Cranking Up the Volume So Asia Can Hear

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Introduction

One lesson for Mexico from Agustín Carstens's failed bid to become managing director of the International Monetary Fund (IMF) is simply this: broaden external interests and crank up the preference-volume so Asian leaders can hear. Though Asia, and particularly its markets, might be flourishing across the Western Hemisphere, Mexico remains too far out in left field to really matter.

At stake is Mexico's fidelity to a fading North American idea. Much as the North American Free Trade Agreement (NAFTA) yanked a "new" Mexico out of its failed corporatist and introverted import-substitution culture, a presidential election year like 2012 offers Mexico an opportunity to confront global challenges.

While this reorientation must begin on the economic front in a materialist world (with cell phones, iPads, and a jet-set mentality symbolizing an increasingly upwardly-mobile population), diplomatic lessons from the 2011 IMF fiasco can help. I explain this in reverse order: first, the missed opportunities of Carstens's IMF bid; then, why NAFTA is yielding diminishing returns; and finally, by examining how the global window that Mexico opened has become a one-way highway for Asian goods nibbling away the essentials of one of the world's top dozen largest economies.[1]

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Fiasco-filled IMF Bid

Dominique Strauss-Kahn's May 18, 2011, resignation suggested a tooth-and-nail contest. French Economic Minister Christine Lagarde's candidacy was consistent with the 1944 "unsigned convention" that the United States supply World Bank leadership and Europe the IMF's;[2] but a string of emerging market (EM) countries demanded greater IMF influence. Even by adopting this EM argument, Carstens was largely ignored in Asia and Africa. When his candidacy was announced May 22 in a Bloomsberg television interview, Lagarde led the polls without even announcing her candidacy. Britain's Chancellor of the Exchequer, George Osborne, extolled her "real international leadership" on May 19; Italy's Silvio Berlusconi did likewise the next day; and Angela Merkel, Germany's chancellor, sealed European support for Lagarde on May 22.

The net result was that Lagarde's May 25 entry meant she carried Europe's 31-percent vote allocation,[3] but Carstens had no North American/NAFTA support. Though the Latin bloc provided Carstens with slightly less than 5 percent of the IMF votes, EM countries kept a polite distance from their own Pied Piper. Neither Argentina nor Brazil in the Western Hemisphere, nor China, India, Russia, or South Africa elsewhere, followed Carstens. Both North American countries praised the "competence" of both candidates, but Canada went for Carstens only because Stephen Harper did not like Sarkozy's France, while the United States cast its lot in with Lagarde.

Carstens's candidacy was "like starting a soccer game with a 5-0 score" against him, meaning the 31-percent vote he would not get. Yet, he still had 69 percent to work for had Brazil, China, India, Russia, and South Africa —the BRICS— supported Carstens, and the U.S. vote, cast in the very penultimate moment, might have ditched the Bretton Woods convention, easily compensating for Carstens's lost 31 percentage points. It was clear in early June that widespread Asian and Latin respect for both candidates was not enough. Lagarde was "known" in critical Asian capitals; Carstens, remained "unknown."

Carstens —and Mexico— missed today's critical globalization message of EM salience in international political economy. Though Canada and the United States have long recognized this, Mexico has not been flexible enough. It is purely conjecture whether Europe will find another Lagarde when her term(s) are over, but this is for sure: when EM noise to rebalance IMF rules erupts again, Mexico might not even be in the picture.

NAFTA's Diminishing Returns

The IMF race exposed the slower NAFTA-based integration compared to Western Europe. Several factors confirm why North American regional integration has not been a twenty-first century priority. First, 9/11 rudely interrupted NAFTA hopes and threw a security curveball that eventually diverted U.S. and Canadian economic attention, resources, and priorities elsewhere and into other activities. Second, even after the 1994 NAFTA implementation, Canada, Mexico, and the United States explored NAFTA extensions rather than NAFTA cultivation, and though the Free Trade Area of the Americas (FTAA) never truly had as much steam as NAFTA, it nevertheless exposed NAFTA's role as a *means* toward other goals rather than the *end*, a critical NAFTA-EU distinction. Third, the U.S. competitive-liberalism policy approach dictated just as much "go global" with piecemeal FTAs, combining them where possible to promote U.S.-friendly multilateralism.[4] Fourth, Canada's similar global-level shift rebounded after Harper's resounding May 2011 victory refortified negotiations with the European Union, China, and India. Fifth, Barack Obama's November 2011 Asia visit not only put more steam into the Asian-Pacific Economic Cooperation (APEC) than NAFTA received at the moment, but also confirmed trans-Pacific passageways to be a higher U.S. priority than just North American consolidation. Finally, when many of NAFTA's 15-year goals had been attained, no extensions were proposed, nor were graduating to a customs-union stage of regional economic integration or fulfilling a pure free-trade area suggested, as more border walls dotted the North American landscape in 2008 than in 1994. Mexico created more FTAs in the 1990s than any other country, but simply failed to put substance into many of them. Its North American economic fidelity makes sense for accessing the world's largest market (the United States); but without diversifying, Mexico becomes a "sitting-duck" under globalization. Led by China, every country was snapping up opportunities with or without FTA obligations. Mexico simply shortchanged itself.

Cold Global Winds

Globalizing forces compelled NAFTA's diminishing returns. Mexico's trade surpluses with the United States after 1994, and increasingly with Canada, reversed the chronic 1980s deficits, but in doing so, not only locked the country's options, but concealed the *maquiladorization* and dependent growth that NAFTA was expected to eliminate. Just in the last five NAFTA years, when more symmetry should have emerged in Mexico-U.S. trade, the proportion of Mexico's equipment and parts exports (Table 1 expresses this in billions of dollars) remained so static (16.6 percent in 2003 and 16.4 percent in 2008) that the same argument Canadians have always made of themselves *vis-à-vis* the United States (of being an eternal *spoke* of the U.S. *hub*) now characterized the Mexico-U.S. duo.[5] And with the proportion of primary products (oil and gas) shooting up from 9.9 percent to 17.5 percent during that period, the structural *dependency* Raúl Prebisch sought to eliminate through import-substitution industrialization (ISI) in the 1950s seemed to be as true of post-ISI twenty-first century Mexico as it was then (see Table 1).

And if this were not eye-popping enough, Mexico was losing all its North American surpluses to the rest of the world, *so much so that it was actually ending up with net annual trade deficits*. Tables 2 and 3 show how North America accounted for 74 percent of Mexico's imports and 93.1 percent of its exports in 1994, but only 52.1 and 82.5 percent, respectively, in 2008. On the other hand, the values of Mexico's North American balance of imports and exports improved consistently from a negative US$5.2 billion in 1994 to US$79.9 billion in 2008 for the whole North American region (see Tables 2 and 3).

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Table 1

Mexico-U. S. Traded Items (2003-2008) (billions of U. S. dollars)

Mexico's Exports to the U. S.	2003	2008	Mexico's U. S. Imports	2003	2008
Oil and gas	13.67	37.93	Motor vehicle parts	7.11	10.06
Motor vehicles	19.03	22.02	Petroleum and coal products	2.31	9.63
Audio/video equipment	6.91	17.84	Basic chemicals	3.35	7.16
Motor vehicle parts	15.99	17.82	Resin, synthetic rubber, and related products	2.94	5.95
Communications equipment	5.98	7.45	Oilseeds and grains	2.61	5.94
Other	75.62	104.97	Other	64.79	92.77
Total	137.20	216.33	Total	83.11	131.51

Source: M. Ángeles Villarreal, "U. S.-Mexico Economic Relations: Trends, Issues, and Implications," *Congressional Research Service Report for Congress*, CRS #7-5700 (RL32934), Washington, D. C., 2010, p. 5.

TABLE 2

MEXICO'S IMPORT PROFILE (1994-2008) (BILLIONS OF U. S. DOLLARS)

Year	World Trade Total (from DOTS)*	North America** (as % of column 2)	Western Europe*** (as % of column 2)	Latin America (as % of column 2)	China (as % of column 2)	India (as % of column 2)	Japan (as % of column 2)
1994	79.20	58.61 (74.00)	9.58 (12.90)	3.16 (3.98)	0.43 (0.50)	1.40 (1.80)	3.81 (4.80)
1995	72.48	55.39 (76.40)	7.13 (9.80)	2.16 (2.98)	0.52 (0.70)	0.12 (0.20)	3.61 (4.90)
1996	89.47	69.37 (77.40)	8.23 (9.20)	2.24 (2.50)	0.89 (0.99)	0.13 (0.10)	3.90 (4.40)
1997	109.80	84.16 (76.60)	10.51 (9.60)	2.62 (2.40)	1.44 (1.30)	0.20 (0.20)	4.33 (3.90)
1998	125.19	95.54 (76.30)	12.25 (9.80)	2.92 (2.30)	2.03 (1.60)	0.23 (0.20)	4.56 (3.90)
1999	141.98	108.22 (76.20)	13.51 (9.50)	3.45 (2.40)	2.17 (1.50)	0.23 (0.16)	5.08 (3.60)
2000	174.46	131.55 (75.40)	15.63 (8.90)	4.89 (2.80)	3.35 (1.90)	0.29 (0.17)	6.47 (3.70)
2001	168.40	118.00 (70.10)	17.07 (10.10)	5.54 (3.20)	4.48 (2.70)	0.39 (0.23)	8.00 (4.70)
2002	173.85	111.04 (63.90)	15.9 (9.10)	6.69 (3.80)	6.80 (3.60)	0.46 (0.26)	9.34 (5.40)
2003	173.84	109.48 (62.90)	17.18 (9.90)	7.98 (4.60)	9.93 (5.70)	0.56 (0.32)	7.60 (4.40)
2004	201.16	116.16 (57.70)	19.60 (9.70)	11.19 (5.60)	14.80 (7.30)	0.87 (0.40)	10.60 (6.00)
2005	221.82	125.14 (56.40)	24.19 (10.90)	12.82 (5.80)	18.26 (8.20)	0.96 (0.40)	13.10 (5.90)
2006	256.06	138.16 (53.90)	27.07 (10.60)	14.97 (5.40)	25.08 (9.80)	1.13 (0.40)	15.30 (6.00)
2007	281.94	147.81 (52.40)	32.19 (11.40)	15.43 (5.10)	30.33 (10.80)	1.21 (0.40)	16.30 (5.80)
2008	308.60	160.78 (52.10)	36.87 (11.90)	15.83 (5.10)	34.73 (11.30)	1.36 (0.40)	16.30 (5.30)
Average annual change	26.00	18.30	25.60	33.30	538.40	80.90	32.20

Source: International Monetary Fund, Statistics Department, *Direction of Trade Statistics, Yearbook 2009* (Washington, D.C.: International Monetary Fund, 2009), pp. 355-357; *Yearbook 2002*, pp. 329-330; and *Yearbook 2001*, pp. 327-328.

Notes

*DOTS: Direction of Trade Statistics.

**North America includes Canada and the United States with Mexico.

***Utilizes "eurozone" category of sourcebooks, plus Great Britain until 2001, then Western Europe.

TABLE 3

MEXICO'S EXPORT PROFILE (1994-2008) (BILLIONS OF U. S. DOLLARS)

Year	World Trade Total (from DOTS)	North America (as % of column 2)	Western Europe (as % of column 2)	Latin America (as % of column 2)	China (as % of column 2)	India (as % of column 2)	Japan (as % of column 2)
1994	57.38	53.41 (93.10)	2.92 (5.10)	2.76 (4.80)	0.42 (0.70)	0.4 (0.70)	0.99 (1.70)
1995	73.74	68.73 (93.20)	4.01 (5.40)	4.51 (6.10)	0.37 (0.50)	0.3 (0.40)	0.93 (1.30)
1996	96.00	82.84 (86.30)	3.95 (4.10)	6.21 (6.50)	0.48 (0.50)	0.02 (0.02)	1.36 (1.40)
1997	110.43	96.69 (87.60)	4.38 (4.00)	6.59 (6.00)	0.33 (0.30)	0.04 (0.03)	1.16 (1.00)
1998	117.49	104.83 (89.20)	4.18 (3.60)	5.85 (4.90)	0.32 (0.30)	0.03 (0.02)	0.86 (0.70)
1999	136.39	122.78 (90.00)	5.66 (4.10)	5.19 (3.80)	0.31 (0.20)	0.02 (0.01)	0.78 (0.60)
2000	166.46	151.04 (90.70)	6.20 (3.70)	6.47 (3.90)	0.40 (0.20)	0.06 (0.04)	0.93 (0.60)
2001	158.44	143.37 (90.40)	5.79 (3.70)	6.56 (4.10)	0.41 (0.30)	0.16 (0.10)	0.62 (0.40)
2002	161.23	144.89 (89.80)	4.79 (2.90)	6.52 (4.00)	0.81 (0.50)	0.33 (0.20)	1.19 (0.70)
2003	164.89	147.34 (89.30)	5.31 (3.20)	6.74 (4.10)	1.2 (0.70)	0.49 (0.30)	1.17 (0.70)
2004	187.81	167.81 (89.30)	5.38 (2.90)	8.48 (4.50)	1.16 (0.60)	0.45 (0.20)	1.19 (0.60)
2005	214.23	188.10 (87.80)	7.71 (3.60)	10.91 (5.00)	1.32 (0.60)	0.56 (0.30)	1.47 (0.70)
2006	249.92	217.27 (86.90)	9.70 (3.90)	13.77 (5.50)	1.97 (0.80)	0.68 (0.30)	1.59 (0.60)
2007	271.87	229.92 (84.50)	12.38 (4.60)	17.80 (6.50)	2.22 (0.80)	1.1 (0.30)	1.91 (0.70)
2008	291.34	240.65 (82.50)	14.66 (6.30)	21.87 (7.50)	2.44 (0.80)	1.56 (0.50)	2.05 (0.70)
Average annual change	34.00	30.00	33.00	53.00	38.00	371.00	14.00

Source: *International Monetary Fund, Statistics Department, Direction of Trade Statistics, Yearbook 2009* (Washington, D.C.: International Monetary Fund, 2009), pp. 355-357; *Yearbook 2002*, pp. 329-330; and *Yearbook 2001*, pp. 327-328.

Carstens's fate was dictated by Mexico's commercial absence in Asia, Mexico's role as an Asian platform for U.S. sales making it a lesser commercial competitor, and the expanding North American pie with Mexico's continuous and gleeful surpluses masking the many structural constraints on shifting from an emerging market to a developed country.

China, India, and Japan accounted for 0.7, 0.2, and 4.9 percent of Mexico's imports, respectively, in 1995, which increased to 11.3, 0.4, and 5.3 percent of Mexico's 2008 imports. Yet, Mexico's exports to these countries remained proportionately similar in 2008 to those of 1995: China, India, and Japan, for example, accounted for 0.5, 0.4, and 1.3, respectively, in 1995, which climbed to 0.8, 0.5, and 0.7, respectively, in 2008. Even though the volumes remained negligible compared to North America, Asia not only notched up surpluses in Mexico, but also displaced Western Europe and Latin America as loftier Mexican partners in 1994. The same three Asian countries accounted for 7.1 percent of Mexico's imports as against 12.1 percent for West Europe and 3.98 percent for Latin America, but in 2008, the three Asian countries accounted for 17 percent of Mexico's imports, as against 11.9 percent for Western Europe and 5.1 percent for Latin America. Mexico's Asian exports did not grow: the same three Asian countries purchased only 3.1 percent of Mexico's exports in 1994, as compared to 5.1 percent and 4.8 percent for Western Europe and Latin America, respectively, *but merely 2.0 percent in 2008, as compared to 6.3 and 7.5 percent for Western Europe and Latin America, respectively*. Less was being purchased from Mexico during the NAFTA years in Asia than in 1994, while Asian exports were penetrating Mexico's markets opened by NAFTA.

Conclusions

Carstens's fate was dictated by a) Mexico's commercial absence in Asia, a true case of diplomacy following trade (rather than the other way around); b) Mexico's role as an Asian platform for U.S. sales making it a lesser commercial competitor, thus weakening its diplomatic bargaining room; and c) the expanding North American pie with Mexico's continuous and gleeful surpluses masking the many structural constraints on shifting from an emerging market to a developed country, thus decreasing its North American bargaining chips. Quite obviously, these trade figures did not determine how EM countries voted against Carstens, but they portray Mexico's weakness in leading the EM revolution the way it once did the 1960s non-aligned movement (the Treaty of Chapultepec, for example).

What can Mexico do? To go with the global flow might be the short answer to a complex puzzle. Mexico's excessive loyalty to this North American idea (in particular, prioritizing the United States at the expense of other bilateral or even greater multilateral opportunities) stands out in an age when trade agreements are being increasingly twisted to promote self-interests and serve exploitative purposes by almost all countries, including Mexico's North American partners. Better to go with the flow, as the cliché goes, than remain the paragon of purity. If Mexico diversifies markets and partners, its EM leadership would show more substance, strengthening any future Carstens IMF bid. Ultimately, a presidential initiative might have to pave the way, just as Mexico's 1994 North America bid did. This makes the July 2012 elections critical; only if a fierce cosmopolitan leader won would Mexico be ready for the global shift. Tacos, tamales, and tortillas apparently yielded to hamburgers, hoagies, and pizzas under the NAFTA regime, but will they do likewise to sushi, chow mein, and curry under globalization? Cosmopolitanism could be the answer, either on the part of a leader or the voters. VM

Notes

[1] Robert Pastor's rankings. See "A Friend in Mexico," *Globe and Mail*, editorial, January 30, 2012, http//www.theglobeandmail.com/news/opinions/editorials/a-friend-in-mexico/article231.

[2] Pam Johnson, "Days Ahead of Official Election, Lagarde 'Crowned' IMF Chief," *Global Geopolitical Economy*, June 24, 2011, http//globalgeopolitics.net/wordpress/2011/06/24/days-ahead-of-official-election-lagarde, accessed August 19, 2011.

[3] Quota power determines voting, which begins with 250 *basic points*. One point is added for every 100 000 Special Drawing Rights (SDRs).

[4] Richard Feinberg, "The Political Economy of United States' Free Trade Arrangements," paper, Berkeley APEC Study Center (BASC), University of California, Berkeley, March 21-22, 2003.

[5] See Ronald Wonnacott, "Trade and Investment in a Hub-and-Spoke System versus a Free Trade Area," *The World Economy* 19, no. 3 (1996), pp. 237-252.