownership. The law establishes a series of foreign investor's rights. Foreign investors may transfer abroad capital and net profits that their investments

⁷³Corporacion de Fomento de la Produccion, 9.

generate. The remittance of capital may take place one year after the date of the initial contract and net profits at any time. Furthermore, there is no limit on the amount of capital or profits repatriated.

The few foreign investment regulations are characterised by their legal certainty and stability. In effect, the existing regulations are short, simple and where possible stable, that is, lasting through time. However, these very few restrictions are now being negotiated away during the negotiations surrounding Chile's accession to NAFTA.

Fiscal Regime

Regressiveness is the main feature of all the tools utilised for the implementation of the praised Chilean economic model. The initial costs were high and largely absorbed by the post 1973 generation of workers and low income class while the benefits have been many and their beneficiaries few. The initial costs are not the only costs that must be considered, the policies have also established a legacy of poverty and the perpetuation of declining social conditions. The fiscal policy initiated by the military regime included a taxation reform and restructuring as well as reducing greater part of public expenditure.

The taxation reform implemented was of a highly regressive character. It included the elimination of taxes on wealth and capital gains and a reduction of charges on profits. On the other hand, it also entailed the adoption of a value-added tax, where its regressiveness was strengthened by the suppression of exemptions for basic consumer goods. The objective of the changes were rationalised by the regime as an attempt to "reduce the burden of taxation", which were imposed on the owners of capital, and thus

disperse the burden in a more "neutral" manner across society. The introduction of the value-added-tax and the changes in the structure of taxation led to a 62 percent increase in real receipts during 1974 and a further increase in 1975.⁷⁴ These figures have often been cited as tangible proof of the success of the changes to fiscal policy under the regime. However, the burden placed on the poor and the policies' regressive character have too often been forgotten.

Concurrent with tax reforms, the regime implemented a rigid plan of cost cutting measures. Public expenditure, recorded as a proportion of the GDP, was reduced more than a quarter from the levels it had reached towards the end of the 1960s. Real per capita expenditure decreased in 1979 to 17 percent less than in 1970 and 10 percent less than in 1974.⁷⁵ In comparison with the average per capita levels of 1971-1972, expenditure on housing was down by 53 percent in 1980, health by 13 percent and education by 4 percent.⁷⁶ Per capita spending on health care fell from \$29 in 1973 to \$11 in 1988 simultaneously, the rate of typhoid and inadequate sanitation grew explosively.⁷⁷ These expenditure cuts and relative increased taxation of the lower classes occurred in an environment of unemployment and deterioration in the real income of the middle and lower class sectors which led to even higher social costs.

The fiscal regime of the current government is as regressive as that implemented

⁷⁴Parkin, 104.

⁷⁵Ffrench, 907.

⁷⁶Parkin, 105.

⁷⁷Petras an Vieux, 13.

by the military regime. Currently, Chile's public health sector cares for about 80 percent of the country's population, mostly working class and poor people, yet it receives only 60 percent of public funds devoted to health care. On the other hand, a government funded system, The Institution of Planned Health (Institucion de Salud Previsional, ISAPRE), channels 40 percent of public funds to the private sector to cover 20 percent of the population.⁷⁸

The Aylwin and Frei governments have pledged commitment to sustain economic growth, through export expansion, and to improve the distribution of income. This view presumes that the government can apply a strategy of growth independently of a redistributive strategy and furthermore that the first is not dependent on the second. In other words, Concertacion economists trust that the promotion of growth will result in greater equality and the elimination of poverty as soon as the trickle-down effect kicks in. Accordingly, contemporary fiscal policy resembles that of the military regime. A fiscal account that year after year runs a surplus concurrent with high levels of poverty.

THE SOCIAL EFFECTS OF THE "MODEL": A LEGACY OF POVERTY

Traditional neoliberal analyses of the Chilean economic model often focus on measuring macroeconomic indicators. Under the neoliberal criteria Chile is "a buoyant and well managed economy"⁷⁹, one of the west's fastest growing economies, a model

⁷⁸Howard Waitzkin, "Next in Line for NAFTA? Images from Chile," Monthly Review (March, 1995), 22.

⁷⁹Don Angus, "Business Hot in Chile," Trader: World Trade Centre (Summer 1993), 1.

economy. The numerous studies that refer to the Chilean case as a "model for development" place special significance on Chile's ability to attract foreign capital, the country's increasing GNP, its expanding export sector and several other measures pertaining to an orthodox criteria. These indicators of "success" however, coexist with the unescapable reality, a reality of poverty that 45 percent of Chileans living below the poverty line must endure.

It is unrealistic to hypothesize that true social progress in Chile can be formulated without a searching reexamination of the attitudes and assumptions that currently underlie the government's approach to economic development. For Chileans it is no longer possible to maintain the belief that the neoliberal economic reforms, initiated during Pinochet's regime, will eliminate or diminish the poverty experienced by a large percentage of the population. Regardless of the neoliberal rhetoric the real impact of the implemented economic effects have been regressive.

The costs inflicted on Chilean society are frequently underestimated if not completely ignored. An orthodox criteria for evaluation ignores the hardship suffered by the lower-income sectors of society during the initial implementation of the "model" as well as the legacy of poverty and inequality that was inflicted upon Chilean society. Furthermore, the effects of the structural changes imposed on the Chilean economy, in the areas of capital, its expansion and concentration, as well as the constitution of growth are often neglected.

The Chilean growth model is dependent on the dynamism of the growth of the export sectors. Today the Chilean economy is doing well. Then, why have conditions

in Chile deteriorated after the implementation of the most dogmatic neoliberal economic model? Why is 45 percent of Chile's population living below the poverty line? Some may choose to be selective with the indicators chosen to evaluate success or failure. For them, the regression undergone in Chile, in the past twenty years, may signify no relevant cost. The celebration of Chile's "success" is a celebration of the triumph of capital over the progress of the Chilean people, of profits over wages.

The success of Chile's free market policies have been enjoyed primarily by the economic and political elites. Through privatisation, financial reforms, trade and foreign investment liberalisation and regressive fiscal policy, enormous inequalities in wealth and income have emerged. Economic concentration is now greater than at any other time in Chile's history. A growing concentration of income, with the richest Chileans getting richer (the top 10 percent in 1990 captured 47 percent of the total income), has been at the expense of many in (or once in) the middle classes who have born the brunt of many of the changes (especially the privatisation of public companies and of social services and the undermining of union activities). Not only has income distribution grown more lopsided and poverty widened but also with the free market model the level of income is now crucial in determining access to social services.

Declining material conditions were experienced by the majority of the working population as costs of the model. Standard indicators show that the working class was worse off in 1989 than in 1970 or in 1973, preceding the liberalisation of the economy. The first ten year phase of the regime increased the relative number of poor households by 25 percent and the number of people living under absolute poverty increased by 39

percent. By the end of the military regime 44.4 percent of the population and over half of the rural population, were at or were pushed below the poverty line by economic policy conditions well beyond their control⁸⁰. From all the sectors that were harshly affected, the rural population, numbering over 3 million, by all indications has been one of the most impoverished sectors of Chilean society.

The implementation of the Chilean model affected each sector of the population very differently. Owners of real and financial assets received protection during the adjustment and depositors had their savings accounts insured by the government and indexed for inflation. Workers, in contrast, faced heavy income losses through wage de-indexation and unemployment. Chile's Gini coefficient increased from around 0.49 in 1970 to more than 0.54 during 1982-84. The income share of the poorest 40 percent of the population decreased from 11.5 percent to 10.0 percent during 1969-1984, while the share of the richest 20 percent increased from 55.8 percent to 59 percent.⁸¹ Through these indicators it is confirmed that income distribution in Chile was more regressive in the 1980s than it was in 1970 and that it was the lower-income groups that suffered an absolute deterioration in living standards during this period.

Can there be growth and redistribution? First it must be kept in mind that the restructuring of the economy is a major factor in the actual creation and perpetuation of poverty. Alleviation of poverty through poverty relief programs are only token policies to mitigate social unrest. The restructuring of the economy which is giving Chile its

⁸⁰Petras and Leiva, 35.

⁸¹Meller, 1546.

reputation of success is the same restructuring is responsible for Chile's declining social conditions.

The effects of the implementation of the neoliberal model had consequences that went further than the direct impoverishment of the Chilean population. A major restructuring of economic activity also took place institutionalising the legacy of poverty and inequality. In Chile today a persistent and growing distributional inequality constitutes a reality. Wages as a percentage of GDP decreased at a rate of 0.2 percent during the period of 1987-1990 and at an increased rate of 0.3 since 1990 to today⁸². The contradiction with the continuously declining wages is the relative increase in productivity congruently experienced.

⁸²Petras and Leiva, 198.

CHAPTER III: THE MEANING OF NAFTA

THE NORTH AMERICAN FREE TRADE AGREEMENT

Economic relations of both trade and foreign investment have been well established for at least a century. However, what is new in the current age is the degree to which those commercial ties are connections on a global scale. This internationalisation of capitalism, through neoliberal trade agreements such as NAFTA and GATT, has often been perceived as a positive and progressive driving force in the world economy. Moreover, many analysts regard the "globalization of capitalism", through increased international trade and investment, as the motor forces of economic growth and development⁸³. However, a positive correlation between increased trade and foreign investment and development is less than clear. Perhaps what becomes obvious throughout the study of NAFTA is the rise in importance that international finance plays in relation to trade itself.

A thorough examination of NAFTA reveals that the agreement itself is not simply about trade and the removal of all restrictions that obstruct the free flow of goods and services. In its actual content, NAFTA deals more with matters of investment, finance, and the production of goods and services than with traditional trade issues. Through its technical provisions the agreement encourages the promotion of neoliberal economic reforms as well as their consolidation. As its preamble reiterates, its intention is to "ensure a predictable commercial environment for business planning and investment". As

⁸³Arthur MacEwan, "Notes on U.S. Foreign Investment and Latin America," Monthly Review (January 1994), 16.

Grinspun and Kreklewich argue, NAFTA is a new type of "conditioning framework", a neoliberal framework that restructures home economies as member countries implement the technical provisions of the agreement and all aspects of their economies become exposed to the workings of "free" unregulated markets.

The restructuring of home economies, under NAFTA, permits the global conditions necessary for the internationalisation of capitalism as well as the rise of finance capital. In short, NAFTA offers international capital (mostly American) both the opportunity to increase its world share of foreign direct investment through extensive investment in Mexico and Chile and the ability to extend lean production into a low-wage labour market. The actual technical provisions under the agreement, which facilitate the free flow of capital, reflect the importance finance capital plays in today's world economy. The rise of international finance can be identified in the clear pattern of increased foreign investment, as well as in the liberalisation and internationalisation of the financial service sector.

The primary function of the internationalisation of finance, according to liberal economics, is to transfer accumulated capital to the location where its marginal rate of return is highest and where it therefore can be applied most efficiently. Neo-liberals see the process of internationalisation, through the removal of all barriers that may obstruct the creation of one global financial market, as the process that can bring about efficiency in the financial market, as it theoretically does for all other markets. The creation of an international market, guided by the laws of supply and demand, is supposed to lead to the most efficient allocation of financial resources. The unstable character of international

finance however, makes this market the weakest link in the international economy; speculative and volatile flow of capital can be a major source of global economic instability. International finance is subject to periodic debt crises and destabilising international flows of investment, speculation, and to the flight of capital in search of higher rates of return or safe havens.

NAFTA's rationale is the harmonisation of local or national economies with standards set by international trade and foreign investment. The agreement institutionalises the relative power of capital and weakens the significance of local laws that serve to protect natural resources, and to direct industry and employment. The elimination of all non-tariff barriers to trade, in goods and services, legalizes the access of transnationals to all generic national resources considered to be intellectual property and their patenting. NAFTA assists the promotion of growth of non-productive sectors of the economy as well as the expansion of exports of non-renewable resources. It, contributes to a restructuring of the economy that perpetuates poverty through promoting the growth of employment in sectors of lower labour standards.

The relative ascendancy of finance can be observed in the changing character of foreign direct investment (FDI) as well as in the proportion of financial activity to international trade. The rate of growth of FDI has been astonishing. By the end of 1990 it reached over \$1.5 trillion⁸⁴. Moreover, the expansion of FDI into sectors such as finance, real estate, insurance, advertising and the media marks the new trend in the present stage of globalization. The shift to investment in services constitutes "a new form

⁸⁴"Globalization to What End? Part I," Monthly Review (Feb, 1992), 1.

of economic penetration"⁸⁵, a new pattern that requires global institutionalisation for its efficiency. What is consequential about the changing composition of FDI is its non-productive character and its instability.

The stock of U.S. FDI in the categories of banking, finance, insurance, and real estate, has grown substantially faster than investment in any other category. By the mid-1980s, the volume of cross-border lending by banks had actually exceeded the volume of international trade of all the market economies combined⁸⁶. The successful expansion of financial services and the institutionalisation of its dominance is closely connected with the emergence of NAFTA. NAFTA, as more than a simple trade agreement among nations, is a response to the necessities of multinationals and economic blocks who are interested in creating a uniform world economy.

NAFTA introduces three elements that directly pertain to foreign investment. These are: a mandate to guarantee currency convertibility at market rates; a prohibition on expropriating NAFTA investors, except with compensation paid without delay and at "fair" market value with applicable interest; and the option for the investor to resort to investor-state binding arbitration or to the country's domestic courts in order to obtain monetary recompensation for the damage suffered⁸⁷. Neoliberal analyses of NAFTA provisions, that homogenise and liberalise the capital markets, identify these elements as

⁸⁵"Globalization to What End? Part I," 14.

⁸⁶"Globalization To What End? Part II," Monthly Review (March 1992), 2.

⁸⁷Rogelio Ramirez de la O, "The North American Free Trade Agreement from a Mexican perspective" in Assessing NAFTA, Steven Gliberman, ed. (Vancouver: Fraser Institute, 1993), 78.

tools for the acceleration of growth.

In the case of Mexico, orthodox analysts predicted that further changes in the FDI legislation would promote the growth of investment in Mexican industry. The nature of the investment however, is what has impeded a real increase in the standard of living of the population. Chile, unlike Mexico, has a long tradition of liberalised capital markets, and high levels of FDI confirm it. The practices ratified by NAFTA were implemented and legalised by the military regime and the succeeding civilian regimes for more than twenty years. Accordingly, it is reasonable to hypothesize that NAFTA, by further increasing the ratio of FDI to GDP will not eliminate inequality nor poverty. It is more likely that it will exacerbate these social costs of neoliberalism.

Eduardo Frei's claimed agenda is to promote prosperity through economic integration and free trade which in turn will eradicate poverty and guarantee sustainable development. Today NAFTA is the acclaimed tool for development which will lead to the provision of more (if not better) jobs to Chileans through increased foreign direct investment and market liberalisation. About the costs of the implementation of the agreement, the Chilean president says that "no doubt, it implies a degree of sacrifice and costs in the first stage. But, like the pains of childbirth they must be accepted as a sign that brings about birth and growth"⁸⁸ A study of the agreement however, demonstrates that Chile has been implementing its provisions for two decades already and the eradication of poverty is still far from a reality. Furthermore, poverty has been a result of such neoliberal "tools for development".

⁸⁸"Incorporacion al NAFTA Abre Nuevas Perspectivas," El Mercurio Dec.15, 1994, A9.

CHILE, THE "IDEAL PARTNER" FOR NAFTA

By almost any economic measure, Chile in 1995 had an economy that orthodox economists had difficulty finding fault with. Inflation is in single digits and declining. Foreign reserves at \$14.8 billion are high and rising, the government consistently runs a "healthy" budget surplus. Exports grew by more than 25% during 1995. Foreign investment was \$4.7 billion (9.1% of GDP) and the unemployment rate less than 6% , one of the lowest in Latin America.⁸⁹ Accordingly, advocates of free trade have had a tough time finding a more suitable country than Chile to become the fourth member of NAFTA.

Recognition for Chile's economic model has come from many international sources including U.S. President Clinton, who on several occasions, has referred to Chile as an "exemplary nation" where the combination of "economic success" and "political success" have converted Chile into the "ideal partner" for the U.S.⁹⁰ In this context, U.S. - Chilean relations are now centered on Chile's potential accession to NAFTA. In December 1994, just after the Summit of the Americas in Miami, Canada, Mexico and the United States invited Chile to enter into negotiations to accede to NAFTA.⁹¹ Thus, once again starting the flow of studies praising the Chilean economy and its neoliberal economic reforms for the achieved success.

Chile's long tradition of unregulated markets and open economy has been

⁸⁹"No Going Back," The Economist June 3, 1995, 17.

⁹⁰"Chile, Modelo de Desarrollo," El Mercurio Dec. 17, 1994, A12.

⁹¹Mark P. Sullivan, "Chile: Political/Economic Situation and U.S. Relations," Congressional Research Service Report for Congress Issue Brief 95-948, Sept. 7, 1995,5.

identified as the main factor responsible for the country's first place on the list to join NAFTA. Chile's limited regulations in the areas of trade, finance and foreign investment have been recognised as closely meeting the standards set by NAFTA. In the areas of labour and environment Chile has also been applauded for "exceeding" the requirements and standards established by the agreement⁹². Accordingly, Chile's accession has been considered a natural first step in establishing a Free Trade Area of the Americas (FTAA) by the year 2005, a goal set forth by the hemispheric nations at the Summit of the Americas.

Neoliberal economic policies implemented in Chile throughout the last three decades are in harmony with NAFTA's provisions. Reforms which have already been carried out, through constitutional changes, the implementation of International Monetary Fund's (IMF) structural adjustment programs, the establishment of neoliberal investment decrees (Decreto de Ley 600) and other more informal conditioning measures, have constituted a high level of conditionality by restricting the parameters under which economic and social decision making is conducted nationally. For Chilean government officials accession to NAFTA represents the opportunity to "deepen the liberalization strategy that Chile adopted in the early 70s"⁹³. Thus, it represents the opportunity to further entrench economic liberalism as well as its social and political effects. For Chile, NAFTA is a new form of conditionality. As such it will serve as a "conditioning

⁹²"Chile es Socio Ideal para los Estados Unidos," El Mercurio Dec.12, 1994, A12.

⁹³Chile Accession to NAFTA Ministry of Finance, Republic of Chile, 1.

framework"⁹⁴ to consolidate rather than just promote neoliberal restructuring. It will institutionalise the credo of less government, market individualism and free enterprise in harmony with Chile's economic reforms which have encouraged the drive to privatise, deregulate, and liberalise the economy.

The reasoning behind Chile's accession to NAFTA on the basis that it will materialize benefits for Chile and NAFTA members by increasing gains from trade, can easily be discarded. U.S supporters of Chile's accession have already formally declared that accession of Chile to NAFTA "...would be unlikely to have any demonstrable overall effects on the U.S. economy because trade between the two countries, although growing, is a minuscule percent of overall U.S. trade flows"⁹⁵. Chile ranks only as the 34th most important market for U.S. exports worldwide, accounting for \$2.8 billion in 1994⁹⁶. Similarly, U.S. imports from Chile totalled \$1.8 billion in 1994, or less than one third of one percent of total U.S. imports.⁹⁷

On its own, Chilean membership to NAFTA has been considered insignificant for U.S. economic interest and trade balances. For the U.S. the importance of Chile's accession does not lay in the size of its economy and the financial benefits of increased

⁹⁴ Grinspun and Kreklewich, 36.

⁹⁵J.F. Hornbeck, "Chilean Trade and Economic Reform: Implications for NAFTA Accession," Congressional Research Service Report for Congress Issue Brief 95-751, June 23, 1995, 1.

⁹⁶Raymond J. Ahearn, "Trade and the Americas," Congressional Research Service Report for Congress Issue Brief September 6, 1995, 3.

⁹⁷Raymond J. Ahearn, "trade and the Americas," Congressional Research Service Report for Congress Issue Brief September 6, 1995, 3.

trade, but the precedent it sets for the rest of Latin America. U.S. officials, those who are supporters of NAFTA, argue that this first enlargement offers the chance to prove that NAFTA is moving south and can serve as a "benchmark" for hemispheric integration.⁹⁸ For Latin American countries aspiring to "enjoy" the claimed economic benefits of "free trade" with the U.S., Chile's accession represents the prospect of a future hemispheric integration. Accordingly, in order to meet the "readiness criteria" for NAFTA membership, future candidates would be inclined to follow the Chilean neoliberal economic model and restructure their economies to meet the standards of free unregulated markets.

Chilean officials' interests in joining NAFTA do have something to do with trade, at least with the promotion of the Chilean export growth economy. Analysis done by the Institute of International Economics suggest that Chile's accession to NAFTA could promote its export growth. However, Chilean as well as U.S. trade experts have argued that "...many of the benefits of adopting freer trade policies have already been realized in Chile therefore, joining NAFTA will not be a significant economic event in and of itself for Chile"⁹⁹. Furthermore, Chilean trade patterns reinforce this statement making the reasoning behind Chile's accession to NAFTA, on a exclusively trade basis, somewhat questionable. The United States is one of Chile's largest single-country market for Chilean exports, making up 16 percent of total exports in 1994. However, Japan makes up a larger percentage, totalling 17 percent in 1994, and the European Union accounts for

⁹⁸Raymond J. Ahearn, 3.

⁹⁹J.F. Hornbeck,4.

up to 25 percent of total exports.¹⁰⁰

Will further trade liberalisation and increased foreign capital bring about development in Chile? Incorporation into NAFTA is not about development but about the expansion of the export driven economy and the institutionalisation of the impoverishment that sustains it. NAFTA is about the restructuring of the financial sector and the promotion of unproductive financial activity that will further impoverish the nation. NAFTA is an agenda for the consolidation of a neoliberal reality. It is an attempt to constitutionalize neoliberal reforms, to guarantee to foreign and domestic capital that there will not be a return to state-directed development policies.

NAFTA, THE CONSOLIDATION OF NEOLIBERALISM IN CHILE

An examination of NAFTA reveals a massive document of thousands of pages, much of it quite technical, including sections that refer to trade of goods, services, tariffs to imports, agriculture, investment rules, general standards and the protection of intellectual property. As Sylvia Saborio has correctly pointed out however, "the main allure of the agreement has to do more with investment than with trade"¹⁰¹ and its provisions resemble a "Bill of Rights for Capitalists"¹⁰² rather than just another trade agreement. A comparative examination of Chile's trade rules and NAFTA's 20 chapters,

¹⁰⁰J.F Hornbeck, 10.

¹⁰¹Sylvia Saborio, The Premise and the Promise: Free Trade in the Americas (New Brunswick: Transaction Publishers, 1992), 22.

¹⁰²Term borrowed from John Warnock, The Other Mexico The North American Triangle Completed (Montreal: Black Rose Books LTD, 1995),159.

turns up few points of contention and reveals that Chile is in a relatively easy position to conform to the disciplines included in the agreement. In large part, NAFTA's framework is already a reality.

Assuming an accession to NAFTA on the basis of the existing agreement, Chile would have to introduce only a limited number of both legal and procedural changes to fully comply with NAFTA provisions. Legal changes include the elimination of the one year restriction for the repatriation of foreign capital, establishment of new domestic legislation to cover the issue of "emergency actions" and changes in legal procedures regarding trade actions and the harmonization of legal and institutional procedures for the enforcement of NAFTA procedures. Chile's present trade regime already fulfils most of NAFTA provisions.

Chile has a uniform tariff barrier of 11 percent, a level which the government is currently considering reducing (independent of NAFTA negotiations) to 8 percent.¹⁰³ It has practically no non-tariff barriers and extends the Most Favoured Nation (MFN) and National Treatment principles to all imports. It has no quantitative restrictions and no export taxes. The possible incorporation of Chile to NAFTA however, will imply an even further reciprocal reduction of import tariffs between Chile and current NAFTA members. This reduction, and eventual elimination, would occur in a phase out process as is currently in progress under the Chile-Mexico Free Trade Agreement. The agreement, which applies mostly to trade in goods, consists of a one time reduction in imports tariffs

¹⁰³This is so, aside from Chile's accession to NAFTA. See: J.F Hornbeck, 8.

to 10 percent and a gradual reduction leading to zero tariff in 1996.¹⁰⁴

As far as non-tariff barriers to trade, Chile's trade policies also comply closely to NAFTA's provisions. Chile's liberal trade policies however, are not liberal enough for NAFTA and some non-tariff barriers such as "standard requirements" are to be reduced and eventually eliminated under the agreement. The agreement regards high standards in food, health and safety and the environment as non-tariff barriers to trade, restraints that raise "unnecessary" costs to corporations and must therefore be eliminated. As Maude Barlow and Bruce Campbell point out, "Written all through the NAFTA text, sometimes subtly, sometimes not, is the clear implication that regulations, from food safety to consumer protection, are a burden and an impediment to business".¹³² Consequently, the "standards" chapter provides clear rules aimed at reducing the scope for using standards as "disguised barriers" to trade. The use of animal health and phytosanitary requirements, currently used by Chilean authorities to prevent some imports which do not meet local standards, will have to be eliminated. Such "harmonisation" of standards establishes a low common denominator which then becomes the highest standard that parties to the trade agreement can adopt¹³³.

In the area of exports, Chile complies with NAFTA provisions and many do not apply to Chile due to the nature the country's exports; natural resources. As previously

¹⁰⁴Fernan Ibanez and Felipe Larrain, Chile's Readiness for NAFTA Accession: Business Opportunities for Canada (Santiago:1994),5.

¹³²Maude Barlow and Bruce Campbell, Take Back the Nation (Toronto: Key Porter Books, 1993), 98-99.

¹³³Lori Wallach, "Hidden Dangers of GATT and NAFTA," in Ralph Nader et al., The Case Against Free Trade (San Francisco: Earth Island Press, 1993), 163.

examined in this paper, the Chilean economy went through many difficult adjustments as the neoliberal policies of the Pinochet regime were implemented, with some industries and firms displaced by foreign competition and more "efficient" reallocation of resources. Ultimately, the liberalisation of markets led to exports becoming an increasingly important part of the economy and natural resources making up the bulk of this sector.

Industry composition changed, as the markets were liberalised, greater emphasis was placed on the exploitation and export of Chile's natural resources. From 1970 to 1990 the mix of goods exported changed. Forestry products grew from approximately 1 to 10 percent of total exports and agricultural products expanded from 2.7 to 11.2 percent¹³⁴. By 1994, Chile's primary merchandise exports included: copper and other metals, fish, forestry products, and fresh fruit. Fish and forestry products became the fastest growing export items, although copper still accounted for nearly half of the total value of Chilean exports.

Due to the nature of Chile's exports, conflicts in NAFTA negotiations in the area of rules of origin is unlikely. Chile's exports of manufactured products are small accordingly, the negotiation of rules of origin is unlikely to revive the conflicts originated in NAFTA. Furthermore, export subsidies do not exist and Chilean trade law does not allow the government to depart, not even temporarily, from its uniform tariff regime, even if increases in imports threaten to injure a local industry. The Chilean trade regime is so liberal that there is no competent investigating authority to evaluate all relevant safety

¹³⁴Government of Chile, Corporation de Fomento de la Produccion (CORFO).Chile Economic Report (March/April, 1995), 8.

factors and to make determinations on safeguard measures.

Each member country in NAFTA is supposedly allowed to adopt, maintain or apply standard-related measures relating to safety, the protection of human, animal or plant life, the protection of the environment or consumers, as well as border measures to ensure the enforcement of standards. Nevertheless, the agreement imposes discipline on the establishment of such standards and on the enforcement. While each party has the right to establish the levels of protection that it considers appropriate when pursuing its legitimate objectives of safety and protection, measures must be considered by all parties as "non-discriminatory" and cannot be believed to create an "unnecessary" obstacle to trade between NAFTA members. In other words, whether each party actually has authority to protect its citizens is only secondary to the business interests of its trading partners.

In the area of investment, NAFTA's key provision is the right to "National Treatment" for foreign investment. Under this provision, future governments may not require foreign investors to maintain any standards, such as buying locally, requiring the participation of national capital, or maintaining exports. Although Chile has liberalized its foreign investment policies to a greater extent than any Latin American country, its investment laws still do not fully comply with those in NAFTA.

Chile's foreign direct investment policies is governed by Decree Law 600, passed in 1974 as one of the first initiatives in the post Allende period opening up the Chilean economy to foreign interests. The basic principles, spelled out in the Foreign Investment Statute (Decree Law 600), are those of non-discrimination between locals and foreigners,

and of non-discriminatory processing of investment applications. As a result of these policies, and due to its overall macroeconomic performance, Chile has been quite successful in attracting FDI. Due to Chile's investment reforms, the country is considered to be "reaping" the "rewards" of a massive influx of foreign capital, which totalled \$995,6 million U.S. in 1992, \$1,714,6 million U.S. in 1993 and an striking amount of \$1,778,7 million U.S. in 1994¹³⁵. These impressive figures however, have not materialised into better social conditions for the population. Following the neoliberal tradition, the Chilean government continues to place its hopes for sustainable development on achieving an even larger amount of foreign investment .

A study of the nature of FDI in Chile reveals why progressive conditions have not materialised in Chile and further exposes it as responsible for the restructuring of the economy and decreased diversity and quality of employment. The trends in FDI in Chile indicate that foreign investment in services is rising in relation to manufacturing. The increase of FDI into the extraction of non-renewable resources and areas of low wages and poor labour conditions is also a remarkable trend. NAFTA, through the internationalisation of capital, nourishes the needs of international finance capital and the requirements of local corporate capitalists. By NAFTA fostering the increased flow of FDI into Chile it also advances its detrimental effects.

In 1989, 80 percent of Chile's recorded growth was in the unproductive sectors of the economy and was based to a considerable degree on speculative forms of capital

¹³⁵Alexandra Biesada, "Dollar Deluge," Financial World Vol.1 161, No. 7 (March 31, 1992), 56.

in search of high interest rates on deposits or loans. The trend in investment of foreign capital has been in the area of speculation activity, contributing substantially to an explosive imbalance between the supply of capital in circulation and the relative stagnant levels of productions. This trend is not particular to Chile's case, speculation is a major source of profits for many of the world's largest banks.

Foreign investment contracts in Chile (through DL 600) set the rules for the right to repatriate profits and capital, the right to national treatment, the unrestricted guaranteed access to foreign currency in the official market and the possibility of tax invariability. In case of disputes, foreign investors have the right to a legal review about interpretation or execution of the foreign investment contract, and they can sue the authorities through a normal judicial procedure. Investors (foreign and domestic) are also allowed to invoke a "Protection Appeal", a constitutional recourse for the guarantee of some of the fundamental rights having do with the freedom to undertake any economic activity and to be treated in a non-discriminatory way (Article 19 of the Chilean Constitution). Furthermore, in 1990, the Chilean government decided to further reaffirm the principles in DL 600 through the negotiation and signature of Protection Investment Treaties (IPTs). These treaties incorporate most of the clauses in Chapter 11 of NAFTA: national treatment, most-favoured nation treatment, right to transfers, expropriation and compensation and settlement of disputes.

An important topic during NAFTA negotiations has been the procedures for "expropriation" (of private ownership) and "compensation". In the case of Chile, these matters are clearly established in the Constitution (article 19 paragraph 24, and in Decree

Law 2186, of 1978), in terms that are in full compliance with NAFTA's article 1110. Expropriation is only justified for a public purpose, which in Chilean legal language is described as "public need" (utilidad publica or interes nacional (national interest)), and must be qualified as such by Congress. Expropriations must also be on a "non-discriminatory" basis in accordance with due process of Chilean law. The payments of compensation shall be equivalent to "fair" market value and, unless a special agreement is reached as to form of reimbursement, must be paid in cash and without delay.

As impossible as it might seem, NAFTA further protects the rights of corporations against expropriation by governments and strengthens rights for compensation. Through the creation of a North American Free trade Commission, NAFTA transfers the power to interpret what are to be considered "fair" practices and "adequate" market values from each country's government to a non elected body which operates behind closed doors and is not accountable to the citizens of any of the member countries.

Under NAFTA provisions there can be no restrictions on the repatriation of dividends, interests, royalties, or management fees. Currently, under Chile's DL 600 foreign capital cannot be repatriated for a period of a year, while profits may be repatriated immediately. This restriction, whose only purpose is to discourage short-term speculative capital from coming into the Chilean markets, has been accepted by all the countries with which Chile has signed investment treaties. However, due to the neoliberal nature of NAFTA the one year repatriation provisions is presently being negotiated, with high probability of being eliminated. Its elimination will allow even easier access to Chilean markets, including finance. It will allow capital accumulation and exacerbate

the extraction of profits from Chile.

Chapter 14 of the treaty deals with financial services. NAFTA provides the legal, regulatory and functional framework for a new financial service arena of four rather disparate financial service systems. The prospect is that it will create a general framework of principles aimed toward a general liberalisation of trade in financial services. It formulates a partial and gradual liberalisation of specific aspects of the much more restrictive Mexican financial services industry in favour of U.S. and Canadian financial market participants¹³⁶. The agreement demands the elimination of restrictions on foreign owned banks as well as the elimination on restrictions on foreign capital inflow and outflow. This and many other policies are in agreement with past policies of reprivatization and liberalisation of finance in Chile and accordingly will not result in drastic changes in the economy.

Chile's DL 600 is representative of 20 years of "*legalised*" liberal foreign investment rights and financial liberalisation. Under this criteria Chile is "*better prepared*" to meet NAFTA than Mexico was at the time of its integration, after only a few years of market liberalisation. Through the implementation of Chile's economic model the country has already taken the fundamental steps in the process of reform in the financial service sector. The effects of this further liberalisation will not be less harsh for the Chilean people than they have been for the majority of Mexicans.

NAFTA will contribute to a greater increase in the degree of capital concentration

¹³⁶Ralph Lindzon, "A North American Free Trade Zone in Financial Services?," International Financial Law Review 11, No. 11 (Nov, 1992), 35.

in Chile further increasing the gap between those who have and those who have not, as neoliberalism has done for the last 23 years. Capital concentration, in turn, will reinforce the reorganization of the economy from productive to non productive profit making sectors and leave massive numbers looking for jobs. Jobs will eventually emerge, but they will be low paying jobs with few benefits. As restructuring continues to take place figures of decreasing unemployment will be displayed as further "proof" of the success of NAFTA. The fact that there will be scarcity in the variety of jobs offered to Chileans is bound to be ignored by trade and economic analysts and it will be accepted as a consequence of a better reallocation of resources.

A lot has been talked about NAFTA in Chile and most of the commentary has been positive. It has been said that it will not only increase foreign investment but that it will promote further exports for the Chilean economy that will be followed by increasing levels of employment. Most studies of the agreement's effects lend support to this vision of free trade, concluding that NAFTA will indeed be an engine of progress for all the nations involved. These studies however, ignore the nature of such investment and the costs of the restructuring of the economy. There will be an increase in agro-exportation activities, but, this will be in sectors that utilize temporal labour and with little legal protection such as mining, forestry, fishing and agriculture.

Most studies of the agreement also fail to point out that under NAFTA there are controls on the creation of new state-owned enterprises. NAFTA specifies that these corporations must operate as commercial enterprises with profit oriented goals. The goal of performing a public service is lost as an initiative for government involvement and

instead commercial gain becomes the only incentive.

NAFTA is not a strictly economic agreement. It embraces social, political, environmental and cultural matters as well. It is an agreement that is in conflict with the notion of planning what a country will produce. By institutionalising the market as the sole manager of economic activity, societies lose their ability to direct their own paths. The sovereignty of each nation is lost and the aspirations for responsive governments vanished. The subjugation of the sovereignty of the nation state to international trade agreements is complemented with the detachment of national governments from the needs of their citizens and from a true commitment to the improvement of the domestic economy.

CHAPTER IV: CHALLENGES TO NAFTA

NAFTA NEGOTIATIONS: THE INDOCTRINATION OF IDEOLOGY

Narrow, private interests prefer secrecy in policy making. By contrast, citizen-based initiatives succeed only if they generate public debate and receive widespread support. On this basis alone one may become sceptical of the agreement. In his study of NAFTA negotiations, Ralph Nader identifies secrecy, abstruseness, and unaccountability as the watchwords of global trade policy-making. These elements, present in NAFTA negotiations, yield insights into who stands to benefit from its enactment. An examination of the negotiation process chosen to incorporate new nations into the agreement and the rhetoric used by free trade advocates, to inspire general support for NAFTA, reveals its secrecy and abstruseness.

The implementation of NAFTA came into effect in Mexico on January 1st, 1994, without any public discussion of the issue. Furthermore, the discussions carried out in the Mexican Senate on the issue of NAFTA can only be described as limited. The ratification of the agreement itself stands as evidence of the narrow nature of the discussion. The Mexican Senate took one day to ratify the agreement, with no debate or public involvement. In Canada, the Mulroney government rammed the NAFTA implementing legislation through Parliament without public participation, with only a few token committee hearings in Ottawa, and drastically limited debate in the legislature. In both accounts, the under representation of public interest was contrasted with the over representation of big businesses and their interests, as they worked with government in the negotiations.

Industria Minera Mexico and Banamex, Mexico's largest bank, hired American professional lobbying organizations to convince U.S. legislators to support NAFTA. The Mexican government hired Burson-Marsteller (B-M) and paid them \$30 million for a public relations and lobbying job.¹³⁷ In the United States, large corporations created the Coalition for Trade Expansion to push NAFTA through the U.S. Congress. This organization included the Business Roundtable, the National Association of Manufacturers, and the largest American transnational corporations, most of them major investors in Mexico. In early 1993, USA-NAFTA was created by over 1000 large corporations and trade associations to push the final agreement through the Congress. They spent \$6 million on television advertising in November alone.¹³⁸ In Canada, big business organizations also pushed hard for NAFTA, including the Business Council on National Issues, the Canadian Manufacturers Association, the Canadian Chamber of Commerce and the Canadian Bankers Association. The Trilateral Commission also strongly supported the agreement¹³⁹.

Chile's accession to NAFTA promises to come through as smoothly as Mexico's and lobbying efforts on the part of big business have already started. General Motors' top executive and president, John Smith, indicated during a visit to Chile that his automobile company would support Chile's accession to NAFTA through lobbying efforts

¹³⁷Joyce Nelson, "The Zapatistas versus the Spin -Doctors," The Canadian Forum Vol. 74, March 1994, 18.

¹³⁸William M. Welch, "Parade of Lobbyists Never Ends," USA Today November 17, 1993, A1-2.

¹³⁹Joyce Nelson, "The Trilateral Connection," The Canadian Forum Vol. 72, Dec. 1993, 5-9.

in the U.S. Congress. His interests were clearly stated as he declared to Chile's *El Mercurio* that he was a "true believer in NAFTA and regional blocks as they encourage further consumption".¹⁴⁰

Chilean government officials are also preparing the way for access to NAFTA as they use persuasion and neoliberal ideological discourse to appeal to the Chilean people and thus, limit resistance. In a message to the nation, President Frei said "Chile is facing a great historic opportunity and we have no *right* to waste it"¹⁴¹. The discourse of NAFTA is full of affirmations that correlate or declare as one and the same the well being of the Chilean people and the further "modernisation" of the Chilean economy. The reality of the intrinsic conflict of interests between the owners of capital and the providers of labour is often ignored. In addition, the Chilean government has urged all sectors of society and the national economy to concede to and negotiate NAFTA as "one united interest". Such hypocritical request, appealing to Chileans' sense of nationalism, is an initial sign of how NAFTA will erode the ability of the damaged sectors of society to aspire to representative domestic government.

Since the beginning of the Chilean NAFTA negotiations, Chilean government officials have expressed their desire to carry out negotiations as smoothly as possible by having all sectors of the Chilean economy and society represented as "one united front". The process of incorporation of Chile to NAFTA has been declared by Eduardo Frei's

¹⁴⁰"General Motors apoya el ingreso de Chile al NAFTA," *El Mercurio* May 1995, A10.

¹⁴¹Corporacion de Fomento de la Produccion, 10.

administration as a "national endeavour" which should not be weakened by a national division of interests. President Frei declared that, "without disregarding the difference of opinions", what should be a priority to Chileans is to "place the country first", "to make up a national team, to negotiate like a democracy but, with efficiency." Accordingly, the president of Chile affirms that "all doubts and vacillations should not be demonstrated in the formal process of negotiations".¹⁴² The government however, has not offered an arena for true national discussion on the agreement and Chile's accession. Furthermore, Frei's administration has made every effort possible to ensure an absence of an open national debate throughout the course of secretive NAFTA negotiations. No formal hearings or public consultations have been held in Chile.

Eduardo Aninat, Chile's Minister of Finance and leading representative of the Chilean government in NAFTA negotiations, has indicated that all sectors are welcomed in the negotiations. Aninat however, declared that the process should be "an equilibrated one where divisions should be bypassed". The minister has also declared that the prospect that these negotiations be converted into a ring of debate and dispute about the advantages and disadvantages of the agreement itself should be avoided¹⁴³. The consequences of the agreements are not open for discussion and the beneficial nature of the treaty are not to be publicly questioned.

Finance Minister Aninat considers that NAFTA negotiations, which he sees as "determinant for the pattern of development of Chile's future", should be carried out

¹⁴²"Incorporacion al NAFTA es una Tarea Nacional," El Mercurio Dec. 12, 1994, A10.

¹⁴³"Incorporacion al NAFTA es una Tarea Nacional", A10.

without difficulty. The minister, as other Chilean government officials, believes (or claims to believe) that "...emotions aside, 80 to 90 percent of Chilean citizens prefer a NAFTA negotiation..."¹⁴⁴ The government however, is not willing to test this conviction and remains reluctant to bring the question of NAFTA accession to the Chilean people through a referendum, as has been proposed by several NAFTA critics.¹⁴⁵

Eduardo Aninat maintains that the Government is open to listen to criticisms of NAFTA, mainly formulated by Chilean ecological groups and representatives of indigenous movements. However, he states that this "...does not signify that the government will give benefits to *sectoral interests*" since the Chilean Government will continue to keep a "*partial position*"¹⁴⁶. Furthermore, the Minister voiced that through dialogue many "ghosts of NAFTA" can be demystified and that economic decisions should not be confused with others, than might have merit but, that are not relevant.

Chilean government officials have either assumed that there is a consensus for NAFTA accession or that those who oppose it, do so due to their lack of understanding about the workings of the agreement. Accordingly, they claim that all the "ghosts" and "myths" can be cleared through a better understanding (a neoliberal understanding) of the agreement. As a result of this "understanding" all criticisms of NAFTA can be "demystified" and all Chileans can then agree on the unquestionable benefits of joining NAFTA.

¹⁴⁴"Unidad nacional pidio Aninat por ingreso al NAFTA," El Mercurio Dec. 16, 1994, A10.

¹⁴⁵"Nuestros "heridos" del NAFTA," Cronica Economica Jan. 23, 1995, A5.

¹⁴⁶"Incorporacion al Nafta es una Tarea Nacional", A10.

An important sector of Chilean society, initially alienated from NAFTA negotiations and later asked to converge to the recommendations of the government, is the labour sector. The United Workers' Confederation (Central Unica de Trabajadores (CUT)), upon an invitation to join a secondary group to advise NAFTA negotiators, expressed, through its vice president Arturo Martinez, that the confederation opposes "...the signing of an agreement that will negatively affect the quality of employment as well as unemployment indexes"¹⁴⁷. The CUT has indicated that the federation is more interested in discussing the internal labour situation of the nation.

The federation makes a valid point when they refuse to negotiate an agreement which has already been drafted, and specially an agreement that ignores the conflicting nature of labour and capital. They refuse to participate for the mere negotiation of what they consider "worthless clauses" and "impossible modifications". Government officials have manifested that this is an "infantile" reaction which does not respond to the "realities" of Chile. Furthermore, they declare that labour is one of the winners of NAFTA as those working in the export sector and those who labour in agricultural and commercial sectors shall be benefited through the expansion of these sectors.

NAFTA follows the goal of global commerce without commensurate democratic goals, it follows goals to foreclose citizen participation or even awareness. Negotiations are taking place behind close doors, negotiations that will undermine domestic law and limit future action not only in the direct regulation of commerce but all areas of policy

¹⁴⁷"Anunciaran el Ingreso de Chile al Tratado de Libre Comercio," El Mercurio Dec. 10, 1994, A8.

making.

THE RISE OF CHILEAN SOCIAL MOVEMENTS

According to the neoliberal ideologues, a new consensus is emerging among the peoples of Latin America in support of neoliberal economic policies and "free trade". The most conspicuous fact omitted from the consensus thesis is the electoral fraud that allowed the governing party in Mexico to deny electoral victory to Cardenas. Carlos Salinas de Gortari would not have been able to pursue his free-market policies had he not kept office by fraudulent means. In the case of Chile, Aylwin's government held out the hope of an improvement in the living standards of ordinary citizens only to denounce it once in office. The Aylwin campaign as well as the campaign of his successor Eduardo Frei has been "growth with equity". However, their governments have pursued the same neoliberal economic policies that institutionalised inequality to start with.

Through the establishment of the principles of laissez faire in NAFTA, business interests is reshaping the relationship of state and society. International capital is using politics and the state to secure new advantages and create conditions necessary for the perpetuation of its supremacy. Market law now operates on an international basis and capital circles the globe in search of local markets where costs of production are lowest and profits are high, subjugating the lives of citizens everywhere to the whims of the market. If there are social costs as a consequence of the unfettered operation of the laws of the market or if there are people suffering, it is because people or places fail to meet the implacable tests of the market.

As laissez faire ideology is implemented, the physical environment of social activity has changed and the relationship between state and society is altered. The responsibility for social welfare is no longer in the hands of the state. The market determines most social activities, as the state is constrained and becomes helpless to regulate markets. Nevertheless, the belief that governments should relinquish all their responsibilities for popular economic well-being has not been fully extinguished and the deterioration of social conditions has also increased popular discontent.

The implementation of the neo-liberal experiment in Chile has not only weakened the sovereignty of the state but it has also subordinated it to the interests of international capital. Constitutional changes, investment laws, trade and finance liberalisation have created, what neoliberal ideologues call, a "free" environment for business. Workers, consumers and citizens in general, find it increasingly difficult to defend their rights through the state. Social discontent has emerged and resulted in popular mobilization, and the rise of social movement. Community organizations emerging from shantytown dwellers, new labour unions and indigenous peoples' movements have emerged to demand that the government represent the interests of the citizens.

The restructuring of Chile's economy during Pinochet's military regime did not only change the relationship between the state and civil society, but it also incurred great social costs. Chile's export growth economy created inequality and absolute poverty, seeding discontent among the growing number of Chileans living under impoverishing conditions. Throughout the military regime, repression and state terrorism subdued the proliferation of popular movements. Furthermore, with Chile's return to

electoral democracy, citizens placed their hopes for social welfare on the newly elected governments. They looked towards the state for the alleviation of the poverty incurred by the military regime's neoliberal policies. The response of the government however, has been unsatisfactory as they have failed to respond to the needs of the majority of Chileans.

NAFTA is thus unlikely to improve the standard of living of the average person in Chile as much as it is unlikely to improve the lives of Mexicans or the average U.S. or Canadian worker. This is not to say that the gains from increased trade and liberalisation will not materialize. They will, however, these will be in the form of profits to international capital owners rather than increased wages and living standards of citizens of NAFTA countries.

Declining social conditions, increased poverty, the restructuring of the economy and the depletion of the environment are a reality of today's Chile. As a result in 1991 "Chuquicamata" and "El Teniente" copper workers had major strikes, national health and teachers unions organized illegal work stoppages and "Mapuche" native organizations, with a vigour and autonomy that surprised the government, initiated a dynamic mobilization to defend their land and cultural rights. The political structure is changing.

The new political structure in Chile has limited the functions of the state. The government is no longer an active initiator of social progress it does not pursue the advancement of the interests of the majority of Chileans. Furthermore, the state has become a fervent facilitator of business interests. Accordingly, workers are repelled by

the substance of the private investor bias of the policies implemented by the government. Labour is also discouraged by the compliance demonstrated by its traditional representative organization, the CUT (Central Unica de Trabajadores). The CUT, politically affiliated to the governing Concertacion Party has failed to negotiate true progressive changes for labour. Instead, the organization has focused on securing "minimalist" demands such as increases in minimum wage and incremental gains in wages, demands that do not impinge on the high profits and management of the neo-liberal model.

Today, NAFTA represents a dividing factor between the Concertacion Party and the CUT but, in the past the organization has shown an extreme level of compliance and collaboration to the policies implemented by the party¹⁴⁸. Accordingly, the trade labour union movement in Chile is now struggling to end labour's compliance to the Concertacion Party. As a result alternative organisations, such as the Autonomous Trade Union Movement (MAS) have emerged. MAS, a grassroots labour organization, does not follow structures organised and imposed by the leading parties. Instead, the movement through illegal strikes aspires to increase worker's participation in the organization of work, health conditions and relations of production. As the political process fails to respond to the needs of workers, workers have also stopped placing their faith in the system.

Significant autonomous movements have emerged in the export stimulated sectors

¹⁴⁸James Petras and Rosa Canadell, "Social Movements in Chile Today," Labour, Capital and Society Vol. 25 No. 2 (November 1992), 201.

of the economy, especially among copper mining workers in the north, where the effects of declining living standards are highly visible among the rural population. Due to the restructuring of the economy, Chileans find themselves pushed to pursue employment in mining, forestry and other low wage, low safety standard jobs. Workers employed in these export sectors of the economy, unsatisfied with weak associations to Chile's political parties, are searching for alternative ways. These sectors, which represent the growing areas of the economy in terms of ratio to GNP also represent the growing sector in relation to employment. The more Chileans are pushed to find employment in mining, forestry or the agro-export sectors the greater their discontent will be and the louder their demands will resound. If their demands are not heard through the electoral process there is the risk that the government might have to resort to repression.

On January 1st, 1994 1,500 Mexican Mayan peasants put their lives on the line in opposition to NAFTA, calling it "a death warrant" for Mexico and the indigenous people.¹⁴⁹ While the Mexican government blamed the uprising on "extremist groups", "radical groups" and "professionals of violence", Canadian government officials failed to see the connection between free trade and the events in Chiapas or even the connection between trade and human rights¹⁵⁰. The uprising was caused by a full understanding of the nature of the agreement and the consequences it would have for Mexicans and the indigenous people. The revolt carried out by the Zapatista Army of National Liberation

¹⁴⁹Joyce Nelson, "The Zapatistas versus the Spin-Doctors," The Canadian Forum Vol. 72. March 94, 18.

¹⁵⁰Based on Canada's Trade Minister Roy MacLaren's declarations to the CBC.

in the state of Chiapas, Mexico, was based on the rebels full understanding that NAFTA concerns land and natural resources and is about the perpetuation of inequalities and the proliferation of poverty. Chiapas' peasants, the poorest in Mexico, have had first hand experience with the contradictions of capitalism. Chiapas along with Tabasco, "produces 80 percent of the country's onshore oil" and "50 percent of Mexico's hydro power" however, "Chiapas peasants have the highest protein deficiency" and "half the population has no access to drinking water or electricity"¹⁵¹.

Chile's indigenous peoples, the "Mapuches", have also rejected the trade agreement based on their deep understanding of it and its consequences. Following the initial formal announcement that Chile would join NAFTA, Aucan Huilcaman, the Mapuche leader, publicly denounced the agreement as another "failure of the leaders of the continent to establish relations with indigenous people"¹⁵². The Mapuches denounce NAFTA's institutionalisation of the exploitation of natural resources to promote growth, a means that goes against the rights of the indigenous people who live south of Bio-Bio, Chile. The nature of the treaty implies genocide and ecocide for indigenous peoples. It is in direct contradiction to the indigenous' principle of reciprocity based on the equilibrium of the natural order and the knowledge of the biological diversity which is the base of their culture.

The Chilean government has failed to recognize their rights to ownership of native

¹⁵¹Joyce Nelson, "The Zapatistas versus the Spin-Doctors," The Canadian Forum Vol. 72, March 94, 25.

¹⁵²Alvaro Valenzuela, "Contra ingreso de Chile al Tratado de Libre Comercio," La Segunda Dec. 12, 1994, 4.

resources and the establishment of the agreement has further prompted the Mapuche's dispute for recognition of these rights.¹⁵³ The Council of native peoples (*Consejo de Todas las Tierras*) has requested that the Chilean government carry out a plebiscite asking the Chilean people for approval of accession to the trade agreement. Needless to say however, the government has not responded to such proposal. The Mapuche peoples reject the agreement not only as representatives of a native minority within Chile but for all Chileans. They reject the agreement on the basis that they recognize that it will promote the accumulation of wealth for a minority, generating poverty and the exclusion from prosperity for the majority, indigenous and non-indigenous peoples. Aucan Huilcaman, as well and other indigenous Mexican leaders, anticipate that the effect of foreign capital will intervene strongly in the future of Chileans and native peoples by the extraction of non-renewable resources and the restructuring of employment¹⁵⁴.

To predict that the Mapuche people will revolt as the peasants of Chiapas did on the eve of the signing of the NAFTA, is not an unfounded postulation. Commander Marcos referred to the agreement as "a death certificate of the Indian peoples of Mexico"¹⁵⁵. There is enough evidence that NAFTA guarantees the same for the Mapuches. It is also conceivable that the Chilean government might respond to the demands of its indigenous peoples as the Mexican government did, through repression.

The failure of the government to respond to the social needs of its people has

¹⁵³Aukin Ngulam, 2.

¹⁵⁴Anibal Barrera, "Avalancha Economica," La Cuarta Dec.5, 1994.

¹⁵⁵Stanley Reed, "The Guns of Nafta: From Mexico's Wretched, A Bloody Dissent," International Outlook January 17, 1994, 47.

prompted Chileans to collective action for the provision of basic needs such as shelter. The number of collectively organised shantytowns on the outskirts of Santiago has dramatically increased over the passed years. The expectations that came with the civilian elected government never became a reality and poverty continues to rise. However, with the rise of destitution comes the need for collective action and the rise of grassroots organizations. The disillusionment and lost of confidence with the political parties and the lack of real alternatives in the political arena will accelerate the rise of social movements.

FINAL REMARKS

The most important long term effect of implementation of the neoliberal economic "model" in Chile has been the restructuring of the Chilean economy. Trends in increased capital inflow and the growth of the export sector of the economy have been coupled with increasing poverty levels as well as higher degrees of inequality. The unequal NAFTA will accentuate the restructuring of the economy and the economic trends that originated subsequently to the implementation of the neoliberal economic model. Consequently, the agreement will also deepen the effects associated with the implementation of these policies.

NAFTA will have two main economic effects on Chile and several political and social consequences. One of the deteriorating economic effects will be on the macroeconomic front. The Chilean economy will experience greater potential for financial instability, by accelerating the inflow of finance capital into the area of financial services. Secondly,

NAFTA will advance the declining trend in the nature of employment, by accelerating the shift of labour from manufacturing to low wage and low labour standard sectors such as mining, fishing, forestry and agriculture. Additionally, NAFTA will expedite and institute deteriorating environmental conditions by accelerating the exploitation of non-renewable resources. As a result of degenerating living standards and declining social conditions, social conflict will escalate and social movements will continue to emerge. Social unrest may not be far behind.

CONCLUDING NAFTA FACTS

- ◆ The amount estimated that the Mexican government spent lobbying for NAFTA: \$100 million¹⁵⁶.
- ◆ Estimated number of Mexican peasants so far forced by NAFTA to abandon farming and migrate to the cities: 1.8 million.¹⁵⁷
- ◆ Number of Mexican workers who have lost their jobs since the financial crisis and the IMF-imposed austerity program (1980s): 2,300,000.¹⁵⁸
- ◆ Materialised FDI in Chile from 1974 to 1994: US \$12,528 million.¹⁵⁹
- ◆ Between 1974-79 mining made up 44 percent of total FDI. Between 1990-94 mining counted for 60 percent of total FDI.¹⁶⁰
- ◆ In Chile, earnings per employee have experienced a negative growth rate since 1980.¹⁶¹
- ◆ Chilean real wages fell by 20 percent between 1982-87.¹⁶²
- ◆ In 1987, 27 percent of Chileans lived below the poverty line, the percentage went up to 45 in 1994.¹⁶³
- ◆ In 1992, 20 percent of the population in Chile received 60.4 percent of total

¹⁵⁶"Index on NAFTA and Mexico by the CCPA Monitor," Canadian Forum (Nov. 1995), 48.

¹⁵⁷"Index on NAFTA and Mexico by the CCPA Monitor," Canadian Forum (Nov. 1995), 48.

¹⁵⁸"Index on NAFTA and Mexico by the CCPA Monitor," Canadian Forum (Nov. 1995), 48.

¹⁵⁹Foreign Investment Indicators," (Santiago: Foreign Investment Committee, 1994) 2.

¹⁶⁰Foreign Investment Indicators," (Santiago: Foreign Investment Committee, 1994) 2.

¹⁶¹Human Development Report 1990 (New York: Oxford University Press, 1993), 168.

¹⁶²Patricio Meller, 1558.

¹⁶³Petras and Leiva, 130.

income and the poorest 20 percent only received 3.3 percent.¹⁶⁴

¹⁶⁴"Workers in an integrating World," World Development Report 1995 (Oxford University Press, 1995), 221.

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