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NAFTA: Best Practices

SECOND EDITION



Robert T. Moran



**UNITING NORTH
AMERICAN BUSINESS**



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To Robert T. Moran, an admired scholar and friend, for his optimism and commitment to helping mankind find the goodness in one another.

And to Mr. and Mrs. Owsley Brown II, respected global leaders with an unwavering commitment to people and local communities

J.D.A.

To Philip R. Harris, a respected colleague and supporter.

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Series Preface

Culture is a fascinating concept, and culture matters in global business. It has so many applications, whether between nations, organizations, or peoples. Communicating effectively across cultures, negotiating on a global scale, and conducting international business are always challenging. To thrive, and in many cases to survive, in the 21st century, individuals and institutions must incorporate cultural sensitivity and skills into their relations, strategies, and structures. Inability to deal with differences or diversity in human cultures is a sign of weakness and obsolescence in persons and groups. The new millennium has no tolerance for “ethnic cleansing,” anti-Semitism, or any other form of religious, racial, or gender discrimination.

As originally conceived, our book, *Managing Cultural Differences*, was intended to increase human effectiveness with people who differ in cultural backgrounds. With the new century, our “flagship” sails into her fifth edition. We are particularly gratified not only that business organizations have found the book useful, but also that, in academia, more than 200 universities worldwide have adopted our work as a textbook. This pioneering publication has also spawned many “offspring,” so the *Managing Cultural Differences Series* was launched and has subsequently grown into more than a dozen titles.

As series editors, we are pleased with these outstanding products. We trust that you will continue to find our literary efforts helpful as you seek to address transcultural challenges in our rapidly changing, highly interdependent communities!

We hope you will visit the Web site of our publisher, Butterworth–Heinemann, for continuing updates on the MCD Series (www.bh.com).

com). To make inquiries about the availability of our Authors' Network for consulting or training, contact Karen Maloney (e-mail: Karen.Maloney@bhusa.com).

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Jeffrey D. Abbott
Robert T. Moran

Introduction

In 1993, prior to the passage of NAFTA, the authors walked the streets of Mexico and asked common people, from factory and construction workers to domestic servants, to university students, to professionals, what results they expected NAFTA to achieve. Far from a formal survey, the results were nonetheless enlightening.

Most everyone said they expected that the selection of consumer goods would go up and prices would come down. Many also hoped that wages in Mexico would increase to a level close to that of the U.S. and Canada, bringing Mexico up to First World standards. Most thought that this process would take around 25 years, while some believed it could happen sooner. In short, they thought that NAFTA would provide hope, economic development, and a better life for Mexicans. NAFTA was to make Mexico, in economic and social terms, more like its neighbors to the north—a more prosperous society with a larger middle class.¹

Americans, on the other hand, were told by Ross Perot to expect a “giant sucking sound” from jobs leaving the United States. (We recognize that citizens of all three NAFTA countries are “Americans” in the geographical sense of the word, but we will refer to citizens of the U.S. as “Americans” in this book.) Canadians believed they had already seen the loss of jobs to the U.S. after the implementation of the Free Trade Agreement (FTA), and expected more of the same. Were these expectations realistic, or merely the reaction of the uninformed or misleading propaganda? The majority of the dialogue surrounding NAFTA has focused on jobs and job creation because trade is something tangible. The real issues beyond job creation and destruction are associated with

rapid change in the structure of the economy and with new technologies, but these issues are harder to grasp.

Little attention has been devoted to the obvious reality that as trade increases between the three countries, the numbers of workers and professionals who will be engaged in cross-cultural situations will increase exponentially. Cross-cultural skills are not only necessary in dealings with citizens of other nations, but also useful in dealings within our own communities, as increasing ethnic diversity and economic inequality have created “cultural gaps” between segments of society within individual NAFTA countries. Regardless of whether jobs have been gained or lost, the fact is that Canadians, Americans, and Mexicans will need the skills and cross-cultural self-awareness to effectively interact with and manage teams of diverse colleagues from across the NAFTA region in a more cosmopolitan, collaborative, and synergistic fashion. They must recognize that we share common opportunities and common problems whose solutions might be found by greater cooperation. Advances in communications technology, the drop in long-distance telephone rates, the rise of the Internet, and easier and less costly means of transportation have all combined to increase the frequency of cultural exchange. The borders in North America, despite all the efforts of customs and immigration officials, exist more than ever in our minds only.

In our 1994 book, *NAFTA: Managing the Cultural Differences*, which was written prior to the passage of the agreement, we cautioned that one of the most important criteria for measuring the success of NAFTA ought to be the extent to which its benefits reached a broad segment of the population. There is little consensus among pundits as to whether or not this has been achieved. Another thesis of that book was that because NAFTA is a reality, business managers should seek proactively to prepare themselves and their organizations to benefit from the opportunities it offers, and to become involved in areas where volunteer efforts can help redress some of its shortcomings. A third thesis of the book related to our conviction that it is important for managers in cross-cultural dealings to rely on personal experience and direct information, as opposed to broad generalizations and stereotypes.

Much has happened since NAFTA went into effect. Globalization has accelerated at a breakneck pace. To be world class demands the same competencies of all managers and all companies, regardless of national origin or work place location. A common global business language has emerged that helps transcend common cultural misunderstandings. Now more than ever, some things are just plain and quantifiable, not

subject to interpretation, right or wrong. In effective global organizations, the days when poor results could be hidden behind the smoke-screen of “cultural differences” are gone. Management that has relied on this comfortable and convenient, but intellectually weak, explanation for under-performance will need to effect a radical transformation or be left behind.

At the same time, effective global organizations recognize and exploit the value of employee diversity and seek to attract, develop, and retain the best talent in the world, regardless of gender or nationality. Companies that are successful in the NAFTA region have broken down mental barriers based on age-old stereotypes, cast aside feel-good cultural excuses for under-performance, and adopted an attitude of partnership with business associates in North America. Companies that have not, and the examples are numerous, have suffered significant opportunity costs, erosion of competitive position, and quantifiable financial losses. While tariff rates and customs procedures might be going through a period of incremental transition, management in North America is going through nothing less than a *transformation*.

This transformation will be quickened after the tragic events of September 11, 2001. NAFTA has achieved much in the past, but much remains to be accomplished in the future, with issues ranging from infrastructure to social problems. The implications of ease or difficulty of travel between NAFTA countries are being explored. There will be implications for the 3600 maquiladora plants throughout Mexico, with the largest number located in the border states of Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, and Tamaulipas.

We believe that it is time for a new way of looking at cultural differences between Canada, the U.S., and Mexico—principally the differences between North American-Anglo management culture and Mexican management culture. Much of the literature on Mexican management culture is outdated, does not reflect the reality of the transformation that is taking place in Mexican management, and focuses on the differences between the traditionally autocratic Mexican style versus a more democratic and participative approach. While sensitivity to cultural differences remains essential for success, we believe it is time to advance the dialogue and acknowledge the impact that NAFTA is having in terms of creating a North American business culture, as well as examples of NAFTA Best Practices that could have positive repercussions if their scope were increased to have more of an impact on society at large.

A review of the literature on NAFTA reveals that there are widely divergent and often emotional interpretations of NAFTA's results and what they signify for society. Yet, almost nothing has been written about the human impact of the liberalization of trade in North America, and how managers as individuals and leaders must prepare themselves and those in their organizations to achieve results in North America. Many observers of NAFTA in macroeconomic terms concur that the only way to understand the true implications of the complex and broad topic that NAFTA has become is through analysis, rather than anecdotal evidence. Similarly, we believe that in terms of cultural differences, certain themes are emerging from the business community, providing a framework around which *cultural similarities* are congealing.

In the aftermath of September 11, 2001, we must be cognizant of the countervailing attitudes toward openness and integration that these events have precipitated. On the one hand, the American and Canadian public are more concerned than ever about security and border controls, and have become more isolationist and xenophobic. On the other hand, the economy and its principal actors, multinational corporations, continue to become more globally integrated. In the distinction between these trends is not properly made with the public, social divisiveness could be the result where integration was sought instead. And while NAFTA proceeds in economic terms, Mexico could be "shut out" in social terms.

Solidarity and support among educated Mexicans for the U.S. was noticeably lacking in the wake of the 9/11 attacks, which illustrates a deep-seated resentment of U.S. power, influence, and heavy-handedness in Mexico. The demographic situation of Mexico is strikingly similar to the Islamic countries in which poverty, lack of opportunity, and despair are the fuel that feeds anti-Americanism. How we, as societies and companies, deal with the economic development needs of our Mexican partners will to a large degree determine the security of our southern border and the internal cohesiveness of our own society, comprised of an increasingly large Hispanic community.

We continue to endorse the same basic theses of *NAFTA: Managing the Cultural Differences* in this current publication. Our purpose is not to judge the direct success or failure of NAFTA in categories most closely monitored, such as jobs, the environment, etc. That is not our field of expertise, and too much or too little data are available, as the particular case may be. Nor do we intend to ascertain whether or not NAFTA and free trade are producing the kinds of societies that the citizens of the nations of North America desire—that is a determination left to every

North American. While the case studies contained in this book are based on best practices discovered in participating organizations and therefore could be construed as anecdotal in nature, we have selected these best practices from these companies because we are convinced that they represent larger and positive trends in society that are being influenced by the actions of such companies in the NAFTA region.

We will address issues such as:

- What is really causing job loss?
 - What might society look like if current trends continue?
 - What are some of the positive benefits of NAFTA that are seldom mentioned in the press or official statistics?
 - What can we do, regardless of our politics, as individual employees, managers, and senior leaders in the private or public sector, to actively participate in making free trade work for all of us?
 - What can we encourage our employers to do, as good NAFTA corporate citizens, to help ensure that the benefits of NAFTA are more evenly felt?
 - What are some of the positive social repercussions as exemplified by the companies we will profile here?
 - What should we know about Canada, the United States, and Mexico to better understand the culture and management philosophies of our partners?
 - What skills and competencies are necessary for global managers and executives involved in NAFTA?
1. Public Citizen, *School of Real-Life Results Report Card*, December 1998 Student: *North American Free Trade Agreement*, Grading Period: January 1, 1994 to January 1, 1999.

NAFTA: Beginning and Update



So far, North America's free-trade has helped Mexico's economy without hurting the United States. . . . According to its enemies, the North American Free-Trade Agreement would suck jobs and investment out of the United States and Canada into their poor southern partner, Mexico. Not that this would do Mexicans any good: it would put them at the mercy of rapacious capitalists pouring filth into Mexico's air and rivers. To others, especially the governments of the three countries, NAFTA was the distributor of milk and honey. America and Canada, already linked by their own trade deal since 1989, would be enriched by the opening of Mexico's economy; Mexico would rise on the flood of trade and investment from its wealthy new friends.

—Raul Hinojosa Ojeda et al.,
“When Neighbours Embrace,” *The Economist*,
July 5, 1997

. . . In the past four years, GDP has grown by an average of 5.01% a year and manufacturing employment by 3%. Inflation, which was running at 52% in 1995, could fall to single digits this year. This admirable record is partly due to good government and partly to the North American Free Trade Agreement (NAFTA), which came into force in 1994; since then, both trade and foreign direct investment has more than doubled.

—Enrique Krauze, “The Beginning of the End of the Longest Ruling Party,” *The Economist*, June 24, 2000

The overall perception of business risk is greatest for Mexico, and somewhere in the middle for Canada. . . . In general, there exists a number of excellent opportunities for highly effective forms of joint business-academia cooperation in the high-technology business sectors of all three North American countries.

—Gustavo A. Vargas, Ph.D., Department of Management,
California State University at Fullerton, *The NAFTA Report*,
January 27, 1999

The NAFTA Beginning*

The Prime Minister of Canada, Jean Chrétien, relayed the following story. “We were making jokes here at the time that Mulroney (a former prime minister of Canada) will say ‘yes’ to Bush even before the telephone would ring. I say that, at least, he should have waited until the telephone rang to say ‘yes.’”¹

In February 1977, after Mexico discovered significant reserves of oil and gas, President Carter visited Mexico. The following are excerpts from the speeches made by President José López Portillo of Mexico and President Jimmy Carter of the United States.²

It has been two years now since we met for the first time. Since then, a great deal of water has flowed beneath the bridges of the Rio Grande. A great deal has also happened within our countries and between our countries, as it has in the world and to the world. . . . Among permanent, not casual neighbors, surprise moves and sudden deceit or abuse are poisonous fruits that sooner or later have a reverse effect.

Mexico has thus suddenly found itself the center of American attention—attention that is a surprising mixture of interest, disdain and fear, much like the recurring vague fears you yourselves inspire in certain areas of our national subconscious.

Let us seek only lasting solutions—good faith and fair play—nothing that would make us lose the respect of our children.

—President López Portillo

*Acknowledgment is given to Shoshana B. Tancer, Professor of International Studies, and Director of The NAFTA Center at Thunderbird, The American Graduate School of International Management, Glendale, Arizona, for her assistance in writing Chapter 1 of *NAFTA: Managing the Cultural Differences* (Gulf Publishing, 1994), which was the basis for some of the content in this chapter.

President López Portillo and I have, in the short time together on this visit, found that we have many things in common. We both represent great nations, we both have found an interest in archeology; we both must deal with difficult questions like energy and the control of inflation. . . .

We both have beautiful and interesting wives, and we both run several kilometers every day. As a matter of fact, I told President López Portillo that I first acquired my habit of running here in Mexico City. My first running course was from the Palace of Fine Arts to the Majestic Hotel, where me and my family were staying.

In the midst of the Folklorico performance, I discovered that I was afflicted with Montezuma's revenge.

These statements may characterize the feeling for some about being a country in North America, with the United States in the center, Canada to the north and Mexico to the south.

—President Carter

The three countries of NAFTA share much in common. Canada and the United States share a 5527-mile open land border. Mexico and the United States share a shorter land border that is fenced and patrolled. The United States exports more to Canada than it does to Japan, Mexico, and Europe combined. And though between Canada and Mexico is the United States, trade between Canada and Mexico was at an all-time high well before the NAFTA trade agreement. A Mexican colleague was quoted as saying, "We in Mexico have more in common with Canada than with the United States."

At the beginning, and as with most issues that have an emotional edge, the passage of NAFTA was debated to a greater or lesser degree by perhaps every American, Mexican, and Canadian. Many doomsayers have vehemently argued their impassioned positions, citing the fear of job loss and low wages, more damage to struggling U.S. and Canadian economies, and the continued deterioration of the environment among reasons to not support the agreement. To further solidify positions, billionaire H. Ross Perot and Vice President Al Gore took to the airwaves to crystallize public opinion and add fuel for the fray.

Conversely, big business in Mexico, Canada, and the United States, hopeful of expanded opportunities for increased trade and the growth and development of possible manufacturing sites, expressed support for the forthcoming ratification of NAFTA. Business coughed up large amounts of dollars to lobby for the passage of NAFTA. The *New York Times*³ estimated pro-NAFTA forces spending between \$5 million and

\$30 million. Understandable when 86% of *Fortune* magazine's top 500 manufacturers have operations in Mexico.⁴

On June 30, 1993, the Canadian Parliament approved the North American Free Trade Agreement. It was approved by the Congress of the United States on November 18, 1993, and by the Mexican Congress on November 22, 1993.

Seven years have passed since the onset of NAFTA, including the dawn of a new millennium. With the turn of the century, the factors involved in economic, organizational, process, managerial, and other changes that major corporations and small businesses encounter in the NAFTA region have been substantial.

Approved and operational for the past seven years, NAFTA's benefits for many businesses are apparent; however, voices of controversy are still heard. The North American Free Trade Agreement is unique. It is the first trade agreement entered into between industrial countries and a developing nation, and the first trade agreement that includes intellectual property, labor rights, and the environment. It should be noted from the outset that a trade agreement is an agreement that permits the nations who are signatories to decrease tariffs or customs duties on trade

Table 1-1
Supporters and Detractors

	Supporters	Detractors
Canada	<ul style="list-style-type: none"> • Conservative Party • Big Business 	<ul style="list-style-type: none"> • New Democratic Party • Citizens Concerned About Free Trade • Labor Unions • Environmentalists
Mexico	<ul style="list-style-type: none"> • Institutional Revolutionary Party (PRI) • Big Business • Party of National Action (PAN) 	<ul style="list-style-type: none"> • Catholic Bishops • Partido Revolucionario Democrático (PRD)
United States	<ul style="list-style-type: none"> • Republican Party • Big Business • Latino Business People 	<ul style="list-style-type: none"> • Labor Unions • Ralph Nader/Environmentalists • H. Ross Perot • Black Caucus • Blue Collar Workers

between or among themselves within a reasonable period of time. Such agreements are possible with the present rules regarding international trade, provided that the member nations do not raise existing tariffs for non-member nations. Free trade agreements do not create common markets for they do not permit the free movement of people. Historically, free trade agreements have allowed for the free trade of goods.⁵

This book is dedicated to helping individuals in Mexico, the United States, and Canada make NAFTA work for them. Our premise and an underlying assumption of the book is that the skills and knowledge of the individuals involved in NAFTA and their cross-cultural and global competencies are crucial for success. We begin with some preliminaries including demographics and trade imports and exports of the three countries (Tables 1-2 and 1-3).

Table 1-4 shows high-technology markets data for the Bureau of Labor Statistics, 1999, comparing U.S. exports to Canada and Mexico in billions of US\$.

Chronology of Free Trade Agreement (FTA) and North American Free Trade Agreement (NAFTA)

To place NAFTA in context, one must go back to March 1985, to the beginning of free trade talks and negotiations between the United States and Canada. This chronology is sparse on detail; obviously much struggle took place between the highlighted events.

The Beginning: Canada and the United States

March 1985

President Ronald Reagan and Canadian Prime Minister Brian Mulroney meet and agree to explore the possibilities for reducing and eliminating trade barriers.

September 1985

President Reagan and Prime Minister Mulroney exchange letters of resolution to negotiate a Free Trade Agreement (FTA).

October 1987

U.S. and Canadian negotiators sign a draft of the Agreement.

Table 1-2
Demographics of Canada, Mexico, and the United States

	Canada	Mexico	United States
Population			
1992	27,351,000	89,000,000	256,560,000
2000	31,281,092	100,349,766	275,562,673
Population growth rate			
1992	0.7%	2%	0.5%
2000	1.02%	1.53%	0.91%
Ethnic divisions, 1992 and 2000			
	British: 25%	Mestizo: 60%	White: 70.5%
	French: 24%	Indigenous: 29%	Hispanic: 13.0%
	Other	White: 9%	Black: 12.4%
	European: 16%		Asian: 3.3%
	Indigenous: 1.5%		Native American: 0.8%
	Mixed: 28%		
Religion			
1992	Catholic: 46%	Catholic: 97%	Catholic: 25%
	Protestant: 41%	Protestant: 3%	Protestant: 61%
2000	Catholic: 42%	Catholic: 89%	Catholic: 28%
	Protestant: 40%	Protestant: 6%	Protestant: 56%
Languages, 1992 and 2000			
	English	Spanish	English
	French	Nahuatl	
		Other Indigenous	
Literacy, 1999 and 2000			
	99%	90%	97%
Labor Force			
1992	Services: 28%	Services: 45%	Services: 34%
	Manufacturing: 52%	Manufacturing: 19%	Manufacturing: 17%
	Agricultural: 4%	Agricultural: 16%	Agricultural: 3%
2000	Services: 75%	Services: 55%	Services: 13%
	Manufacturing: 16%	Manufacturing: 21%	Manufacturing: 24%
	Agricultural: 3%	Agricultural: 24%	Agricultural: 3%
			Administrative / Managerial / Sales: 60%

Age Distribution

1992

0–14	21%	37%	22%
15–59	63%	58%	61%
60+	16%	6%	17%

2000

0–14	19%	34%	21%
15–59	68%	62%	66%
60+	13%	4%	13%

Source: 1994 *World Almanac* and *The World Factbook, 2000*, Central Intelligence Agency, USA

December 1987

The heads of both delegations ratify the text of the Agreement. The final version is sent to the United States Congress and the Canadian Parliament.

January 1989

The FTA between the United States and Canada goes into effect.

Mexico Joins Discussions*April 1990*

The Mexican Senate establishes a forum for consultations on the FTA.

June 1990

The United States Senate opens hearings on a “fast track” bill that would allow President George Bush to negotiate directly with President Carlos Salinas, and the two presidents issue a joint communiqué announcing their intention to negotiate a FTA.

September 1990

Canada, the United States, and Mexico agree to negotiate a free trade agreement.

February 1991

President Salinas, President Bush, and Prime Minister Mulroney agree to start trilateral negotiations for a North American FTA.

Table 1-3
Trade Figures, 1991 versus 1998 (in Billions of U.S. Dollars)

	Canada			Mexico			United States		
	1991	1998	% Change	1991	1998	% Change	1991	1998	% Change
Mexico									
Exports	2.3	1.5	-34%				31.9	103.2	223%
Imports	0.4	2.3	464%				33.3	93.1	179%
United States									
Exports	82.5	156.5	90%	33.3	78.7	136%			
Imports	95.6	177.4	86%	31.9	95.5	199%			
Canada									
Exports				0.4	NA		95.6	182.7	91%
Imports				2.3	NA		82.5	158.1	92%

Source: Mexico data: Banco de Mexico. U.S. data: U.S. Department of Commerce. Canada: Statistics Canada, Canadian Economic Observer. Reported in the *Economist Intelligence Unit Ltd*, 2000. Canadian data translated to US\$ with 0.675203, C\$=1US\$ average 1998 currency exchange rate.

Table 1-4
U.S. High-Tech Goods Export Markets (in Billions of U.S. Dollars)

	1993	1999	% Change
To Canada	16.8	29.3	74%
To Mexico	8.1	21.9	171%

June 1991

Trilateral negotiations among Canada, Mexico, and the United States open in Toronto, Canada.

August 12, 1992

NAFTA negotiations completed.

September 18, 1992

President Bush formally notifies Congress of his intention to enter into the Agreement.

November 1992

Bill Clinton wins the U.S. Presidential election.

December 17, 1992

President Bush, President Salinas, and Prime Minister Mulroney sign NAFTA.

Spring 1993

Negotiation begins for the side agreements promised by Clinton in his campaign.

June 30, 1993

U.S. District Court declares that NAFTA will be illegal as the Executive Branch did not conduct a full environmental impact study on the results of the Agreement.

June 1993

Canadian Parliament approves the Agreement; Prime Minister Mulroney proclaims it and steps down from office.

August 13, 1993

Side Agreements are completed in principle.

October 12, 1993

Side Agreements texts are made public.

November 18, 1993

U.S. Congress approves NAFTA.

November 22, 1993

Mexican Congress approves NAFTA.

U.S. Supreme Court refuses to hear the Public Citizen case, thereby upholding the decision of the Circuit Court of Appeals, which overturned the District Court decision.

January 1, 1994

NAFTA enters into effect.

1994

The World Bank approves three loans:

1. \$368 million to the Northern Border Environmental Project, whose goal is to help cities enforce environmental protection laws
2. \$200 million to 23 mid-sized cities to develop solid waste services
3. \$350 million is loaned to Mexico to improve their sanitation and water services.⁶

More than 200 U.S. firms move their operations to Mexico.

1995

Mexico approves the applications of more than 300 new maquiladora factories (factories that use imported raw material to make goods and then re-export them, often to the United States).

December 1996

University of California Los Angeles researchers reported the results of a study that claimed that NAFTA had a near-zero effect on the U.S. economy.

1997

Canada defends restrictions on U.S. advertising in Canada to protect Canadian cultural interest. Another reason given is to keep the U.S. advertising from taking away advertising from Canadian publications.

In December, the Border XXI program begins, a five-year plan to describe the environmental infrastructure needs along the United States/Mexico border.

1998

A report on drug trafficking and NAFTA reveals that the significant increase in commercial trade is being exploited by drug traffickers.⁷

1999

Chapter 11 provision of NAFTA for investor protection creates strife across three nations as companies fight legal battles for losses.⁸

2000

Former Coca-Cola executive Vicente Fox becomes the first Mexican president in 71 years elected from outside of the Partido Revolucionario Institucional (PRI).

2000

Canada shows an increase of 16% to a record trade surplus of 54.5 billion Canadian dollars for Canadian exports to the U.S. and an increase of 7.3% for its imports from the south.⁹

NAFTA in Summary

The Canada–U.S. Free Trade Agreement (FTA), the precursor for NAFTA, became operational January 1, 1989. That agreement broke new ground by including services and providing new mechanisms for dispute resolution. With the several years of experience that Canada and the United States had in implementing their agreement, areas that

needed to be fine-tuned in NAFTA, such as how to determine whether a good was indeed of Canadian, Mexican, or U.S. origin, or the procedures to be followed if there were a trade dispute, were more adequately covered in NAFTA. Having a framework in place enabled the negotiators to proceed quickly to discuss substantive matters and achieve consensus.

That being said, the NAFTA is still a very complex document. When Perot challenged his critics by asking whether they had read the Agreement he was asking the wrong question. The better question should have been whether having read it, they understood what was written.

The North American Free Trade Agreement is a long document. Its text alone comprises over a thousand pages and there are a number of annexes that are as long. The Agreement is divided into eight discrete parts: Part 1: General; Part 2: Trade in Goods; Part 3: Technical Barriers to Trade; Part 4: Government Procurement; Part 5: Investment, Services and Related Matters; Part 6: Intellectual Property; Part 7: Administrative and Institutional Provisions; and Part 8: Other Provisions. There is a separate volume that deals with the “rules of origin,” i.e., how to determine whether a product is eligible for the preferential treatment accorded goods from the NAFTA nations. Three additional volumes are detailed tariff schedules, one for each member country.

Before focusing on the various sectors that are impacted by NAFTA, it should be stated that many claim that NAFTA is a misnomer, that it is not really a free trade agreement but rather an investment agreement. It not only establishes the principle of “national treatment” for trade, but guarantees that service providers will also have the right to invest and provide services in the other nations, as if they were nationals, although there is a phase-in period. Investors are also protected by the principles of non-discriminatory treatment; free transfer of capital for investment purposes; freedom from performance requirements—for example, previously Mexico demanded a percentage of export before sales were permitted in the domestic market in the automotive sector; limited exercise of the sovereign right of expropriation, i.e., taking of property, which must be conducted in conformity with established international legal principles; and finally, the use of international arbitration rather than a nation’s courts to settle trade disputes if violation of the Agreement is alleged.

The principal features of the trading relationship among the three nations under NAFTA are contained in the Appendix.

The NAFTA Challenge¹⁰

In 2002, the benefits and challenges to NAFTA have become increasingly apparent. The factors related to the economic and business significance of NAFTA across North America must be understood from each country's perspective. Thus, one of the challenges we face is to understand NAFTA's trifold dynamics and to draw upon this understanding such that Canadians, Americans, and Mexicans work together over the long term as partners for their mutual benefit.

The worldwide trend of increasing globalization holds a rather strong impact and defining reason for the onset of NAFTA. The balance of power among these three countries and their corporations has been felt in Canada, the United States, and Mexico. Arguments for and against NAFTA have been communicated across North America as the cross-cultural dynamics of trade between two industrial nations and a developing nation have become substantial.

As the tri-nation dynamic of this trade agreement encompasses countries which are by their very nature of varying economic strengths, discussion surrounding whether or not there are winners and losers becomes one that could easily end in a stalemate. However, discussions surrounding the arguments for and against NAFTA from the economic, the political, and the social perspective and from each country's standpoint can be very beneficial. Benefits arise through determining from a cross-cultural perspective how to reduce trade barriers and simultaneously protect and improve each nation's interests, human rights, labor rights, and environmental standards.

An Overview of the Effects of NAFTA

Many factors come into play as three countries strive to come together within the free trade agreement. Between 1994 and 1999, there was a shift of operations from the U.S. to Canada or Mexico which has resulted in some U.S. workers losing their jobs. At the same time, NAFTA has been credited with creating jobs in Mexico, where in some cities, employers even complain of labor shortages. In Canada, the Canadian government has been focusing on generating higher value added in investments and jobs, in light of the low-cost labor competition with Mexico.¹¹

From a study conducted by INTERAM, of Inter-Americas High-Technology Business Partnerships, it was found that the overall perception

of business risk is found to be greatest for Mexico and the least for the U.S., with Canada somewhere in between; however, it must be stated that the reasons for this vary markedly among countries. In addition, it was determined that American firms view NAFTA as having little effect on their performance regardless of the performance indicator, whereas by large numbers Canadian and Mexican firms feel that NAFTA does affect their performance.¹²

In Mexico, Vicente Fox was Mexico's first president in seven decades to be elected outside of the Partido Revolucionario Institucional (PRI). Mexico is highly dependent on the United States, whose market accounts for approximately 90% of its exports. This U.S. demand has stimulated an industrial transformation along the border, with the increase in the maquiladora industry aiding in the increase of economic growth. However, the success of free trade and a modern industrial economy have created strain in Mexico's infrastructure along the border. Cemex CEO Lorenzo Zambrano has stated, "Future growth depends on Mexico increasing its exports, and the key to becoming more competitive is improving our infrastructure. . . . This will lower the cost of getting our goods to other markets, and in the long run will make the difference between winning and losing market share. We must either make the necessary improvements within 5 years or watch our exports grow less."¹³

Recent and Reflective Commentaries

NAFTA is just one example of globalization and, as in most aspects of this worldwide trend, there are those who benefit and those who feel the negative effects. To sort out the reasons for the negative effects is difficult, as each country's perspective is equally valid and pertinent. Meyers¹⁴ poses this question: "If a welder lost a job at an auto assembly plant, was it because an American bought a Japanese car instead of a U.S. model, because the U.S. car factory now uses robots to weld, or because the sedans made in the welder's factory weren't selling as well as the sports utility vehicles assembled in another state by the same manufacturer?"

As a result of the effects of globalization, most Mexican, Canadian, and United States manufacturers have resorted to a number of means to stay competitive. Some of the solutions determined by corporations appeal little to workers; they include automation, exporting/importing (moving factories overseas or inviting guest workers), and job redesign (major changes such as restructuring and retraining). Business has asserted that they either make these changes or they cease to remain

competitive. However, solely counting jobs gained or lost through the changes resulting from NAFTA is a misinterpretation of the manner in which globalization impacts the economies of Canada, the United States, and Mexico.

In Canada, strategy firms have been put into place to deal with managing foreign exchange exposure. The weak Canadian dollar has enhanced the export competitiveness, and the apparel industry, the export agency, and the logistics, express, and mail agency have all adapted to manage transaction risk to be able to reap the rewards of increasing trade flows.¹⁵

Under NAFTA, the Canadian government is focusing on generating higher value-added investments and jobs, in light of low-cost labor competition from Mexico. Certain manufacturers, for example, Cadbury-Schweppes, have had the capacity to reorganize their operations on a pan-North American basis. Millward¹⁶ has identified positive results from NAFTA in Canada:

- The growth of a strong, stable economy
- The growth of advanced economies such as aerospace, pharmaceuticals, and software development
- The growth of an educated labor force with a high percentage of graduates
- The development of quality infrastructure and telecom networks
- Access to the NAFTA market with 365 million other consumers
- Cheap energy

As a result of NAFTA, Mexico is now positioned to begin servicing the large and growing population of Hispanics in the United States. This a niche market but may become a big window of opportunity for smaller and medium-sized companies. By building strong relationships with Hispanic communities who will probably become a backbone for their business, the small and medium-sized Mexican companies will have a good start.

Mexico is also focusing on its key competitive advantages—industrial commodities and low-tech consumer goods. While multinationals are expanding their operations in Mexico to include more complex processes in response to continuous downward pressure on costs, it is likely that less technology intensive businesses allow Mexicans to benefit quickly in a reciprocal way.¹⁷

NAFTA has also claimed to be an environmentally friendly trade agreement. However, the ineffectiveness of the environmental authority

established by NAFTA, and its questionable priority relative to economic interests, are examples of the complexity of issues surrounding the claim. With regard to Mexico, *The Economist*¹⁸ lists the following environmental problems and issues as well as events supporting the environmental challenge:

1. Eight percent of Mexican border towns have no drinking water.
2. Thirty percent have no sewage treatment.
3. Forty-three percent have inadequate municipal waste disposal.
4. Only one landfill site processes toxic waste; its capacity is only 12% of the non-maquila industry.
5. There is weak enforcement of the regulation that maquila waste should be sent back to the country where it originated.
6. The Border Environment Cooperation Commission (BECC) was created to address environmental problems.
7. It is estimated by the Border Environment Cooperation Commission (BECC) that to address the issues of waste disposal, sewage treatment, and problem drinking water could cost approximately two or three billion dollars.
8. Mexico has passed laws similar to those of the U.S. and Canada since 1994 and set up a full environmental ministry.
9. In 1994, the Commission for Environmental Cooperation (CEC), Montreal, was created to implement the side agreement and assess NAFTA's impact on the environment.
10. Mexico is benefiting from projects generated by the environmental accord.

In December of 1997, the Border XXI Program was released in which a five-year plan was established to describe the environmental infrastructure needs along the U.S./Mexico border. Though the plan does not have provisions for funding, it was determined that the increased coordination and cooperation between the federal, state, and local agencies on each side of the border will be proactive in working together to solve environmental challenges.¹⁹

One difficulty faced as a result of the NAFTA agreement has been the view that Canada is situated on the edge of NAFTA, with a smaller domestic market than the U.S. and higher costs than Mexico.²⁰ From a standpoint of cultural protection, Canada has been trying to protect itself from U.S. cultural infringement via advertisements and magazines. Canada has felt the need to defend itself with reasons behind the

restrictions that were placed to curb U.S. sale of cut-rate advertising. Their reasons were that if the matter were left unaddressed, the Canadian magazine industry could be wiped out.²¹

Iritani²² states that since 1994, Canada and Mexico have been on the receiving end of NAFTA Chapter 11 investigations. Chapter 11 of NAFTA is a provision for investor protection. This provision allows foreign investors to demand compensation from the country where they do business if they believe that they have been discriminated against or if their assets have been unfairly “expropriated.” It gives foreign investors a powerful weapon to attack laws deemed discriminatory, especially in the areas of the environment, health, and safety. Canada has asked the U.S. and Mexico to review the provision.

Critics say the rights of foreign investors have been defined too broadly, giving multinational firms a legal weapon reserved historically for governments only. Their obligations are to shareholders, not the public. Chapter 11 of NAFTA opens up various avenues by which legitimate domestic regulations can be challenged under international law. The following are examples.

- U.S.-based Metalclad vs Mexico—Mexican officials invited Metalclad to build a \$22 million waste disposal plant in the state of San Luis Potosi. Because of pressure from environmentalists, the local government declared the site an ecological preserve. Metalclad filed a claim seeking \$90 million in compensation. The hearing was scheduled for July 1, 1999, but to date there has been no word on the outcome.
- U.S.-based Ethyl Corp. vs Canada—MMT is a manganese-based gasoline additive. Because of its questioned health effects, it is banned in California and its export and import were banned in Canada. This additive is produced in the U.S. and processed in Canada by Ethyl. Ethyl filed a NAFTA complaint saying it discriminated against foreign companies. A study by the Canadian government could not find enough scientific data to support its ban and as a result, Canada revoked the ban and paid Ethyl \$13 million.
- U.S.-based S.D. Meyers Inc. vs Canada—This company is a PCB treatment company and is suing the Canadian government for \$10 million under NAFTA to recover profits lost while Canada still had a ban on the export of PCB-contaminated waste. Canada had lifted its ban on exports of PCB-contaminated waste after U.S. firms threatened to challenge this law following the Ethyl case.
- Canada-based Loewen Group vs U.S.—Jeremiah O’Keefe, a Mississippi-based funeral home operator, sued the Loewen Group, a

Canada-based funeral home operator, in 1991, alleging an illegal campaign to drive local competitors out of business. In 1995, the Mississippi jury sided with Jeremiah O’Keefe and awarded him \$500 million in damages. Loewen Group seeks \$725 million under Chapter 11 saying the Mississippi courts discriminated against them for being Canadian, and is holding the U.S. government liable for ensuring that state governments comply with NAFTA.

These legal battles are in part related to the WTO dispute settlement mechanism. The U.S. in particular has been aggressive in using it to attack what it believes are protectionist trade barriers.

According to Bourrie,²³ a recent lawsuit against the Canadian government is by Oregon-based Pope and Talbot, a forestry company that owns three sawmills in British Columbia. It claims Canada has unfairly reduced its quota to ship wood to the U.S. Like some of the other cases, this one is particularly twisted because Pope and Talbot was assigned the quota under the Canada–U.S. soft wood lumber agreement, signed after U.S. loggers complained that Canadians unfairly dumped lumber on the U.S. market.

It appears that some of NAFTA critics are saying, “I told you so,” while others are left to sort out the problems. These are issues that impact industries, borders, and legal systems.

Hinojosa et al.²⁴ summarize the effects of NAFTA on Mexico and the U.S.

Criticisms of NAFTA

- The Mexican economy is tiny compared to that of the U.S., and NAFTA effects likewise are small on the U.S. economy—117,000 Americans signed up for NAFTA displacement benefits. Compare this to 1.5 million jobs lost from closing factories, falling demand, and corporate restructuring and the 2.8 million jobs created *each year*. Also, U.S. FDI in Mexico averaged less than \$3 billion per year (since 1994); this amounts to less than 0.5% of U.S. firms’ total spending on plants and equipment.
- Other trends have greater impact on U.S.–Mexico trade, such as the peso crisis that made Mexican goods cheaper and U.S. goods more expensive.
- NAFTA is not the significant impetus for free trade as advanced since the U.S. already had low tariffs and Mexico was in the process of liberalization since the mid-1980s.
- NAFTA cannot be wholly credited for helping Mexico emerge from the peso crisis because had Mexico restricted imports it would have

effectively hurt its own export industry (integration with the U.S. via the maquiladora program entails U.S. imports to export industrial commodities).

Summary

Despite the debate over entering into the North American Free Trade Agreement, a Conference Board²⁵ survey of 1250 manufacturers demonstrated that “sustained growth and profitability depend on active and broad-based international operations.” The study found that corporations with global activities grew faster and in every size category than those without global activities. The challenge and the opportunities of NAFTA are significant. As demonstrated by the recent and reflective commentaries regarding the benefits and challenges of NAFTA, there are substantial avenues for improvement and growth. What remains is for the Canadian, American, and Mexican governments, corporations, and in essence people to work together with a long-term attitude as partners for their mutual benefit. The challenge is for all people to have the cultural sensitivity and skill to effectively bridge the trifold dynamics of NAFTA and to promote cultural synergy with cooperation and coordination of two industrial nations and a developing nation.

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NAFTA: Globalization and Society

2

Economic Origins of NAFTA

There is nothing new about international trade in North America. By most economists' measurements, the process was well under way prior to the turn of the previous century. U.S. foreign trade as a percent of GDP is similar to what it was in the early 1900s. Many of the predecessors of today's changes can be found in the opening up of markets a hundred years ago. At that time, many countries, first and foremost England, had already achieved a high degree of openness, which was scaled back again in the wake of wars, economic crises, and not very liberal economic policies on the part of the most powerful countries.¹

In North America, economic integration between Canada, the United States, and Mexico goes back at least as far. Joel Garreau's *The Nine Nations of North America* explains how the cooperation of the North American peoples, and their interdependence at the level of regional economies, has in reality always been reflected in so significant a north–south integration that it was virtually akin to “sub-nations.”² For example, the cultural and economic integration of the American southwest with Mexico, or the northwest with Canada, is often stronger than with the rest of the nation.

Even if the respective countries' legislatures were not able to formalize this at the level of a trade agreement such as NAFTA until 1994,

economic integration in North America is nothing new. To illustrate the point, in 1854, the U.S. Congress and the colonial legislatures of British North America (Canada) endorsed a 10-year reciprocal agreement that authorized free trade in grain, coal, livestock, timber, and fish. By 1900, Canada had displaced Mexico as the principal object of U.S. investment, and the U.S. had displaced Britain as Canada's most important trading partner.³

Mario Cerruti explains the tremendous economic growth and industrial power in Monterrey, Nuevo Leon, as due to that region's ability to benefit simultaneously from the slower moving internal Mexican market, and participating in the global economy more than any other sector of Mexico, thanks to its close ties and business and cultural exchange with Texas and the southern U.S. since before the American Civil War.⁴

Drivers of Globalization

The process of globalization has been in motion for centuries, since even before Spanish and Portuguese explorers took to the seas to establish new trade routes to the Americas. But its pace has been accelerated in past decades by four primary drivers:

1. **Transportation:** Overseas freight costs have fallen fivefold over the past half-century. Oil tankers with a loading capacity of 10,000 tons have been replaced by tankers with a capacity of 500,000 tons. Between 1920 and 1990, the overseas shipping and harbor charges for each exported or imported ton fell from \$100 to \$30 (at 1990 prices). The same holds true for the improvement and reduction of cost in road, rail, and air transport. Between 1930 and 1990, the average earnings from air transport fell from 70% to 10 cents per passenger. The possibilities afforded by airfreight have altered the status of goods that would have been considered untradable in the past: live lobsters and fresh flowers. The drops in price have turned luxury items into everyday goods.⁵
2. **Communications:** There has been a dramatic reduction in the cost of communicating verbally, through texts, images, and data. The cost of a 3-minute telephone conversation between London and New York fell from \$244.65 to \$3.32 between 1930 and 1990. You can almost watch prices falling further day by day.⁶

3. **Democratization of information:** The world is marching to the beat of Moore's Law, which essentially states that computer processing power will continue to increase while size will decrease. More than ever our ability to participate in the basic processes of our information-rich culture—commerce, education, entertainment—will depend on technology.⁷
4. **Integration of capital markets:** Nation-states continue to be politically free, but they must compete with other states for international capital. This fact is pushing countries to adopt more standard and transparent practices since unsound policies run the risk of being shunned by investors and bring with them the threat of capital withdrawals.⁸

Were it not for the repeated interruptions posed by war, trade liberalization in North America and globalization throughout the world would already be far more advanced than they are today. What is different this time around is that globalization will be much more difficult than it was then to retreat from. After the shocks of two world wars and a depression, financial markets and capital flows are much more tightly linked. Even the Europeans are recognizing that the new international business culture and the rules of the game are being made in line with Anglo-American standards, with policies set more in London and New York than in Paris or Frankfurt.⁹ Examples of this include:

- Adoption of IAP or U.S. GAAP Accounting Standards
- Quarterly reporting based on income statements and balance sheets
- Similar investor relations practices, including conference calls and road shows focused on providing timely and transparent financial performance information to Wall Street analysts
- The CEO's increasingly public role as chief salesman and champion of the stock price
- The acceptance and implementation of control mechanisms that increase predictability of future company performance such as EVA and MVA.¹⁰

But perhaps the most important indicator that globalization is here to stay is that it would be almost impossible for anyone to cut the cables and disconnect the networks that link our communications. "Who could possibly take the internet away from people? Who—even the most authoritarian dictatorships—could push through such a measure?"¹¹

NAFTA and Globalization

Even though the process that produced it has been under way for many years, NAFTA makes us uncomfortable. It is the local manifestation of globalization, a term that for many people continues to elude precise definition. NAFTA and globalization are such broad and all-encompassing topics, so overwhelming in their scope, that it seems impossible to influence them one way or the other.

“Globalization can be described as a process in which product markets, labor markets, and financial markets become increasingly integrated across political borders. This has concrete effects for every individual: for investors, for consumers, for employees, for entrepreneurs, for employees, financiers and politicians. Globalization implies an international division of labor.” The more open an economy is, the more it will benefit from the international division of labor. However, the competition it will be exposed to in the process creates a need for often painful structural readjustments in the economy that create winners and losers.¹²

Today, businesses can transcend national boundaries more easily in search of the best price/value equation in terms of products, services, and human capital. They do so to satisfy our increasing demands as consumers and investors in equity markets. Globalization is no external conspiracy being foisted on us by one-world conspirators; rather it is the aggregate of forces that we, as individual consumers and investors, have generated.

Does Globalization Really Exist?

Maybe globalization is just a specter that is haunting us—an easy scapegoat for whatever ails us that we don’t understand. Alan Rugman argues in *The End of Globalization* that it is a myth that has never really existed. His analysis concludes that the “vast majority of manufacturing and service activity is organized regionally, not globally. Most of this trade is conducted by multinational corporations (MNCs), that are the engines of international business, and they think regionally and act locally, operating from the ‘triad’ home bases of the USA, EU, and Japan.”¹³ Tables 2-1–2-3 show what the NAFTA “Triad” looks like from an inter-regional trade perspective.

Although for Mexico and Canada a large majority of all trade is conducted within the NAFTA region, that basically means with the United States. U.S. trade, by virtue of the size differential between the respect-

Table 2-1
NAFTA Exports by Region (in \$U.S. billions)

	1991	1993	1995	1997
NAFTA	36.5	40.8	38.4	39.8
EU	20.7	17.2	16.2	15.4
Other Europe	3.4	3.3	2.5	2.7
Total Europe	24.0	20.4	18.7	18.0
Japan	9.4	8.4	8.6	7.3
Total Asia	23.8	23.3	25.0	22.4
Other	15.7	15.4	17.9	19.9
Total Exports	100.0	100.0	100.0	100.0

Source: Rugman, Alan M. *The End of Globalization*. New York: Amacom Books, 2000.

Table 2-2
NAFTA Imports by Region (in \$U.S. billions)

	1991	1993	1995	1997
NAFTA	35.4	36.5	37.7	39.8
EU	17.2	16.2	15.9	15.9
Other Europe	2.1	2.4	2.5	2.5
Total Europe	19.3	18.6	18.4	18.4
Japan	15.6	15.3	13.9	11.4
Total Asia	34.0	34.5	35.1	32.3
Other	11.4	10.3	8.8	9.5
Total Imports	100.0	100.0	100.0	100.0

Source: Rugman, Alan M. *The End of Globalization*. New York: Amacom Books, 2000.

ive economies, is less concentrated with those two trading partners, although they are the most important. This has been increasingly so since the implementation of the agreement. Despite the amount of trade that North American countries conduct within the NAFTA region, as illustrated in the tables, the fact that trade concentrations are largely regional does not refute the fact that globalization is taking place. An analysis conducted from a merely economic point of view fails to reveal the subtleties of the changes it has set in motion. Simply looking at balance of payments does not reveal the full story.

Table 2-3
Direction of Canada's Trade

Country/Region	Exports to				Imports from			
	1987 \$U.S. Billions	% of Total	1996 \$U.S. Billions	% of Total	1987 \$U.S. Billions	% of Total	1996 \$U.S. Billions	% of Total
USA	71.5	72	164.8	82.3	59.6	65.9	114.6	67.4
EU	7.2	7.3	10.8	5.4	10.2	11.3	16.7	9.8
Japan	5.3	5.4	7.4	3.7	5.7	6.3	7.6	4.5
Total to Triads	84.0	84.7	183.0	91.4	75.5	83.5	138.9	81.7
Mexico	0.4	0.4	0.9	0.4	0.9	1.0	4.3	2.5
Others	14.2	14.5	16.2	8.1	14.0	15.5	26.8	15.7
Total	98.6	99.6*	200.1	99.9*	90.4	100.0	170.0	99.9*

*Percentages do not total 100% due to rounding.

Source: Rugman, Alan M. *The End of Globalization*. New York: Amacom Books, 2000.

Effective global managers today can no longer merely be businesspersons, unless an understanding of regional and world history, geopolitics, diplomacy, languages, and culture complements such skills. Although NAFTA is only a trade agreement, attempting to understand it in purely economic terms would be misleading because it fails to take into account the broader social dimension and impact of the changes taking place in North America.

What Rugman's analysis does clearly suggest is that if the citizens and businesspersons of North America were to choose where to focus their efforts for understanding the greatest impact of globalization, and preparing themselves and future generations for success, they would clearly focus their efforts on increasing mutual understanding, including a deeper cultural awareness, of their NAFTA partners.

NAFTA Trade Imbalances: Common Concerns

An August 7, 2000, article in the *Wall Street Journal* entitled "This Trade Deficit Was Made in the USA" provides insight into this topic.

Some economists now see the U.S.–Mexico trade gap as an illusion created by the blurring of boundaries between the two partners manufacturing bases. "In some respects, each country is sending the other essentially the same product but at a different stage of production," says Lucinda Vargas, an economist with the El Paso, Texas, branch of the Federal Reserve Bank of Dallas. Americans automatically gain in this type of trade, Ms. Vargas says, because the U.S. is importing a final product in which U.S. inputs make up a bulk of the content. However, since the assembled product is always worth more than the mere sum of its many parts, trade statistics appear to favor Mexico.¹⁴

Furthermore, the article goes on to demonstrate how U.S. exports are benefiting from the "trampoline effect" of Mexican exports containing high percentages of U.S. inputs, which are growing steadily thanks to the many free-trade agreements Mexico shares with other countries and regions of the world.

Low Wages in Mexico

Mexico's population is growing more than twice as fast as that of the United States. Mexico's population today is about one-third that of

the United States. In 2025, it will be almost one-half, and because of the youthfulness of the Mexican population, Mexico's labor force will be more than one-half that of the United States. The Mexican labor force is growing by more than one million persons annually, substantially more than even the dynamic Mexican economy can absorb. For the foreseeable future, then, the assumption of an infinitely elastic supply of labor at a relatively constant real wage is a reasonable expectation for Mexico—average Mexican real wages are unlikely to rise substantially for a long time to come.¹⁵

Without NAFTA, there would be even fewer jobs, and wages would be even lower. Mario Cerruti believes that it is the responsibility of the business elite to exercise a more forceful role in overcoming poverty, guided by government policies of wealth redistribution. During the Salinas administration, 23 Mexicans attained billionaire status, putting approximately 12% of GDP in the hands of 25 families.¹⁶ What is needed is the inculcation of a culture of personal responsibility, integrity, and private philanthropy. Cerruti is right to say that corporate leadership and corporate citizenship in Mexico can provide a significant impetus to this process. This is one area where the transformational impact of NAFTA will have a far-reaching effect.

Exploitative Working Conditions in Mexico

With Ciudad Juarez in the background, John MacArthur makes the point in *The Selling of Free Trade: NAFTA, Washington, and the Subversion of American Democracy*¹⁷ that low wages and a lack of independent labor unions produce a work environment in Mexico that is "exploitative." There are flaws in this line of reasoning. In characterizing Mexican working conditions under NAFTA as exploitative it is guilty of comparing them to U.S. and Canadian conditions, as opposed to normal working conditions in Mexico in local Mexican enterprises, both currently and prior to NAFTA.

Cheap labor is the one inexhaustible resource, and source of competitive advantage, that all poor nations can sell the world. In the authors' personal experiences, which are by no means complete or representative of all working environments in Mexico, the working conditions and wages available at maquiladoras are better than those available in many of Mexico's homegrown industries. Mexican manufacturing facilities that we have visited are notable for their cleanliness, orderliness, and for their proud and disciplined workers.

Writing in *Reforma*, a Mexican daily newspaper, columnist Arturo Cano relates that the difficulties that Mexican unions have encountered in organizing maquiladora workers owes precisely to that fact. “A union outreach worker tells the story of other organizers who have failed. ‘They were starting from a false premise. They thought that when they came to the maquilas they would find a dark and gloomy place like a nineteenth century factory. When they arrive, they find superplants, with air-conditioning and good lighting.’”¹⁸

The issue of Mexican wages and working conditions has become politically charged and is portrayed as having come about since NAFTA was enacted. That is plainly not the case. A recent series of articles in the *New York Times* addressed this issue graphically. One article, entitled “At Home, Mexico Mistreats Its Migrant Farmhands,” illustrates this point well:

If Patricio Gomez had left his country to work illegally on farms in the United States, Mexico’s new president would call him a national hero and insist that he enjoy decent working conditions. But instead Mr. Gomez provides food for American grocery shelves from the Mexican side of the border, and the Mexican government has not paid the same attention to his plight. . . . By noon on a recent day, Mr. Gomez, as haggard as a scarecrow, had been at work seven hours. He expected to work until sunset for a little more than \$5 for the day. His barefoot children—ages 8, 10, and 11—worked at his side. Asked whether they attended school, Mr. Gomez lowered his eyes and shook his head to signify no. Each one was an important breadwinner, he said. And the \$1,500 the Gomez family hoped to take home at the end of the harvest was just about all the money the family would have for the year. “If the whole family does not work,” lamented Mr. Gomez, “we all starve.” Like birds that follow migratory patterns set by the seasons, Mr. Gomez and his family are among the one million Mexicans who abandon their homes for part of the year to move north with the harvests.¹⁹

Subsequent articles in the series focused on working conditions in Mexican factories. One of the main points was that the Mexican government plays a game of double standards, criticizing the U.S. and its treatment of Mexican citizens, resident aliens, and illegal immigrants in the United States, while paying little attention at home to the injustices or conditions that it accuses us of violating.

What is apparent is that Mexico has one expectation of itself, and another of its neighbors to the north. Mexican-American interest

groups carry this cause directly into the U.S. political debate. This double standard is implicit in the relationships within NAFTA, and should be well understood. Perhaps given the tremendous disparities in wealth, infrastructure, and capabilities, the expectations of Mexicans on both sides of the border that their northern neighbors should pay to redress the disparities is not unreasonable given the equally high price to be paid for doing nothing. What Mexico must discover is a genuine motivation for Canada and the United States to want to do so proactively. Clearly, that motivation cannot be only directly economic in nature.

Corporate Job Losses

In 1997, UNCTAD estimated that 25% of total world output was controlled by transnational corporations, and declared in its 1997 World Investment Report that we were “witnessing the internationalization of national production systems.” This is borne out by the interpenetration during the 1980s of Japanese, European, and U.S. foreign direct investment (FDI) in one another’s markets and its shift toward the Third World in the 1990s. These flows of FDI have resulted in corporations building global production and supply chains.

President Clinton’s Council of Economic Advisors reported in late April 1996 that Americans’ fears of corporate downsizing “could be overstated,” given that two-thirds of jobs created since 1994 pay above-average wages. Job reductions were found to have risen slightly, but were outpaced by the growth in higher-paying, “quality” jobs.

The growing influence of corporations in the economy is undeniable, but corporate activities in the context of opportunities created by NAFTA are not the bane of the working person in the U.S. and Canada, as has been alleged. Shortly after the passage of the FTA between the United States and Canada in 1988, the Council of Canadians launched an attack on free trade, blaming the closure of the U.S. Gillette Company’s factory in Toronto on the passage of the FTA. It later published a long list of job losses in Canada allegedly caused by the FTA.²⁰

“Daimler-Chrysler to cut 26,000 jobs,” “Motorola to eliminate 13,000 jobs,” “Whirlpool Corporation announces global restructuring, and 6,000 jobs eliminated,” “AT&T eliminates 40,000,” etc. The headlines are all too familiar, but the important question is not whether these stories are true, but whether they are representative of the economy at large. It depends on what kinds of jobs we are talking about.

Paul Krugman cites a February 1996 cover story in *Newsweek*, entitled “Corporate Killers,” that calculated the number of corporate layoffs from the previous five years.

The article implied that it was describing a national catastrophe. But if you add up all the numbers, the total came to 370,000 or less than one worker in 300—a tiny blip in the number of workers who lose or change jobs every year, even in the healthiest economy. The destruction of good jobs by greedy corporations is just not an important part of what is happening to the American worker. Both the number of “good jobs” and the pay that goes with those jobs are steadily rising. America’s middle class may be anxious, but objectively it’s doing fine. The people who are really doing badly are those who do not have good jobs and never did.²¹

This same phenomenon is taking place in many communities across the country and around the globe. What this signals is the need for a more comprehensive national approach to worker training and retraining. The types of jobs that will be available in the new economy are changing, and competition for many of them can come from anywhere on the planet. The fact that adequate worker retraining has not been made a national priority is a reflection of the general misinformation that exists about the causes of change in the economy. NAFTA did not cause this situation but is often blamed for it.

Effect on the Mexican Economy

Despite all the disparagement of Mexican working conditions, we should have no doubt that NAFTA and the opening of the Mexican economy it formalized is bringing about nothing less than a complete transformation in its labor market. The previously inefficient manufacturing sector generated few jobs, and in the 1980s real wages fell by 30%. The Salinas administration believed that opening the economy would ultimately create more jobs, but also knew that it would first be necessary to go through a structural shock and a period of net job destruction to eliminate inefficient jobs. INEGI figures show 70 months of consecutive job destruction until the end of 1994.

The 1995 recession exacerbated things further, as real wages fell another 30% and more jobs were lost. Yet these structural changes that in part caused the recession were also able to help it rebuild more

quickly. During the prior recession of 1982–83, it took 105 months for the Mexican economy to regain industrial production levels of October 1981. A return to pre-recession production levels in 1994 was achieved in only 22 months. In 2000, real wages grew faster than ever before.

Mexico was traditionally an exporter of raw materials and relied heavily on oil exports. NAFTA has had an unquestionably transforming effect on the Mexican economy and society. The share of exports made up by manufactures has never been higher, and 89% of Mexican exports go to the U.S, while only 2% go to Canada. Unemployment in Mexico, by any measure, is at its lowest point in recorded memory. Many industries are facing labor shortages and high turnover, and the wage inflation that accompanies it. Much of this labor shortage is occurring in the north of Mexico, while the underdeveloped southeast remains a problem.

Labor shortages in maquiladoras along the Mexican side of the U.S. border have drawn workers from all over Mexico, and increased the pressures on shared border infrastructures. These labor shortages are signs that NAFTA and the globalization it represents are benefiting workers in Mexico. Gustavo Elizondo, a spokesman for the state government of Chihuahua in Ciudad Juarez, gives an irrefutable response: “The maquiladora industry may not pay the best, but it does bring an important benefit. In the rest of the country, there are no jobs, and here there are. They may not be well paid, but you can’t underestimate that.”²² The wages are determined by other opportunities available in the local market. Although it is true that Mexican workers earn far less than their Canadian and American counterparts, characterizing their wages and the conditions they work in as exploitative is only telling part of the story.

The Ethicality of NAFTA

Support or opposition to NAFTA for many people is a question of values. One of the first questions it requires us to ask is: How comfortable are we with social inequality? When considering whether or not it is ethical to purchase something made in a low-wage facility in Mexico, Paul Krugman argues that critics of export-led growth have no right to be self-righteous, because they have not thought the matter through: “And when the hopes of hundreds of millions are at stake, thinking things through is not just good intellectual practice. It is a moral duty.”²³

J. Milburn Thompson, Professor of Theology at Bellarmine University, essentially concurs with Krugman, asserting that economic growth stimulated by free trade is a necessary condition for alleviating poverty. But that alone is not a sufficient condition for economic and human development. Based on the teachings of Catholic social thought, a faith tradition common to all three NAFTA countries, “Decisions must be judged in light of what they do *for* the poor, what they do *to* the poor, and what they enable the poor to do *for themselves*. The fundamental moral criterion for all economic decisions, policies, and institutions is this: They must be at the service of *all people, especially the poor*.”²⁴

Who are the poor? In the debate about NAFTA, the poor are primarily Mexican men and women who are unemployed or who do not make enough to meet the basic needs of their family. Unskilled workers in the U.S. and Canada, especially minority peoples and women, also deserve special concern in this debate, but even they have more opportunity than their Mexican counterparts. Thus, the basic question is: “Is NAFTA favorable or unfavorable for the poor in Mexico?”²⁵

Ultimately, Thompson concludes that:

A responsible society takes steps to distribute fairly the benefits of a market economy and to care for those displaced by a competitive market. Thus, both developed and developing countries must create social policies and programs for the equitable distribution of wealth, and developed countries in particular must devise effective adjustment programs for displaced workers.²⁶

From the perspective of economics and ethics, the creation of jobs is beneficial even at low wages, as long as the poor are helped. The question is not therefore whether or not NAFTA itself is ethical, but whether the distribution of wealth in North American societies is ethical. That is an entirely different question.

The Digital Divide

Another criticism commonly leveled at the new global economy is that it is creating a digital divide—the implication being that those without the economic resources to obtain Internet access will become permanently disadvantaged, and reduced to second-class status in an economy based on information and skills.

The network is there, all around us. The Internet has been a democratizing force worldwide, knocking down walls, creating new voices, redistributing knowledge—sometimes, and redistributing the kind of knowledge that brings wealth. But there are barriers to entry. Like our other core infrastructures—roads and bridges, the electric power grid, the phone system—the wired and wireless network is being built out largely by private companies, yet the public needs universal access.²⁷

In the U.S., 60% of whites and Asian Americans have surfed the Net, versus 50% of Hispanics and African-Americans. Race appears to be less of a factor than income, as only about 20% of poor and middle class people use the Internet, while more than 70% of the upper middle class and wealthy do.²⁸

In Mexico, it was projected that there would be 2.3 million unique Internet users by the end of 2001, or slightly more than 2% of the population.²⁹ This points to a different situation in the Third World, namely that access is still a real problem. But as the local infrastructure is developed and storage and networking capacities increase while costs decline, at some point in the not too distant future, access will no longer be an issue for most people. As they have done in the U.S. and Canada, manufacturers and ISPs began providing low-cost PCs bundled with access. Eventually, even people in small rural villages will be able to access the world's biggest library, and buy or sell in its biggest market.³⁰

Once the issue of access is resolved, the true underlying problem will remain: the unequal distribution of skills needed to take advantage of the Internet. Once available, the problem is one of “teaching people the value of knowledge, how to obtain it, and what to do with it.”³¹ This common problem, shared by all three NAFTA countries, represents an area for collaboration.

Immigration

Simply by giving birth north of the border, a Mexican woman automatically produces a U.S. citizen, which makes it easier for the parents to obtain public services and facilitates their legal entry. This completely rational conclusion is not only reached by poor Mexicans, but by the wealthy as well who seek options for their children and themselves.

It is not likely that anything will reduce immigration in the coming years, when we continue to only focus on the symptoms. To the extent

that worker incomes do improve in Mexico, the result could actually be an increase in illegal immigration as it becomes easier to accumulate the stake necessary to get to the border, survive there for awhile, and pay for the false documentation and assistance needed to get across the border.³²

According to INS figures, there were 3.7 million illegal immigrants in the U.S. in 1990. By 2000, that number had grown to 8.7 million.

Recognizing the role that Mexican-Americans can play in helping to solve the immigration problem to its advantage, the Mexican Congress has voted to allow Mexican citizens in the U.S. to obtain dual U.S. citizenship, so that they will be empowered to vote in U.S. elections in favor of the Mexican national agenda. Hispanic rights groups like La Raza regularly appear on television in defense of "Mexico's needs" in discussions pertaining to illegal immigrants. The discussion has moved to the payment of medical benefits including expensive cancer treatments for illegal immigrants in Arizona, and to the extension of in-state tuition to illegal immigrants in Texas and California. All three states have large Hispanic populations, including clear electoral majorities in certain municipalities. These examples illustrate clearly that the ties of culture and ethnicity are dearer than those of nationality.

Hispanic rights groups work diligently to extend rights and privileges to illegal immigrants of Hispanic origin. The cost of these benefits is borne by the nation or the state at large and all of its citizens. They no doubt do so because they perceive that the understanding of, respect for, and acceptance of Mexican and other Latino cultures in the U.S. is inadequate, as illustrated by bumper stickers like "Will the Last English Speaker to Leave Miami Please Turn Out the Lights." Until society is more accepting of Hispanics, how can they be expected to choose the best interest of the nation over those of their own native culture? Until they do so, how can they expect to have their issues embraced by the mainstream voter? This presents a true conundrum to society.

Permitting the continuation of large-scale immigration from Mexico is the least expensive manner of dealing with that country's latent volatility. However, many Americans will struggle to welcome such a large cadre of persons of another culture in an era of more competitive global job markets and declining government benefits.

In order for NAFTA to succeed, and to prevent social fragmentation along cultural or racial lines, we need to better educate ourselves about culture. The disparities in levels of wealth and education between Mexico and the U.S. and Canada reinforce many traditional stereotypes

that denigrate Hispanics and polarize society. As we seek in good faith to better understand and be more tolerant of other cultures, persons of all cultures should also strive to separate people from problems and avoid the extremes of repressive tolerance and political correctness that can obstruct rational dialogue. What is really at issue, beyond culture and economics, is ensuring that we are creating an environment that allows for the maximization of the talent of every individual, immigrant or native.

Walls of cultural division and alienation between English and Spanish speakers will follow more walls and fences along the border. And these walls, while they may appear to temporarily solve a problem, will contribute to cultural fragmentation in America as the polarization of the issues surrounding immigration catalyzes the Hispanic community to create a Spanish-speaking Quebec in the United States.

The Dangers of Cultural Fragmentation

If immigration is not handled properly, and cultural fragmentation is precipitated in the United States along Spanish-speaking and English-speaking lines, grave social consequences might ensue, according to the argument that Samuel P. Huntington advances in the Summer 1993 issue of *Foreign Affairs*. Huntington also observes (as quoted by Robert Kaplan in *The Coming Anarchy*) that throughout the course of the past century the world moved from nation-state, to ideological, to cultural conflict.

First, differences among civilizations are not only real, they are basic, involving among other things history, language, and religion. Second, interactions between peoples of different civilizations are increasing, and these increasing interactions intensify civilization consciousness. Economic modernization is not necessarily a panacea, since it fuels individual group ambitions while weakening traditional loyalties to the state. It is worth noting that whatever the laws, refugees find a way to crash official borders, bringing their passions with them, meaning that Europe and the United States will be weakened by cultural disputes.³³

Some opinion leaders have discovered that the uncomfortable aspects of the economic restructuring from industrial to meta-industrial have suddenly become easier to explain to the less informed others

now that other countries and other cultures are involved. Cultural differences and age-old national stereotypes can creep in and cloud the picture, creating emotional responses in the place of rational thought. It is easier to rationalize away or blame someone or something else for the uncomfortable truth of things we are doing to ourselves and to one another but do not want to accept, much less discuss publicly.

The politics of culture is alive and well in North America. Several well-known examples include the Separatist Movement in Quebec and the Zapatista rebellion of the indigenous peoples in Mexico. Another less familiar example is the Mexican Congress's decision several years ago to allow Mexicans living in the United States to apply for U.S. citizenship without renouncing their Mexican citizenship. Due to the strength of their cultural roots, the proximity of Mexico to the U.S., and low transportation and communication costs, many Mexicans do not have to decide between countries, and choose to move between them both culturally and geographically.

While we must regulate immigration flows, we must also make a more proactive effort to integrate and welcome those Mexican immigrants to the U.S. and other members of the Hispanic community that are allowed to enter. If we do not, these new entrants will have little incentive to participate as insiders in American society. Without such an incentive, they will be seen as an outside force, with a different culture and customs and different aims, that could be seen by extremists as subversive to the national interest. Across the walls on our borders, millions of Mexicans will persist in conditions materially similar to those that spawned fundamentalism in the Middle East.

We should not assume that the peaceful nature of Mexicans and their Christian faith would overcome the devastating poverty they endure and prevent them from increasingly resenting U.S. wealth and power. Anti-Americanism is a popular new religion and form of racism, and will grow in Mexico in proportion to our tightening of the border.

Robert D. Kaplan writes in *The Coming Anarchy*:

As peasants continue migrating to cities around the world—turning them into sprawling villages—national borders will mean less, even as more power will fall into the hands of less educated, less sophisticated groups. In the eyes of these uneducated but newly empowered millions, the real borders are the most tangible and intractable ones, those of culture and tribe.³⁴

So the global economy is empowering us with more choices than ever, which we exercise rationally in a self-interested fashion. We can

switch products, jobs, schools, and communities with increasing ease. Companies can find talented workers in our community, or in another country, requiring us to compete with the prevailing talent and wage levels of the global market. When seen from the point of view of our purely selfish individual interests, this is all of tremendous benefit to the fortunate among us who have many choices. When seen from the vantage-point of the less skilled, who are becoming marginalized and sorted out of jobs, communities, and schools, it is understandably disturbing.

If this tyranny of small decisions continues to dictate the future fabric of society, it will not be long before Mexico and the U.S. have much more in common. American society is beginning to resemble more and more those of developing countries such as Mexico, in terms of social stratification and income inequalities, violence and insecurity. With dual citizenship, Mexicans have less of a need to adapt and become acculturated to U.S. society. And with the sorting mechanisms in place, it is more likely than ever that they will end up in segregated communities, just like the African-American William Julius Wilson writes about.

Do we want to end up in segregated, gated communities sorted by income and ethnicity? Cultural divisions formed along ethnic and socioeconomic fault lines are to be expected to widen. Are our traditional community-centric values and sense of fairness changing because society's composition is changing and we no longer relate to one another? The real possibility exists that we will begin to become more visibly what the statistics suggest we already are: a society of relative haves and have-nots, with sectors akin to parts of the Third World festering in the heart of America.

¿Hacia Donde Nos Vamos? (Where Are We Heading?)

If Kaplan and Huntington have got it right, and large-scale immigration continues while social inequalities widen, what might North American society look like in the future?

Glimpses are available already, in reality and on-screen. Anyone who has seen the 2001 movie *Traffic*, directed by Stephen Soderbergh, cannot fail to recall the stark contrasts of the businesslike world of efficiency represented by the U.S. drug czar trying to combat the chaotic world of the street represented by small-time drug runners. Nor can we fail to recall how the movie portrayed the blurring of the lines that exist

between these two realities: the sophisticated and suave drug kingpin who came from the business of the streets, but lived among the wealthy San Diego elites, and the 16-year-old, private school educated daughter of the drug czar who became immersed in the decadence of affluent suburbia, which led to drug addiction and prostitution. For anyone who has ever visited the U.S.–Mexican border, or lived in Mexico, the movie was remarkably realistic. And quite likely, so too for many was the part about the demand side of the drug equation in U.S. suburbs.

Numerous books have been written in recent years that seek to paint a more vivid image of the effects of globalization and how it is composed of parallel but asynchronous trends. William Greider's *One World, Ready or Not* and *Jihad vs. McWorld*, by Benjamin Barber, are two examples. Greider essentially points out the evils of globalization, while Barber counterposes the forces of globalization with the opposite, but in his mind not quite equal, forces of factionalism that arise in reaction to them and oppose them.

Barber sees two forces at work that are leading humanity towards two coexisting and inherently conflicting future scenarios. He calls these forces “Jihad” and “McWorld.”

Jihad

The first scenario,

. . . rooted in race holds out the grim prospect of a retribalization of large swaths of humankind by war and bloodshed: a threatened balkanization of nation-states in which culture is pitted against culture, people against people, tribe against tribe, a Jihad in the name of a hundred narrowly conceived faiths against every kind of interdependence, every kind of artificial social cooperation and mutuality: against technology, against pop culture, and against integrated markets; against modernity itself, as well as against the future in which modernity issues.³⁵

Possible examples that could be interpreted to support the Jihad theory in North America include the separatist movement in Canada, the Zapatista rebellion in Mexico, the migration problem and the militarization of the U.S.–Mexico border, Timothy McVeigh and domestic terrorism, the subversive goals of groups like MEChA (Movimiento Estudiantil Chicanos de Aztlan, a U.S.-based Hispanic student group dedicated to the re-establishment, on behalf of “the bronze-skinned peoples”,

of Aztlan, the pre-Columbian Mexican homeland encompassing all of current-day Mexico, as well as those territories taken over by the U.S. after the Mexican-American War), violence in the African-American community after police shootings, and the toleration of zones of abject poverty across the street from opulence.

McWorld

Barber's second scenario

paints the future in shimmering pastels, a busy portrait of onrushing economic, technological, and ecological forces that demand integration and uniformity and that mesmerize people everywhere with fast music, fast computers, and fast food: MTV, Macintosh, and McDonald's pressing nations into one homogeneous global theme park, one McWorld tied together by communications, information, entertainment and commerce."³⁶

Situations that might be seen to reflect the fulfillment of the McWorld vision in North America can be witnessed in the disappearance of small-town shops and restaurants in the U.S., replaced by well-known corporate chains, and by the emergence of these chains across the continent and across the world. By the same selection of clothes being available at nearly every department store in the country, and across the Americas. By global brands that preach unity and unisexuality and exalt similarity, like the United Colors of Benetton, and Calvin Klein's "One." Or by the loss of small businesses and farms in all three countries, while global retail, industrial, and agricultural corporations continue to merge and grow more profitable. The connection of everyone by the Internet and the ability to telecommute to work. Or the proliferation of global pop culture, from wherever it emanates in the form of music and film, and the competition it poses for local cultural media.

It is clear that there will be no neat dividing line or fence that can separate these two converging realities. The line is blurred and permeable. Barber believes that in this confrontation between globalism and parochialism, the "virtues of the democratic nation are lost, and the instrumentalities by which it permitted peoples to transform themselves into nations and seize the sovereign power in the name of liberty and the commonweal are put at risk."³⁷ One plays by rules that it attempts to impose on the other, and the other knows no rules. "Jihad pursues a bloody factionalism of identity, and McWorld a blood-

less economics of profit. Ironically, neither globalism nor factionalism is concerned with democracy. Caught between Babel and Disneyland, the planet is falling apart and coming reluctantly together at the very same moment.”³⁸

Thomas L. Friedman makes a similar set of arguments in *The Lexus and the Olive Tree*. The Lexus is used as an analogy for globalization, technology, digitization, etc., while the Olive Tree represents things such as local communities, lifestyles, values, and family.

The challenge in this era of globalization—for countries and individuals—is to find a healthy balance between preserving a sense of identity, home and community and doing what it takes to survive within the globalization system. Any society that wants to thrive economically today must constantly build a better “Lexus” and drive it out into the world. But no one should have any illusions that merely participating in the global economy will make a society healthy. If that participation comes at the price of a country’s identity, if individuals feel their olive tree roots crushed, or washed out, by this global system, they will rebel. They will rise up and strangle the process. Therefore, survival of globalization as a system will depend, in part, on how well all of us strike this balance. A country without a healthy Olive Tree will never feel rooted or secure enough to open up fully to the world and reach out into it. But a country that is only olive tree, that is only roots, will never go or grow very far. Keeping the two in balance is a constant struggle.³⁹

The Brave New World of NAFTA?

As globalization creates a more homogeneous popular culture of global brands, people begin to feel that they are losing their identity. They seek something to identify with that makes them unique, and they cling to it. Often, culture, ethnicity, and race are what they rally around, at times creating new divisions within societies that had been present but lay dormant as local or national cultures superseded them. On the other hand, information technology erases divisions by bringing people together based on common interests and minimizing differences.

Similar to the outcome in Aldous Huxley’s *Brave New World*, Barber predicts that the forces of globalization and homogenization will ultimately triumph, because of the tremendous power and resources behind them.

In a prescient book entitled *A Creed for the Third Millennium*, Cathleen McCullough describes the malaise that has fallen over a fully post-industrial U.S. economy in 2036. Because of global warming, cars are permitted to only the few who truly need them; roads are superfluous divisions between communities. The system of cottage industry has returned, as the proliferation of information technology has permitted everyone to telecommute, and most basic necessities to be ordered over the Internet. Families are an uncommon lifestyle choice, and a one-child lottery system has been imposed to reduce global population. In this reality, people have become segregated and are depressed and lonely because of their lack of human contact. Evangelical Christianity flourishes as the solution to lives so devoid of meaning. The exponential growth of Evangelical Christianity in underdeveloped areas of the world such as Africa and Latin America, perhaps as antidote to misery and uncertainty, has been cataloged by Philip Jenkins in *The Next Christendom*.⁴⁰

Each of these visions may represent only a small part, but almost certainly describes some of the reality that our common future will hold. What will the NAFTA region look like in the future?

The answer to that question will to a greater degree be determined by how well we understand our own culture, and those of our neighbors, and our place in a historical context than it will be by the invisible forces of the market. It will depend on properly framing NAFTA as a complex system of interdependent variables, as opposed to merely a trade agreement. It will be a function of our cultural values, wisdom, and management abilities at the individual and community levels.

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Understanding NAFTA's Cultures and Cultural Values

3

Time represents something else for an American than for a Mexican. If you have a meeting at 1:30, for a Mexican that could mean 1:45 or 2:00. It's a normal thing, everyone is late in Mexico, but it takes time for U.S. managers to understand this. In Mexico, we begin working at 9:00 or 9:30. We have breakfast meetings, with lots of food. Then we have a big lunch and siesta from 3:00 to 5:00. We are back at 5:00, then work until 9:00 or 10:00 at night. Similarly, the concept of law is different in Mexico. We try to tell our U.S. counterparts that here, when you handle relationships with the government, you invite their representatives for the weekend or you take them to dinner. To handle the union leader, it is the same thing. It is not written anywhere, but it is something you just do.

—Jaime Zevada, Mexican manager (from Czinkota, M.R., et al., *International Business Update 2000*. The Dryden Press, 2000, p. 33)

As with any complex multinational trade agreement, cultural differences resulting in business challenges exist in NAFTA. Within the widely diverse region that is North America are three nations, Canada, the United States, and Mexico, each with distinct national cultures enriched by innumerable subcultures. Understanding the many dynamics of NAFTA begins with understanding each country's character, its culture, and its perspective. Like personality, culture has many variations.

What is culture? Why is culture important? Ingrid Pregel, a principal at KPMG, states that executives often have a perception of culture as “touchy-feely human resources stuff” and consequently, fail to make the link between culture and how it supports, even affects, a specific business direction.”¹ It is essential to note that it has been shown by studies and company reports that insensitivity to cultural differences and culture is directly linked to loss of business opportunity and money.²

One study of U.S. multinational corporations found that poor intercultural communication skills still constitute a major management problem; American managers’ knowledge of other cultures lags far behind their understanding of other organizational processes. In a synthesis of the research on cross-cultural training, Black and Mendenhall . . . found that up to 40 percent of expatriate managers leave their assignments early because of poor performance or poor adjustment to the local environment. Further, they found that cross-cultural differences are the cause of failed negotiations and interactions, resulting in losses to U.S. firms of more than \$2 billion a year for failed expatriate assignments alone.³

In fact, if we were to look at NAFTA and culture from the perspective of mergers and acquisitions, where the principal goal is to increase productivity, sales, and customer base by integrating two or more differing corporate cultures, we would see that some factors involved in the merging of two differing corporate cultures parallel some factors involved in bridging the national, cultural, and corporate differences involved in corporations working together as a function of NAFTA.

For example, in a corporate merger or acquisition, the leadership of each corporate culture must determine how to bring people from two very different corporate cultures to work together as a team.⁴ NAFTA has promoted trade through an open market, bringing together corporations from three different national cultures, thus creating the need for people to work together and create a bridge across the corporate cultural differences. Success in both arenas is tied to creating win-win situations where both parties from very different cultures can work effectively with each other.

Likewise, if we were to look at marketing from an interregional and intercultural perspective, we would find that culture and subculture play an essential role in determining marketing strategies in various

locations. As competition between corporations, cities, regions, and nations is now international in the area of export market, investment capital, and other areas of economic development, the importance of understanding national and subnational regionalism has led to an evolution of global business strategies that not only must be responsive to large and small market segments but also must be responsive to how culture shapes beliefs, attitudes, preferences and behavior.⁵ In turn, there is an absolute need for companies to understand the cultural aspects involved in the human component of business to be successful.

The Interconnected and Interdependent Nature of Free Trade

Results from NAFTA have sustained the interconnected and interdependent nature of the three economies as well as the resulting success in business and economic benefits. NAFTA has especially had a positive effect on the Mexican economy as a result of reduced tariff levels, the devalued peso, and lower labor costs for non-Mexican companies. Currently, Mexico has surpassed China in exporting textiles and garments to the U.S. In fact, Mexican border factories, maquiladoras, have shown an increase of approximately a million jobs.⁶

When managing interdependence across three nations, multinational corporations and all people involved in international trade must be aware of their interdependent nature.

Mexican family businesses have had to learn, sometimes the hard way, that business is done much differently in the U.S.; smaller Mexican firms have found it hard to compete with the technology and capital that U.S. firms have brought to Mexico; Americans and Canadians have learned that Mexican culture and infrastructure have made cross-cultural business practices a challenge if they insist on conducting business the "American" or "Canadian" way;⁷ with perceived Canadian economic, cultural, social, demographic, and political similarity to U.S., it has been speculated that close ties with their more powerful neighbor will eventually lead to the total loss of Canadian identity.⁸ As Canada has roughly 3% of the world's economy, according to the Organization for Economic Co-Operation and Development, this is meaningful because Canada has only 0.5% of the world's population, which signifies that 97% of economic action takes place outside of Canada.⁹

Canada is unique, and its history of discrimination is not as extensive as that of the United States. Canada has a true cultural mosaic. The Canadian government spends as much as \$30 million a year on multicultural programs, which is very significant considering that the national population is approximately 30 million.¹⁰ Unlike the U.S., where being “American” is emphasized as coming first and foremost, being “Canadian” is seen as second. People in Canada put their cultural background first, thus creating truly diverse cities such as Toronto, Vancouver, and Montreal.¹¹

As shown through these examples, national economy and culture play an extensive role in each country’s perspectives, beliefs, and business actions.

Culture

Culture is a phenomenon that grows with people, and, like knowledge and technology, accumulates and changes throughout time. It is the unique response by a group of people to the physical and human environment confronting them in a particular location, and the survival mechanisms that they collectively develop and pass on consciously and unconsciously to succeeding generations.

Whether we are aware or unaware, culture aids us in making many of the daily decisions that we are forced to make. Culture is “a problem solving tool.”¹² It is “everything we think, do and have”¹³ as members of our society: our attitudes, values, beliefs, faiths, traditions, habits, and customs, as well as our national patrimony in the form of historical locations, architecture, and the influence of the very land itself upon our character and gist as a people.

To successfully navigate among multiple cultures, a skill that is being demanded of the globally competent NAFTA executive, one must have an understanding of his or her own culture. Cultural self-awareness is furthered by the eye-opening opportunity to experience first-hand another people’s way of doing things, much as learning a second language provides one with new insights into his or own native tongue.

Although each culture has evolved uniquely, certain common elements can be found in most all cultures. These features, called “cultural universals,” are elements present in every culture, to a greater or lesser degree.

By using a systems approach in which these common elements are seen to be component parts of the overall culture, one will have the nec-

essary tools to more easily orient oneself in a new culture. Instead of succumbing to the natural tendency to focus on the subjective cultural differences, a more fruitful approach begins with the identification of objective cultural similarities. In so doing, a parallel is established to our own culture, something we already know. By way of this relation between similar elements, the new culture, despite its differences from our own, is legitimized in its own right.

This approach was developed by early cultural anthropologists, who, via “participant observation” sought to integrate themselves as functioning members of primitive societies in order to more fully understand them. The following are examples of cultural universals:

Family systems. In Mexico and Quebec, families tend to be larger than their American counterparts and include a closer and more extended kinship network. The family is an important source of individual support and identity and has tended, in the cases of both these cultures, to reduce the mobility of workers. For the Mexican, family is the first priority and children tend to be sheltered, with their mothers fulfilling the domestic role.¹⁴ For English-speaking Canadians and Americans, who tend to be more individualistic, the family is smaller, is more nuclear, and plays a smaller role in individual decisions. Family usually comes second to work; children have more freedom and are less sheltered, with women commonly fulfilling the dual role of mother and worker.¹⁵

Educational systems. The manner in which young people, new members of society, or displaced workers are provided with skills, knowledge, and values.¹⁶ There are significant disparities in the levels of education obtained by Mexicans as compared to Americans and Canadians. In Mexico, education is based on memorization, with an emphasis on the theoretical. Canada and the United States have an emphasis on the analytic approach, with a focus on the practical.¹⁷ There is a need for further language and cultural training in all three countries.

Economic systems. The manner in which a society is organized for the production of goods and services.¹⁸ Canada and the United States have traditionally been in the forefront of free market trading nations, while the Mexican economy was closed and relied on import substitution policies. Under NAFTA, the unilateral economic reforms that began in Mexico during the de la Madrid administration, continued during the Salinas administration, and gradually

opened Mexico's market to international competition will be institutionalized under Vicente Fox.

Political systems. The dominant means of governance for maintaining order and exercising power and authority.¹⁹ The governments in Canada, the United States, and Mexico are based on a federal system. While transparent multiparty systems exist in the former two countries, Mexico has effectively been a single-party system. However, the former ruling PRI party has relinquished power to Vicente Fox, a former Coca-Cola executive, who was elected by an alliance between the Partido Accion Nacional (PAN) and the Green party (PVEM). Though he is currently working to create democratic reform in Mexico, it will occur at a gradual pace, assisted by more pronounced economic stability that Mexico hopes will continue under President Fox and NAFTA.

Religious system. The manner in which each culture inculcates belief in the supernatural, or provides for non-material motivation for life.²⁰ In each of the three NAFTA countries, there is an official separation of church and state. Mexico and Quebec are predominantly Roman Catholic. Mexicans' fatalistic outlook toward life—"As God wills. . . ."—stems from the Roman Catholic tradition.²¹ The United States and English speaking Canada are largely multid denominational Protestant, where the predominant outlook toward life—"being the master of one's own life"—stems from an individualistic outlook.²² Religious systems may provide a people with motivation to achieve, or they may merely seek to preserve the status quo, as did the Catholic Church in its efforts to promote cultural survival in Quebec for nearly 300 years.

Association system. The network of social groupings that are formed in society.²³ Professional organizations such as Rotary International exist in all three countries, but personal relationships continue to be a major factor in doing business successfully in Mexico. As highly individualistic societies, Canadians and Americans do not place as much importance on group memberships as do the more collective Mexicans.

Health system. A culture's attempts to cure and prevent the spread of disease among its population, and to provide emergency care for accident or disaster victims.²⁴ Canada and Mexico both have comprehensive social medicine, whereas the U.S. is making ongoing attempts to revise its largely private healthcare systems.

Recreational system. The ways in which people interact socially and make use of their leisure time. Traditional sports and national and regional dancing are examples. In Mexico, leisure is considered essential to a full life, money is used to enjoy life, and the purpose of work is to live.²⁵ In contrast, the average Canadian or American lives to work, with leisure seen as a reward to oneself for work well done; money is seen as an end in itself.²⁶

The areas of status and personal sensitivity also reveal much about Canadians/Americans and Mexicans. In Mexico, title and position are more important than money; whereas in Canada and the U.S., money is regarded as the reward for hard work and achievement and is a significant measure of status.²⁷

The average Mexican has difficulty separating work and personal relationships, believes in saving face especially in public, tends to shun confrontation, and is sensitive to differences of opinion. To the Mexican, truth is mitigated by a need for diplomacy and is seen as relative. For the Canadian and U.S. citizen, truth is viewed as an absolute value, therefore direct, honest answers to questions are expected. The average Canadian/American separates work from personal or emotional relationships, believes that sensitivity is a sign of weakness, has a tougher "front" for business, and has difficulty with subtlety, preferring the straightforward.²⁸

Kras has developed a framework for comparing major cultural variables as they differ between the United States and Mexico (Table 3-1).

Managers who employ self-awareness of their own culture when adapting to other cultures will have a powerful tool at their disposal, and will gain the advantage that cultural sensitivity and empathy provide in intercultural activities. This alone, however, will not guarantee their success because managers from all three countries are confronted by the daunting challenge of overcoming stereotypes and prejudices that predispose them to ethnocentric interpretations of events and practices in other countries.

Ethnocentrism and Stereotyping

Generally, people are more attracted to those who are seen as similar or familiar to them and tend to consider them much more positively than those who are different or strangers.²⁹ Ethnocentrism is taking the

Table 3-1
Kras's Cultural Factors

Variable	Mexico	Canada and the United States
Family	Family is first priority. Children sheltered. Executive mobility limited.	Family usually second to work. Children independent. Executive mobility unrestricted.
Religion	Long Roman Catholic tradition Fatalistic outlook.	Mixed religions. "Master of own life" outlook.
Pedagogical Approach	Memorization. Theoretical emphasis. Rigid, broad curriculum.	Analytical approach. Practical emphasis. Narrow, in-depth specialization.
Nationalism	Very nationalistic. Proud of long history and traditions. Reluctant to settle outside Mexico.	Very patriotic. Proud of "American way of life." Assumes everyone shares his/her materialistic values.
Emotional Sensitivity	Sensitive to differences of opinion. Fears loss of face. Shuns confrontation.	Separates work from emotions. Sensitivity seen as weakness. Puts up tough business front.
Etiquette	"Old World" formality. Etiquette considered the measure of breeding.	Formality often sacrificed for efficiency. "Let's get to the point" approach.
Grooming	Dress and grooming are status symbols.	As long as appearance is reasonable, performance is first.
Status	Title and position more important than money in eyes of society.	Money is main status indicator and is reward for achievement.
Aesthetics	Aesthetic side of life is important even at work.	No time for "useless frills."
Ethics	Truth tempered by need for diplomacy. Truth is a relative concept.	Direct yes/no answers given and expected. Truth seen as absolute value.

Source: Adapted from: Kras, E. *Management in the Two Cultures—Bridging the Gap Between the U.S. and Mexico*. Intercultural Press Inc., 1995. Retrieved from: http://www.mexconnect.com/mex_culxcomp.html.

perceived similarities and positive evaluation and linking it to culture and ethnicity. As such, behaviors and symbols from within one's own national and ethnic group are seen as objects of pride and fondness, and those from the "outside" are viewed with caution, and in the extreme are completely rejected. Similar to ethnocentrism is nationalism, which is ethnocentric thinking in the arena of international relations.³⁰

Why is it important to guard oneself against embracing a parochial or ethnocentric attitude? As it is normal for most people to understand and relate to others in terms of their own culture, understanding one's own cultural reference point is imperative to effectively understand "others" from their own perspective and to adjust one's behavior accordingly. Hall's example states this well.³¹

Once upon a time there was a great flood, and involved in this flood were two creatures, a monkey and a fish. The monkey, being agile and experienced, was lucky enough to scramble up a tree and escape the raging waters. As he looked down from his safe perch, he saw the poor fish struggling against the swift current. With the very best of intentions, he reached down and lifted the fish from the water. The result was inevitable.

It is critical to know that stereotyping is a normal human trait, which in essence categorizes information to promote better understanding and to avoid information overload. It is difficult to be aware of. In fact, as ethnocentrism and stereotypes promote a feeling of belonging to one's own group, the process of overcoming their debilitating effects when conducting business with people of different cultural groups is dependent on an ongoing effort to understand others as they understand themselves.

Joseph Campbell states, "The only way that you can describe a human being truly is by describing his imperfections."³² It is natural for members of one culture to form exclusionary attitudes toward those of another, if such attitudes promote the success of the society or justify discriminatory behavior toward nonmembers.

Such attitudes, or stereotypes, are often based not on personal experience or observation, but rather on rumors, hearsay, incomplete and one-sided stories, and other types of non-empirical evidence. National stereotypes are frequently based on racism and prejudices and have attained acceptance as a set of values, beliefs, and attitudes forged through common experience.³³ There is a long and rather vicious history of stereotyping in North America, most notably between

Mexicans and Anglo-Americans. Such stereotypes “rather than reflecting original responses to unique situations, have become part of day-in, day-out existence” and “rest on the distinction of what in the eyes of the would-be exploiters of other humans is the civilization of the former and the barbarism of the latter.”³⁴

Stereotyping not only has emanated from North America, but has been vigorously responded to by Mexico and Latin America. Indeed, by their stereotyping, Latin Americans have demonstrated that the “most prevalent form of racism in the world in recent decades has been anti-Americanism.”³⁵

Given the particularly tumultuous past relationship of Mexico and the United States, one of the most important and relevant tasks the reader can undertake in doing his or her part to make NAFTA a success is to commit to evaluating others on the basis of several factors. Through personal experience, it is very easy to judge another based on one’s own particular worldview, and thus reinforce the fallacious stereotype. Therefore, to be a truly effective business partner within NAFTA, understanding other people from their own perspective is crucial in that it gives one the opportunity to develop a real understanding of another as they see themselves.

Stereotyping predisposes individuals from different cultures to believe that they are fundamentally incompatible, and that is simply not true. Even if it were true, NAFTA has made North Americans part of a common trading region. North Americans will benefit from a culturally sensitive outlook and an honest effort to respect and understand the world from one another’s respective vantage points.

Table 3-2 presents a number of historical stereotypes illustrative of the long-standing cultural walls between Mexicans and North Americans that prospective NAFTA managers will have to scale.

Managers must also recognize that all three NAFTA countries have numerous subcultures whose members conform only to a degree to the national culture.

By overcoming stereotypes, managers will potentially be invited to look “inside” of some of NAFTA’s other unique cultures, to resonate with those on the inside, and to share a life enriching cultural experience by seeing the world from another angle.

International Customs Survey

One way of assuring foreign business hosts that a manager is respectful of their country and free of stereotypes is to fit in naturally and

Table 3-2
Historical Stereotypes

Value Affected	Mexican View of N. American	Mexican View of Self	N. American View of Mexican	N. American View of Self
Self-Control	Cold, insensitive, emotionless	Deal passively with stress, saying “ni modo” when something doesn’t go according to plan	Emotional, volatile, feminine, undisciplined	Rational, calm, masculine, deals actively with stress through discipline in life
Type of Civilization	Condescending, contradictory, not credible	Traditional; technically inferior, morally superior	Primitive, in need of instruction on “how to do things”	Advanced, responsible for showing others how to have democracy and free trade
Racial Attitude	Indiscriminate racism. Can’t distinguish high class Mexican from Indian	Social classes have subtle shades; whiter is better; the masses cannot be elevated anyway. North Americans should be able to distinguish between high and low classes and accept high as equals	Indigenous people are inferior, and mestizos combine the worst features of both races. The treatment of the lower classes is unjust, and therefore higher classes deserve no respect	Racially superior. Culturally heterogeneous, but racially homogeneous. In Canada multicultural intermixing normal; in the U.S., multicultural intermixing accepted
Honesty and Trustworthiness (High-Low Context)	Manipulative, tactless, have ulterior motives against Mexico; can’t be trusted	More important to be nice than objective; OK to bend truth or retain info if people’s feelings are preserved (high context)	Dishonest, indirect, sneaky, not trustworthy	Honest, direct, principled, literal (low context)

(Continues)

Table 3-2 (Cont'd)

Value Affected	Mexican View of N. American	Mexican View of Self	N. American View of Mexican	N. American View of Self
Character	Aggressive, at times brutal and abusive	Brave, but overpowered like "niños heroes"	Submissive, weak	Dominant, strong
Time Orientation	Obsessively future oriented. Doesn't know how to relax. Unrealistically believes time can be mastered	Lives in and enjoys present, respects past, awaits a future to be determined by God's will: "si Dios quiere"	Lives too much in present, while dwelling on past; surrenders own will and ambition to chance, procrastinating	The present is the birthplace of the future; planning, action oriented. "All the flowers of all the tomorrows are in the seeds we plant today"
Social Classes	Although morally corrupted, economically and perhaps racially superior	Exclusive, but more cultured and civilized at top levels; money not only determinant of status for "gente decente" (decent people)	Chaotic, inefficient, unjust; high classes lack character and low classes lack potential	Orderly, efficient, fair; upward mobility is possible to anyone who has money to enter
Religion	Profess a false religion	Repository of higher moral values	Passive Christianity (Catholicism). God's faithful servant	Active Christianity (Protestantism). God's appointed steward
Orientation to Nature	Destructive, futilely trying to control what only God can master	Nature merely "is," a creation of God that man can ultimately neither influence nor control.	Man cannot control nature; fatalism seen in failing to try. Evidence is economic underdevelopment	Man can and should manage and perfect nature; optimistic due to results of economic progress

National Intent	Intervention, imperialism, subversion	Sovereignty, respect, recognition	Lacking vision, discipline; needs help to reform flawed political and economic systems	Good-natured missionary, helpful, showing others “the way”
Work Ethic	Obsessive materialism, don’t know how or when to relax	Work not inherently redeeming; something that must be done	Lazy, work is bad as seen in Mexican sayings: “Do not do today what you can do tomorrow,” and “Work is sacred; don’t touch it”	Work is the measure of a man as seen in sayings “Never put off until tomorrow what can be done today,” and “An idle mind is the devil’s workshop”

Source: Data based on selected observations from: Acuna, R. *Occupied America*. New York: Harper and Row, 1981; Condon, J. *Good Neighbors*. Yarmouth, ME: Intercultural Press, 1997; Diaz-Guerrero, R. *The Psychology of the Mexican*. Austin, TX: University of Texas Press, 1975; Paz, O. *The Labyrinth of Solitude*. New York: Grove Weidenfelds, 1985; Pike, F. B. *The United States and Latin America: Myths and Stereotypes of Civilization and Nature*. Austin, TX: University of Texas Press, 1992; Riding, A. *Distant Neighbors*. New York: Knopf, 1985.

gracefully into that culture's system of interpersonal communication and protocol.

When moving between cultures, the global minded manager is ever cognizant of one's responsibility to respect the subtle social protocol that exists within each culture. By keenly observing the conduct of her/his hosts, the manager can pick up many of these frequently repeated patterns of verbal and nonverbal communication.

From greetings, to nonverbal expressions, to hand gestures, to the types of meetings that are preferred by executives in other cultures, the globally competent NAFTA manager has the necessary familiarity with such practices that can make the transition appear smooth and comfortable, and instill confidence and trust in foreign colleagues.

"To successfully deal with a new culture, whether with a person from a specific company or a different country, you must make an effort to identify their cultural values and inherent priorities, and how they differ from your own."³⁶ Table 3-3 is a brief selection of some of the differences that exist with respect to simple interpersonal protocol in Canada, Mexico, and the United States.

Understanding Other Management Cultures

Regardless of what other longer-term ramifications NAFTA may hold for supranational integration in North America, its most direct cultural impacts have been on working men and women. These individuals will need to be cognizant of their own cultural attitudes and biases, but also be aware of their attitudes toward work in general.

Will each national group be able to continue with its own particular cultural interpretation of the meaning of work, and with its own company-specific management style, when suddenly that same company or an individual find themselves in a new facility in Monterrey, Mexico, Montreal, Canada, or Montgomery, Alabama, for example, staffed almost entirely by native workers? How do the national cultures of each country affect their management styles?

Dimensions of National Culture

André Laurent, a French management researcher who analyzed the behaviors and work cultural values of managers in the United States, Europe, and Asia in 1983, found that there were great variations between cultures with respect to the role of the manager. Among other

things, Laurent found that managers' opinions about what forms of organizational hierarchies were desirable, and what the nature of power within the organization should be, were strongly affected by their nationality.³⁷ Indeed, Laurent found that when foreign employees work together within the same company, the cultural differences they experience are actually stronger than they would otherwise be if the employees were working at domestic companies in their native countries. Somehow, organizational culture actually magnifies differences in cross-cultural work culture values.

Hofstede³⁸ has identified four dimensions of national culture that can be used to make meaningful comparisons about the ways in which differences in national character affect management culture. The four dimensions are:

Power distance. The extent to which members of a society accept that there is an unequal distribution of power in institutions and organizations.

Uncertainty avoidance. The extent to which members of a society feel threatened by uncertain or ambiguous situations.

Individualism/collectivism. Individualism exists when members of a society feel responsible for only themselves and their immediate family, and form only loosely knit social structures. Collectivism occurs when people distinguish between "in-groups" and "out-groups" and is characterized by strong feelings of loyalty to one's own group and the expectation that in exchange for such loyalty the group will support and protect them.

Masculinity. The extent to which the dominant values in society stress assertiveness, money, and possessions, while not caring about others. "Feminine" describes cultures in which the emphasis is said to be placed upon human relationships, overall quality of life, and concern for others.

Power Distance

Mexico. Mexico ranked 38 of 40, indicating a very high tolerance for unequal distribution of power in society. This finding is augmented by the executive powers of the Mexican president, and the Mexican management style that is generally described as authoritarian and centralized.

Table 3-3
Intercultural Customs Survey

Variable	Mexico	United States	Canada
Greetings	AM: Buenos días! (Good morning) PM: Buenas tardes! (Good afternoon) ¡ Buenas noches! (Good night) Anytime: ¡ Hola! = Hello ¡ Cómo esta? = How are you? ¡ Mucho gusto! = Nice to meet you!	AM: Good morning PM: Good afternoon Good evening Good night Anytime: How are you? Fine, thanks! Hello! Hi! Nice to meet you!	English expressions generally similar to American. Cheers! = Good bye French: Tu vas bien? = How are you? Bonjour = Good day
Handshake	Handshakes common, abrazo for close friends	Firm handshake and smile at beginning and end of formal encounter. Wave of hand in informal situations	Handshake and smile at beginning and end of formal encounter. Nodding head OK in informal situation
Contracts	Verbal or written	Written	Written
Eye Contact	Important	Important	Less important
Business Dining	Breakfasts, and long, relaxed lunches common. Deals made at end of meal. Heavy food, and alcohol accepted	Short lunches, business not mixed with pleasure. No alcohol	Short lunches (1–1½ hours), light food, no alcohol, not to be overly enjoyed

(Continues)

Table 3-3 (Cont'd)

Variable	Mexico	United States	Canada
Social Dining	Guests generally arrive 1 hour late	Guests arrive on time	Guests arrive on time
Punctuality	Very flexible/less punctual	Rigid/punctual	Rigid/punctual
Level of Formality	Formal	Informal	Informal
Risk Orientation	Moderate	High	Low conservative
Speed of Decision Making	Moderate	Fast	Moderate to slow
Language Competency	Businesspeople will speak English; like dignified, respectful, eloquent language	Assume everyone speaks English. Prefer practical language; intimidated by other languages	Anglophones usually monolingual; Francophones usually bilingual; willing to try other languages
Nonverbal Gestures	Close personal distance, frequent touching and hand gestures	Large distance between speakers (2 ft); few hand gestures	Large distance between speakers, less in Quebec. Quebecois use more hand gestures

Source: Data based on selected observations from: Condon, J. *Good Neighbors*. Yarmouth, ME: Intercultural Press, 1997; *Culturgrams*. Brigham Young University, P.O. Box 24538, Provo, UT.

United States. The United States ranked 15th out of 40, indicating that although authority is accepted, employees definitely expect to participate in the sharing of power with an atmosphere of greater trust and partnership between U.S. management and workers.

Canada. Of the 40 countries surveyed, Canada ranked 14th on power distance, indicating that, in this respect, a great similarity should exist between the attitudes of Canadian workers and managers in regards to the distribution of power.

Individualism/Collectivism

Mexico. Mexico ranked only 12th out of 40, which indicates a fairly strong leaning in favor of group versus individual loyalty. This is further reinforced by the “high context” nature of the culture, and the extraordinary importance given to preservation of relationships and face-saving in the Mexican culture.

United States. Out of the 40 countries surveyed, the United States was found to be the most individualistic. This strong sense of individualism begins to be cultivated at a young age in American children, who are given a wide range of discretion in school regarding personal expression. Parents encourage children’s independence, and by a certain age the child may actually be more influenced by their peer group than by their parents. Individual achievement is seen as the measure of self-worth, so Americans are willing to move to find opportunities even if that means leaving family and friends. This exists in marked contrast to the closely knit, paternalistic extended family structure in Mexico, upon which the realities of power distribution in many Mexican organizations are seemingly modeled.

Canada. Canada ranked 36 of 40, again attesting to the strong cultural similarities that exist between the two Anglo-American neighbors. Canadians are shown to have significant differences with Mexicans with respect to their perceptions about organizational power sharing.

The consequences of Hofstede’s conclusions are significant. Leadership, decision-making, teamwork, organization, motivation, and in fact everything that managers do is learned. Because management functions are learned, they are based upon assumptions about one’s place in the world. Therefore, managers from other business systems are not merely “underdeveloped” managers from one’s own particular country.³⁹

Hofstede's four variables serve as a solid foundation for describing the core elements of cross-cultural differences, but to understand the complexity of the management challenges faced by the NAFTA signatories, a more detailed inspection of specific management-related issues directly affecting Canada, Mexico, and the United States is needed.

Areas of Cultural Variance Between Mexico and U.S./Canada Managerial Behaviors⁴⁰

Individuality and Individualism

Mexico. The average Mexican believes that each person is in essence good and honorable, and a person's dignity is not dictated by what they do nor by what they achieve. It is the Mexican's soul that gives them mystery, making them difficult to define. Mexicans have a tendency to accept their friends and fellow workers without placing demands based on performance or achievement.

United States and Canada. The sense of individualism found in America and Canada is founded on three presumptions. One, people are in essence the same; two, people should be judged by their merits; and three, the merits that people achieve are a part of one's worth and character, and therefore are manifested through behavior and achievements.

Areas of Conflict

From the Mexican viewpoint, their northern neighbor's propensity to judge another based on achievement and what they do quite frankly reduces the person's value to a standard that is impersonal and superficial. From the perspective of the American or Canadian, Mexicans appear indifferent and lazy because they often do not strive for greater achievement.

Submission to People as Opposed to Following Rules

Mexico. Mexicans, at times, ignore rules, policies, and procedures to adhere to the wishes of their superiors and to satisfy fellow co-workers' personal needs. This reflects a belief in the uniqueness of each person and the importance of his/her soul, thus providing the Mexican with a deep loyalty to those with whom there is an emotional connection. Also, this may establish a precarious loyalty to the organization.

United States and Canada. There is a basic belief that most people are in essence the same. Exemptions to the rules or modifications governing social interaction are not acceptable. The law is the governing body that regulates any exceptions, and no one is above the law.

Areas of Conflict

Americans and Canadians insist on following the rules, whereas Mexicans often find that following the rules may not be the most efficient way to get things done. As such, a Mexican may think that an American or Canadian is excessively rigid, while the American or Canadian may think that not following company procedures reflects defiance and lack of commitment to the company.

Focusing on Pleasing and Focusing on Facts

Mexico. There is a clear need to save face, shun open confrontation, and not confront disagreements. Often the messenger and the disagreeable news are one and the same. This results in negative information being modified or unspoken to avoid offending another person or being blamed for the negative news. Ehrlich⁴¹ offers this example.

The tiled wall of a bathroom was being refurbished. It was decided that it was to be covered with stucco and then painted. When the worker was asked if the tiles were going to show through the stucco, he guaranteed that they would not. When the job was finished, the tiles were all too evident underneath a much too thin layer of stucco. When the worker was confronted with this problem, teasing him somewhat for the way it turned out, he quite seriously explained, “Se ve, pero no se nota” (You can see it but it doesn’t show). That response was the perfect way of avoiding offending the boss, which he would have if he had denied what was clearly evident, and simultaneously avoid losing face by admitting that he had made a mistake.

United States and Canada. Americans and Canadians focus on the “facts.” Valuing facts, quickly moving to business at hand, and being straightforward in one’s feedback is believed to help all parties involved and promote personal growth for greater achievement.

Areas of Conflict

Mexicans often find the American or Canadian manner of being direct and objective to be insensitive and cold rather than being efficient and

professional. For this reason, American or Canadian business professionals cannot be trusted and do not deserve real commitment. The American or Canadian has difficulty receiving “straightforward” information from the Mexican and therefore tends to view the Mexican as dishonest, inefficient, and unprofessional, sending verbal and nonverbal cues of disapproval, leading to an even greater distrust by the Mexican.

Respect and Power As Opposed to Respect and Fairness

Mexico. In Mexican society, title, position, and influence foster obedience. Absolute power in the leader has its origin in a political, social, and religious history of power being inherent in an individual rather than an institution. A leader's respect is determined by maintaining social distance, by not delegating responsibility, and by dominating others by any means necessary.

United States and Canada. For Americans and Canadians, shared responsibility, fair play, and following the rules earn respect. Respect, in turn, is earned by adherence to the company rules, maintaining an impersonal managerial style, and treating everyone as equally as possible. Leaders want to be seen as easy to approach, often going by their first names.

Areas of Conflict

Mexicans typically view the American or Canadian insistence on fair play, delegation, removal of social barriers, and direct confrontation as a reflection of their lack of respect and inability to lead. The American or Canadian finds the Mexican submission to authority to be indicative of a professional passivity, the unwillingness to move around procedure indicating low motivation and laziness.

Expanded Discussion of NAFTA Management Traits

Sinclair developed the following framework to broaden the discussion of culture's effects on management issues between the United States and Mexico. Modified by the authors to include Canada, it represents an application of well-documented cultural values and cultural differences to the reality of today's multicultural North American workplace. The

Table 3-4
Intercultural Management Traits

Trait	Mexico	United States	Canada
Group Dynamics	Moderate context, ambiguous information accepted. Face-saving and preservation of respect important. Conformity important for maintaining a sense of community and group identity. Benefit perceived for group membership via contacts	Low context, therefore a demand for detailed information. Separation of persons and task allows criticism and objectivity. Community often sacrificed to promote personal gain. Little perceived benefit to group membership	English is a low context language and native speakers tend to focus on clarity and preciseness. Individualism is less evident in Canada than in the United States but more so than in Mexico. French Canadians are more high context
Personal Relations	Honesty, dignity, and respect viewed as measure of individual in group. A balance between “confianza” and the ability in evaluations. Information and privilege sharing limited to those who have “confianza” of the person providing it. Personal or family relations at work considered an advantage	Individual evaluated independently of personal relationships, evaluation in workplace linked to accomplishment of tangible tasks, information and privilege offered to those who show ability. Hiring of friends and family seen as unethical	The “rugged individualism” often used to describe business-people from the United States does not fit the typical Canadian whose strong values include family, traditions, and pride of being Canadian
Individualism	Upper classes may educate individual to be assertive, while lower teach patience and docility; any rebellion more likely to be in groups. Personal goals pursued by balancing individual and group desires. Lack of group support may limit action	Almost all are taught to be assertive, at times rebellious. Personal goals based upon individual desires guided by belief in self-determinism	Canadians are somewhat between Mexicans and Americans in terms of individual aspiration versus group goals

Ethnocentrism	<p>Manifested as pride in being part of Mexico, and/or regional community. Refer to Mexicans from other regions as “foraneos” (foreigners), and people of other nationalities as “extranjeros” (strangers). Concerned about national sovereignty, U.S. seen as threat. Strong belief in nation’s and region’s cultural and moral superiority, yet national inferiority is assumed in economic, technological, education, and production issues. Society subtly heterogeneous based on diverse indigenous groups and racial mixes. Covert belief in the inferiority of the indigenous population</p>	<p>Displayed as pride in being a product of the United States. Belief in the superiority of the nation in virtually all fields based on the character of individuals. Racist ethnocentricity overtly responded to, but still existent between various ethnic groups of multiracial society. Social heterogeneity is officially embraced.</p>	<p>The acceptance of immigrants has made Canada a multicultural and multilingual society. Cultural diversity is apparent in most cities and is supported by legislation and programs.</p>
Power	<p>Power a function of position, personality, and money. Large power distance between leaders and subordinates. Power believed to be abusive and conspiratorial by nature.</p>	<p>Power is a function of ability to execute orders, achieve results, and money; small power distance. Power is ability, and therefore should be challenged and delegated.</p>	<p>Small power distance. Authority can be challenged and questioned with politeness.</p>
Leadership	<p>Leader responsible for all decisions, execution relegated to subordinates. Criticism in leader–subordinate interchange usually taken personally, as cultural priority of maintaining relationships denies separation of people and problems. Subordinates must balance desires of various</p>	<p>A leader is a coordinator and director of the work of his/her subordinates. Leaders can be questioned, but retain the final say. Criticism can be personal or impersonal or both, depending on the content. Leaders must balance the needs of many subordinates. Leadership gained</p>	<p>Leadership traits are similar to the United States in many aspects. Some experience feelings of inferiority when interacting with aggressive and dominant colleagues.</p>

(Continues)

Table 3-4 (Cont'd)

Trait	Mexico	United States	Canada
Leadership (<i>cont'd</i>)	leaders, and receive little feedback. Leadership granted as a result of loyalty to superiors and task achievement. Innovation is an option open only to leader. Sharing power may be seen as weakness	through achievement of results. Leaders may delegate power to subordinates and allow innovation and not lose power.	
Motivation	Main motivations are money and services offered by the company. Most prefer to work in a friendly atmosphere, and socialization with co-workers is high. Opportunity for advancement often a secondary factor. Responsibility sometimes avoided, loyalty to co-workers and firm can be high	Main motivations are money and opportunity for advancement. Most prefer to work in an atmosphere of action and opportunity. Socialization with co-workers is low. Increased responsibility is desired. Loyalty to co-workers and firm is low.	High taxes and a long history of government-provided services including healthcare and low-cost quality education are expected.
Expectations	Most see a limit to aspirations for advancement. Expect to make a good living, cover basic needs of family, and educate children. Many are content with a "stable" job. Little planning for retirement, believing that continued work and family will support them in old age	Many see no end to the possibilities for advancement and expect to continue to learn, earn, and do more throughout career. Job mobility is high even in stable positions. Much planning for retirement; goal is to be self-sufficient upon leaving workplace	The European influence of moderation in goals rather than unlimited lofty expectation is the norm
Community at Work	Community is expected at work. Top-down communication, little contact between departments due to	Community at work is downplayed, communication is top-down/ bottom-up, contact between	Interpersonal relationships in and outside of work are important. Administration is hierarchical

	<p>fear of causing trouble. Pyramidal organizational structure. Small businesses are family based</p>	<p>departments as needed. Administration is pyramidal, small businesses not family based</p>	
Communication	<p>Most work communication is verbal, written orders less important. Face-to-face contact is key. Social and work-related communication allowed</p>	<p>Communication is verbal and written; written highly valued. Face-to-face contact not more important than memos or telephone. Social talk frowned upon</p>	<p>Communication is verbal and written with a behavior between high- and low-context communication styles.</p>
Language as Ethnocentrism	<p>Nearly all speak Spanish. Language is important as it shows membership in the national community. Dialects of minimal importance, interaction with non-speakers common. English is popular as a second language and is seen as a means to increased opportunities. Adoption or adaptation of foreign words is common</p>	<p>Nearly all speak English. Language is an identifier of citizenship. Dialects of minimal importance. Interaction with non-speakers not frequent, and no second language is popular or seen as important in personal advancement. Adoption of foreign words is not common</p>	<p>English and French are spoken by a majority of the population with at least some degree of proficiency. Italian, Chinese, Portuguese, Greek, and many other languages are spoken by significant numbers</p>
Language in Society	<p>Language usages and idioms used in class identification, with differences seen along economic lines. Language structure permits expression of class division in everyday speech. Professional titles used in language to denote status. Taboos often based on aggressive sexual references</p>	<p>Language usages and idioms used in class identification, differences mainly found along economic and racial lines. Language permits little expression of class status. Professional titles only used in the case of medical doctors. Taboos based on sexual and bodily function references, as well as blasphemy</p>	<p>Proper language usage highly emphasized in education and continues in business. The influence of Britain in this aspect is apparent.</p>

Source: Adapted and modified from Sinclair, Robert B., "Industrial Competitiveness and Culture in Monterrey," ITSEM, 1992. Modified to include Canadian variables developed by Robert T. Moran.

framework (Table 3-4) provides current insights into the nature of the differing world views and the cultural barriers that can be anticipated by managers of an inter-NAFTA workforce.

NAFTA Management Insights

Equipped with the preceding paradigms for cross-national cultural comparisons, NAFTA managers will be able to foresee many potential cultural collisions that may be on the long road ahead to making NAFTA a success for all three member countries. A concise summary of specific management style issues, prepared by Kras, is given in Table 3-5. Kras has identified 10 areas where national cultural differences cause the greatest impact on Mexican and American co-workers. These differences, related to management style and general cultural values, can have a profoundly negative impact in the workplace if they are not duly recognized and proactively addressed.

Why Cross-Cultural Training Should Be in Our Schools

The growing cultural diversity in all three NAFTA societies, and the increasing NAFTA trade, when combined with permeable borders and rising inequality of income opportunity, has the potential to produce new cultural divisiveness in our society.

We should begin now to introduce training in cross-cultural communications into our schools as a complement to language skills that begin at an earlier age for all students. We must also ensure that our national histories, as presented in our schools, focus on a balanced perspective of the bilateral relationships that have existed in North America over the past 200 years. This perspective should be one that leaves our young people with a positive outlook about the compatibility of our nations and the desirability of interaction, despite important differences and individual national needs that must be safeguarded.

By better explaining cultural values, students may better see how those values may have contributed to the misunderstandings that have ended in war, disagreement, and mistrust. Equipping future generations at a young enough age with some of the basic tools and concepts touched upon in here will give them what they need to adequately profile themselves and the national cultural traditions of

Table 3-5
Management Styles

Aspect	Mexico	United States
Work/Leisure	Works to live Leisure considered essential for full life Money is for enjoying life	Lives to work Leisure seen as reward for hard work Money often end in itself
Direction/Delegation	Traditional managers autocratic Younger managers starting to delegate responsibility. Subordinates used to being assigned tasks, not authority	Managers delegate responsibility and authority Executive seeks responsibility and accepts accountability
Theory vs. Practice	Basically theoretical mind Practical implementation often difficult	Basically pragmatic mind Action-oriented problem-solving approach
Control	Still not fully accepted Sensitive to being “checked upon”	Universally accepted and practiced
Staffing	Family and friends favored because of trustworthiness Promotions based on loyalty to superior	Relatives usually barred. Favoritism is not acceptable. Promotion based on performance
Loyalty	Mostly loyal to superior (person rather than organization) Beginnings of self-loyalty	Mainly self-loyalty Performance motivated by ambition
Competition	Avoids personal competition; favors harmony at work	Enjoys proving her/himself in competitive situations
Training and Development	Training highly theoretical. Few structured programs	Training concrete, specific. Structured programs general
Time	Relative concept. Deadlines flexible	Categorical imperative. Deadlines and commitments are firm
Planning	Mostly short-term because of uncertain environment	Mostly long-term in stable environment

Source: Adapted from Kras, E. *Management in Two Cultures*. Intescultural Press, 1995, pp. 72–73.

which they are the product. We can thus increase the likelihood that they will be better neighbors regardless of who their neighbors are, and better NAFTA partners. Their collective actions might then guarantee a future for the NAFTA region based more on cultural synergy and partnering than on cultural divisiveness and misunderstanding.

The time is now. The choice is ours. It is really not only about trade. It is about the future of our shared North American society. Where will NAFTA take us? ¿Hacia donde nos vamos?

Summary

Three distinctly different nations, each with its own national character and cultural values, make up what is known as the North American Free Trade zone. Culture is a tool that individuals in each of these societies use to make daily decisions and to make sense of the world that confronts them.

Cultural identity and perceived superiority can also be used to justify prejudice, stereotypes, and racism, all of which penalize the positive and productive interaction of the societies engaged in their use. Through a familiarization with and understanding of historical stereotypes from both sides, these roadblocks can now be removed so that today's globally minded NAFTA manager can forge profitable human relationships based on direct experience and objective facts obtained from personal encounters, as opposed to cynical historical hearsay.

Armed with insights into the day-to-day business protocol in each of the three countries, managers will have the necessary interpersonal insights that will assist them in making the ever so important positive first impression.

Hofstede's four variables provide the manager with a new vocabulary for objectively and incisively discussing cross-cultural differences between many countries, and Sinclair's framework focuses these newly acquired tools directly back on the issue of culture in Canada, Mexico, and the United States.

Finally, Marc Ehrlich's managerial cultural variables between Mexico and Canada/United States and Eva Kras's management style comparison chart bring the global manager into the office, where he or she gains direct insight into issues that can be so costly should they be allowed to come between NAFTA's managers.

All the benefits that NAFTA brings to the citizens of the three great member countries depend on the resolve of each and every company and manager to make human relationships work. You can plug in a machine, but you can't just plug in a person.

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Competencies of Effective NAFTA Managers

4

In turbulent and rapidly changing times, individuals involved in working in a global environment must develop the required skills to work effectively. As readers of this book realize, many global business projects fail because the persons from different cultures have difficulties working together.

What factors contribute to the success of global projects? Some of the factors can be found in organization structure, the vision of the company as well as the strategies they use to implement their corporate vision. However, much of the success or failure of any global project can be attributed to the competencies of the individuals involved.

Working Globally

Persons working in a global environment first must learn to be less ethnocentric. How can a person communicate if another culture's customs are judged as foolish, ridiculous, or not quite as good as one's own? Skillful international managers have learned to see the world differently and understand the way others manage and do business. This implies that there is no single way of doing anything and that no one has the best of everything.

Note: Some of the material from the following section is drawn from *Managing Cultural Differences*, 5th edition, by Phillip Harris and

Robert Moran (Gulf Publishing, 2000) and columns on cross-cultural contact published in *International Management*. Used with permission.

Many persons feel comfortable in predictable environments. Successful global managers, however, are able to react to new, different, and unpredictable situations with little visible discomfort or irritation.

Discomfort leads to frustration and negative feelings that discourage positive relationships with business partners from other cultures. Witness any U.S. businessperson in Mexico who is trying to accomplish tasks quickly and directly and is greeted by responses indicating delays.

Skillful global managers have a wide range of alternatives available to each dilemma and know the implications of each in different cultures or business systems. In short, they are good problem solvers.

Global managers must learn how to do business with each other. The following illustrates the point. With a group of Americans and a group of Mexicans, researchers used a medical instrument that tests vision. On one side of the instrument they had a 35mm slide taken during a bullfight. On the other side, they had a slide taken during a baseball game. For less than a second, the bullfight and the baseball game slide had light projected behind them. The psychologist asked the Americans and the Mexicans one question: "What did you see?"

Most Americans said, "I saw the baseball game." Most Mexicans said, "I saw the bullfight." Both slides were present. The effective global manager sees what is there and works within any business system as it exists.

Perhaps Toffler (1980)¹ set the stage when he wrote, "The transnational corporation . . . may do research in one country, manufacture components in another, assemble them in a third, sell the manufactured goods in a fourth, deposit its surplus funds in a fifth, and so on." It is a changing, interdependent, pluralistic world, and there are some excellent international managers and organizations dealing with it.

Trivial Pursuit

We would like to invite readers to play the game. Trivial Pursuit is a board game that has sold millions of copies throughout the world. The game requires players to answer questions in a number of categories such as geography, entertainment, history, art and literature, science and nature, and sports. The category of the question is determined by a roll of the dice.

You have rolled the dice and drawn the category "NAFTA." This is your question. "Which country, Canada, the United States, or Mexico, has produced the most competent global people?"

If the question were in Trivial Pursuit, it would be in the genius edition—a very difficult question. One word contributes to the difficulty: *competent*. A standard dictionary provides this definition of competent: “well qualified, capable, fit.”

To get a range of answers, on a recent business trip we took an informal poll. Here are our results. Some said the United States produced the most competent global people in business. The United States is the biggest economic entity in the history of the world with dominant positions worldwide in computers, space, medicine, and biology. Its competent global people in business make this possible.

This was overheard by a Mexican who said that Americans are naive globally. American businesspeople, according to him, are the most ethnocentric of all businesspeople. The dictionary describes ethnocentric as “one who judges others by using one’s own personal or cultural standards.”

Besides, the Mexican said, American businesspeople have their priorities messed up. They are too materialistic, too work-oriented, too time motivated, and equate anything “new” with best. Americans also have the highest attrition rate (returning early from an international assignment) of any country.

Canadians received some votes, as did Mexicans. But there was no consensus. Since no agreement could be reached on the correct answer to my first question we decided to rephrase it. “What contribution to a global organization is made by managers of various cultures?”

Hari Bedi, an Indian working in Hong Kong, believes that Asian internationals use the five Cs: *continuity* (a sense of history and tradition), *commitment* (to the growth of the organization), *connections* (where social skills and social standing count), *compassion* (balancing scientific and political issues), and *cultural sensitivity* (a respect for others’ ways).

These qualities are among the contributions made by Asian managers to a multinational organization. According to Bedi, Western managers use the five Es: *expertise* (experience in managerial and technical theory), *ethos* (practical experience), *eagerness* (the enthusiasm of the entrepreneur), *esprit de corps* (a common identity), and *endorsement* (seeks unusual opportunities).

The answer is that the managers of every country contribute something to a multinational organization. The usefulness of that contribution depends on the situation. Competent global people are able to recognize the contribution made by persons from Canada, the United States, and Mexico. They are also able to develop solutions to problems

faced by persons involved in NAFTA by using these contributions and cultural diversity as a resource rather than a barrier to be overcome.

Women and NAFTA

The issue is not whether a person is male or female . . . the issue is one of competency. However, there is some evidence that many women are exceptional global people for the following reasons.

One, they tend to approach relationships and negotiations from a win-win strategy that results in success for both sides rather than the sports-oriented win-lose approach of many men.

Two, women tend to be more formal, show more respect, and take more care in establishing relationships than men.

Three, women tend to be better listeners and more sympathetic than men, and, therefore, can tune into the needs and expectations of their foreign counterparts.

Of course, not all women are better than all men. But women, in general, have the qualities that work well overseas. In light of this, it is paradoxical that so few women have risen to international management positions. Perhaps the opportunities provided by NAFTA will change this.

Should the Boss Stay Home?

“If my boss and the president of our company would stay at home and do what they are best at doing, we would have fewer problems.”

Senior executives make it to the top for many reasons. Among them is the ability to make quick decisions that more often than not have positive results. These same executives are often rather articulate in conceptualizing issues. As a result, the executive spends more time talking than listening. The skill of articulation carried to the extreme can become a liability because there is little or no listening.

We learn to listen and talk before we read and write. Listening is a complex activity. The average person speaks approximately 12,000 sentences every day. The average person can speak at about 150 words per minute, while the listener's brain can absorb around 400 words per minute. What do we do with this spare capacity? Unfortunately, many do nothing. We become bored. A good listener is seldom bored and uses this extra capacity to listen to the entire message and to analyze more fully the meanings behind the words. There are various types of listening behaviors.

Information gathering is a form of listening whose purpose is the absorption of stated facts. Information gathering does not pertain to the interpretation of the facts.

Cynical listening is based on the assumption that all communication is designed to take advantage of the listener. It is also referred to as defensive listening.

Offensive listening is the attempt to trap or trip up an opponent with the opponent's own words. A lawyer, when questioning a witness, listens for contradictions, irrelevancies, and weakness.

Polite listening is listening just enough to meet the minimum social requirements. Many people are not listening—they are just waiting their turn to speak and are perhaps rehearsing their lines. They are not really talking *to* each other, but *at* each other.

Active listening involves a listener with very definite responsibilities. In active listening, the listener strives for complete and accurate understanding, for empathy, and to actively assist in working out problems.

Providing Feedback

Listening fulfills a vital function. The listener provides feedback to the speaker concerning the other's success in transmitting a message clearly. In doing this the listener exerts some influence over future messages that might or might not be sent.

The ability to listen is especially important when persons from low-context cultures communicate with persons from high-context cultures. The communication context of Americans and Canadians is low, whereas Mexicans have a high-context communication. Being aware of these differences can make one a more effective active listener and better all around communicator. If the boss isn't a good listener, help him or her to find reasons to stay home.

Handling Two Swords at the Same Time

To be skillful, effective, and successful in one's own culture by being assertive, quick, and to the point is one mode of behavior. To be equally successful in another culture by being unassertive, patient, and somewhat indirect is another mode entirely—like handling two swords at the same time internationally. A top Japanese executive in Tokyo says he modifies his behavior to suit his audience. "When I discuss something

with the head office in the United States, I try to be Western. But when I deal with people in the company here, I am Asian or Japanese.” He is able to shift his style or to handle two swords at the same time. He had to learn this behavior. When I confronted executives in my seminars with this necessity, we very quickly began commiserating about this difficulty.

The words listed below are some of the adjectives that could be used to describe an international manager. We ask that persons who are involved in NAFTA review the list and circle the ones that apply:

assertive, energetic, decisive, ambitious, confident, aggressive, quick, competitive, impatient, impulsive, quick-tempered, intelligent, excitable, informal, versatile, persuasive, imaginative, original, witty, colorful, calm, easy-going, good-natured, tactful, unemotional, good listener, inhibited, shy, absent-minded, cautious, methodical, timid, lazy, procrastinator, likes responsibility, resourceful, individualist, broad interest, limited interests, good team worker, likes to work alone, sociable, cooperative, quiet, easily distracted, serious, idealistic, ethnocentric, cynical, conscientious, flexible, mature, dependable, honest, sincere, reliable, loyal, adaptable, curious.

Using these qualities skillfully is handling one sword—the sword that makes one successful in one’s business culture. John Ramsey, an American executive of a large public accounting company, expressed it this way: “The reason I’m successful is because I’m assertive, energetic, aggressive, competitive and an idealist.”

The next step in the exercise is to think as an American of your next trip to Canada or Mexico and consider the people you will be meeting. Now, go back to the same list of words and place a check beside those qualities that you believe these people will look for in you. There are a number of differences. The same exercise can be done by Canadians and Mexicans.

We all carry our basic personality characteristics—the sword that made us successful, our aggressiveness and competitiveness, for example. But in another culture the second sword we are expected to carry might be characterized by qualities such as gentleness, cooperativeness, followership, indirectness, and commitment to relationships. Skillful global people involved in NAFTA need to carry two swords.

Making Speeches to Multicultural Audiences

The speaker begins the speech with a joke. It falls flat, so he/she tells another story. Undaunted by this failure to get any reaction from the audience, he/she plunges into the talk. It is little more than an unstruc-

tured compilation of company case studies linked by flimsy themes. She/he breezes through the points made, relying on anecdotal evidence to illustrate their practical application.

In the end, one senses the sigh of relief that went through the audience when the speaker sat down to polite applause. "It didn't go down particularly well with this audience" was the courteous feedback the speaker was given by organizers. Why?

To begin with, the speaker was an American, who gives most speeches in the United States. The major difference between this speech and others that have been given is the audience. This audience is multicultural. The speaker's initial mistake was to assume that addressing a multicultural audience is no different from speaking to a group of his/her own culture. Such an assumption can be fatal, especially for persons from Canada, the United States, or Mexico who are called upon to give speeches or make presentations in another country.

All effective speakers, as a matter of course, must learn to adapt their talks to the expectations of the audience. But when the business audience includes people from different cultures, the challenge is greater. Here are some suggestions on how to avoid some pitfalls.

Although speakers in the United States customarily open with a joke, this practice is not usual in Canada or Mexico. Be careful not to identify particular groups, as the other participants will feel left out. Anecdotes that involve drinking are appreciated by Japanese listeners, but not in formal presentations.

The use of gestures, facial expressions, and lively body movements are characteristic of effective speakers in Mexico. However, the excessive use of aggressive, hard-sell techniques can turn off listeners and result in a loss of respect. Canadian audiences are best won over by gentle persuasion.

Empathy

Ideally, as Canadians, Americans, and Mexicans work together in the context of NAFTA they become more global in perspective and less ethnocentric. When this is coupled with a formal study of the counterpart's language and culture, new insights into ways of improving our interactions and becoming aware of the influence of our culture on our behavior are gained. We then have the possibility of understanding that our culture itself can create obstacles in cross-cultural interactions. These obstacles are compounded when ethnocentrism is in the extreme. Ethnocentrism also exists in organizations. It might be seen, for example, in those that place only home-country personnel in important

positions in their worldwide operations. These people are paid more, in the belief that they are more competent, intelligent, and reliable. Lack of ethnocentrism is seen in organizations when superiority and competence are not equated with nationality.

The attitude of non-ethnocentrism in people is probably related to the complex psychosocial development of a tolerant and strong personality. Such personalities are capable of multidimensional thinking, are comfortable with ambiguity, and have high self-esteem.

Non-ethnocentric organizations have similar characteristics. In the village of Supai in northern Arizona, where about 300 Indians lived in peace for several hundred years, there is a sign over the counter in the cafe that reads: "Do not judge another man until you have walked one mile in his moccasins." This is a description of empathy.

In the research of criteria relevant to overseas experience, empathy has been found in all studies to be an important quality for both adjustments and success. Ethnocentrism and empathy are opposites. If one believes in the superiority of one's group and culture and has feelings of contempt toward others, it is impossible to walk in their shoes.

The ability to express empathy varies. Some people show an interest in others clearly—some are unable to project even a superficial interest.

Here are two good measures to determine one's empathy. First, can you work well with people whose values and way of doing things are different from yours? Second, when working with people from different cultures, do you believe and behave in such a way that you are concerned only with end results and not people's feelings or reaction?

A Checklist

Moran and Reisenberger² identify a number of competencies required to make globalization work. The following are the competencies that are most relevant to working effectively in the context of NAFTA. After the description of each competency the reader can assess whether this competency is possessed (1) to a high degree, (2) somewhat, or (3) to a low degree by (1) the reader or (2) the key staff involved in NAFTA.

Competency One: Possesses a Global Mindset

A global mindset is an attitude, seeing the cultural complexity of one's environment where occurrences and actions can have a myriad of causes. One must develop the skill to work effectively with different mindsets and customs, discovering "why" people are the way they are.

Competency Two: The Ability to Work as Collaborators/Equals with Persons from Diverse Backgrounds and Especially the Ability to Work Effectively with Women

The diversity in most countries has increased recently and this is reflected in a heterogeneous workforce in most societies. Women in the workforce at all levels have also dramatically increased. Learning to work effectively and sensitively with persons from diverse cultural backgrounds is essential.

Competency Three: Having a Long-term Orientation

Because a great number of organizations have been tied to the bottom line, year-end profits, and bonuses based on 12-month earnings, “short-termism” has compromised our ability to compete. Long-term planning, investment, and research will empower global leaders to shift their organization’s focus in order to survive in the mercurial global economy.

Competency Four: Negotiates and Approaches Conflicts in a Collaborative Mode

Most negotiations are difficult and frustrating. Conflict is present in all organizations and can produce a positive outcome if effectively managed. Managing disagreements between negotiators from different cultures requires a synergistic collaboration and often a creative approach for resolution.

Competency Five: Skillfully Manages the Foreign Deployment Cycle

In the past, there was no preparation for an overseas assignment other than, “Are you technically competent and willing to go?” Today a successful overseas assignment includes active recruitment for the assignment, education, and training prior to departure, ongoing support during the assignment, debriefing, education on re-entry, and thoughtful re-integration back into the corporate culture.

Competency Six: Leads and Participates Effectively in Multicultural Teams

Well-functioning teams can increase productivity and creativity. However, functioning skillfully on a team is a learned skill. Generally, the more groups have in common, the easier it is to form teams. In today’s workplace most teams will be characterized by persons from culturally diverse backgrounds. The productivity of culturally diverse

teams has great potential as does the complexity of leading and managing these heterogeneous groups.

Competency Seven: Understands One's Culture, Values, and Assumptions

A global manager must have a high degree of cultural self-awareness to profoundly accept and understand the relativity of culture. There is no absolute correct way of doing anything. People will effectively communicate and work with others from different cultures when their own culture is deeply understood.

Competency Eight: Accurately Profiles Organizational Culture and National Culture of Others

Every society has a set of beliefs, assumptions, and values that hold that culture together and make it cohesive. Behavior is not random—it is highly predictable most of the time.

Competency Nine: Avoids Cultural Mistakes and Behaves in a Manner That Demonstrates Knowledge of and Respect for the Way of Conducting Business in Other Countries

Skillful global managers know there is no single way of effectively conducting business that works all over the world. Learning the customs and courtesies of one's global partners should be the norm rather than the exception.

Negotiating Profiles

Unless an out-and-out fighting, smoothing, or avoiding strategy is adopted, some form of negotiation is going to need to take place. This process aims to foster mutual agreement across all the involved parties with varying degrees of winning and losing and/or the development of new and better approaches. We negotiate across cultural and geographic borders to exchange products and services; transfer technologies and expertise; establish supplier, distributor, and franchise arrangements; set up joint ventures and other cooperative arrangements; and implement mergers and acquisitions. Negotiation is, without a doubt, one of the key skill areas for working effectively across cultures.³

Managing skillfully the cross-cultural relationships for business results for Canadians, Americans, and Mexicans working together is

of paramount importance. To work together individuals need to accurately profile their negotiating counterparts, anticipate problems, and reconstruct damaged business relationships. The information in this section may be useful even to experienced managers and leaders.

Understanding the Historical Context of NAFTA Negotiations from the Canadian and Mexican Perspective

Blank and Haar (1998) describe the history of Canada and Mexico that leads up to the implementation of NAFTA. Their description helps to bring context to the Canadian and Mexican viewpoint vis-à-vis the United States.

Canada

From a historical perspective, Canada's economy and creation of government has been labeled "defensive expansionism." Defensive expansionism describes Canada's manner of building their national infrastructure with the goal of defending Canadian political autonomy and independence by comparison with the U.S., especially following the confederation in 1867.⁴

Freer trade and closer economic integration with the United States have been recurring issues throughout Canadian history. A reciprocal trade agreement in 1854 was abrogated by the United States during the Civil War, and bilateral free trade arrangements were discussed during the 1870's, in 1911, and again in 1948. In 1965, the Auto Pact rationalized the automobile industry on a bilateral basis. By the late 1960's, most Canadians have come to feel that there was enough U.S. involvement in their economy, and many believed too many U.S. multinational corporations were operating in Canada. . . . A growing number of Canadians feared that rising levels of foreign investment were weakening Canadian control over key areas of national life.⁵

In 1970, Canadian public policy responded to concerns to alter attention to Canadian owned firms, reshaping the relationships between U.S. firms and their Canadian companies. Oil prices rose from 1973 to 1979, granting profits to Canada; however, the collapse of world oil prices in 1982 devastated the Canadian government, leading to a change in Canadian policy seeking to open conversation with the U.S. about trade.

During the time the FTA was being negotiated, companies were pressured to tie themselves to the U.S. economy, were promised a huge U.S. market, and were even warned, “Export or die.”⁶ Canadian desire to secure their own agreement, independently of the U.S., led to ambivalence toward opening the door to negotiation that was offset by U.S. pressure to open their market. When Mexican President Carlos Salinas de Gortari and U.S. President George H. Bush announced that talks would begin on a bilateral trade agreement, Canada was forced to respond.

In 1991, Leonard Waverman observed that a free trade agreement would also provide significant political advantage to Mexico and Canada because together they could offset protectionist measures in the United States. The United States would not be able to play one country against the other. . . . For Canada, the negotiations [for NAFTA] are basically about how to include Mexico in the North American Economy, not an opportunity to re-open FTA or deal with the “unfinished American agenda.” Canada’s basic position is defensive—to protect the FTA.⁷

*Mexico*⁸

In the mid-1960s, the administration of President Gustavo Díaz Ordáz (1964–1970) started the Border Industrialization Program (BIP) that opened the door for foreign and Mexican investors to import duty-free inputs needed for assembly with the provision that they were to be re-exported once assembled. Referred to as maquiladoras, these plants assemble and/or process U.S. parts to re-export them to the United States. The value added is in the labor input, as Mexico has much lower wages than in the U.S.

In the mid-1980s, Mexico was unable to pay external debt, thus convincing the private sector that the old system of import substitution strategy, which was established as a protective measure for Mexico from foreign competition and as barriers to free trade, did not work any longer. By 1983, there a new decree was implemented by the de la Madrid administration, allowing maquiladoras to sell up to 20% of their production in Mexico as long as there was no competition with Mexican commodities. Support for NAFTA began in the private sector. The first half of 1980 saw turmoil in Mexico, as well as in Canada, with oil, debt, interest rates, and capital flight creating havoc for their economies.

As in Canada, a major change took place in Mexico in 1982 with the oil crisis. Miguel de la Madrid took office with a new economic program, and in 1984 he developed a new approach to foreign investment that was based on sector-targeted strategy that lightened regulations in exchange for concessions by foreign firms. In 1986, Mexico further opened its markets to foreign industrial and consumer goods and reduced its trade barriers from 100% to 20%.

To encourage more foreign funds, Mexico established the new Foreign Investment Law on December 28, 1993. This law extended to all foreign investors many of the rights held by U.S. and Canadian firms under NAFTA, thereby receiving the same treatment as Mexican firms. This new law opened almost all sectors to North Americans, leading to a less restrictive regulatory environment plus increased NAFTA activity in new plant openings, joint ventures, and mergers and acquisitions involving foreign companies.

Borders have opened, thus opening the door to cross-national trade. The flow of goods, services, investment, and intellectual ideas has increased the integration and interdependence of the three economies.⁹ “Between 1994 and 1999, Canada’s economy grew by an average of 3.3%, while the U.S. and Mexican economies grew by an average of 3.9% and 3.1%, respectively.”¹⁰ Trade has grown over 97% since NAFTA has been implemented, with merchandise trade reaching US\$570 billion in 1999, an increase of US\$231 billion in 6 years.¹¹ Though by sheer trade statistics, NAFTA is a proven success, other areas such as the dumping of hazardous waste, massive deforestation in Mexico since the onset of NAFTA,¹² and other major environmental problems resulting from the maquiladora industry, as well as major corporations pushing profits over national and/or environmental concerns as evident by Chapter 11 lawsuits, unemployment, and Mexican employee maltreatment, among a few issues, have all been cited as major problems stemming from NAFTA.¹³ However, according to Wilson,

The basic economic argument for international trade is that nations can, by producing more efficiently, expand the amount of goods and services they produce and consume. By importing goods that are relatively costly to produce domestically and exchanging them for exports which it can produce most efficiently, each country can produce and consume more goods with trade than in isolation.¹⁴

Negotiations are the key to free trade. Though results vary in terms of perspective and approach, for real success to be evident within all three

nations, the process of approaching the negotiation table must be construed from the historical, contextual, environmental, and cultural perspectives.

Approaching the Negotiation Table

Profiles of Canadian, American, and Mexican negotiators appear in the second part of this chapter. We believe the profiles are, in general, accurate reflections of national character. The profiles do not apply to every individual Canadian, Mexican, or American, but they apply to most. Stereotypes, on the other hand, apply to a few people in the culture and are attributed to most. Perhaps this fictitious visit of an individual to a therapist will illustrate this point. An individual was sent to see a psychiatrist because he believed he was dead. “Do dead men bleed?” asked the doctor. The patient said, “Of course not.” The psychiatrist then jabbed him in the arm with a needle. At first puzzled and then disappointed, the man saw blood ooze out of his arm. Then his face brightened, he regained his composure and said, “Well, imagine that—dead men *do* bleed.”

The individual who thought he was dead was thinking and perceiving according to his preconception of reality. He made reality fit his perception.

Stereotypes serve the purpose of reducing ambiguities (Figure 4-1). *The danger is that stereotypes are mostly inaccurate, and the unvarying patterns they engender may not apply, thus resulting in misunderstandings, conflict, and unsatisfactory outcomes of negotiations.*

Conflict and Negotiation

Heraclitus has been quoted as saying, “Nothing is permanent except change.”¹⁵ Change is an integral part of human life and oftentimes the basis of many negotiations. Every human being makes use of negotiation—it is a process of coordinating differences and preferences, while influencing and resolving conflict.¹⁶ Brake et al. break down the areas of conflict involved in international negotiations into five areas. These areas are an integral part of the negotiation process, as each influences the parties’ beliefs, behaviors, goals, strategy, and ultimately, the outcome. The five areas identified are:

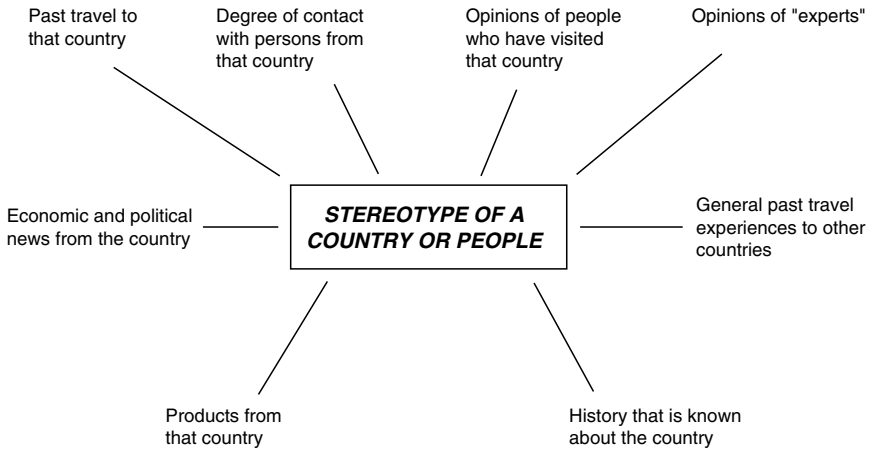


Figure 4-1 Factors that influence the development of stereotypes.

1. *Source issues.* Cultural and national differences in beliefs, values, goals; the parties' interpretation of events, expectations, and priorities.
2. *Contextual issues.* Answered by looking at the history of the interaction between the parties involved.
3. *Power issues.* Addresses the nature of power relations between the U.S., a superpower, Canada, a First World nation, and Mexico, a Third World nation.
4. *Reactionary issues.* All issues that stem from how each party reacts and acts toward each other.
5. *Strategy issues.* Answers the question: Is the nature of negotiation confrontational, hostile, or mutual problem solving?¹⁷

The process and the outcome of a negotiation are influenced by the context. To be successful in international negotiations, one cannot focus too much on strategy without looking at the context. Logistics, language, time, the nature of concessions, who are the members of the negotiating team, and in essence the basics of who, what, why, when, and where, are all very relative to the culture of the parties involved in the negotiation process.¹⁸ Success in negotiating globally is predicated on the understanding that negotiation is not a linear process,¹⁹ it is when two or more parties come together to forge agreements that will guide and determine their future behavior.²⁰

There are many different ways of reaching an agreement, and conflict is as involved in negotiations as it is in life. For those who are involved in resolving an issue that requires negotiation, it is imperative to remember that there is more than one way of arriving at an agreement. To arrive at an agreement or agreements where all parties involved are satisfied, Brake et al. identify three techniques.

1. Make a deliberate effort to see, perceive, and think as if one was another person and to purposefully remove oneself from your own personal beliefs, thoughts, and perceptions.
2. Identify as many options as possible to increase the chances that each party involved is pleased with the outcome of the negotiation.
3. Make a concerted effort to change your traditional thinking so that you can understand that there are many avenues to reaching a solution. Between the beginning and the end there are multiple roads, multiple truths, and multiple solutions.

This last technique is based on the principle that nothing is absolute, between the extremes are the shades of gray that must be explored to arrive at an agreement in which all parties are satisfied.²¹

The Concept of National Character

The famous anthropologist Edward Hall wrote, “Culture hides much more than it reveals, and strangely enough what it hides, it hides most effectively from its own participants.”²²

The concept of “national character,” or a pattern of common attitudes, values, and beliefs shared by a culture, was developed by Kardiner and Linton and is exemplified by the following premises.

1. An individual’s early experiences exert a lasting effect on his or her personality.
2. Similar early experiences tend to produce similar personality profiles in the people who experience them.
3. The child-rearing practices and socialization techniques of a society are culturally patterned and tend to be similar (although not identical) for the various families within the culture.
4. These practices and techniques differ from culture to culture.²³

A wealth of evidence has been provided by anthropologists, sociologists, psychologists, and others to support these premises, and it follows that:

1. Members of any culture have many elements of early experience in common.
2. They also have many elements of personality in common.
3. Since the early experience of individuals differs from one culture to another, the personality characteristics and values differ from culture to culture.

The national character of a society is the personality configuration shared by most members of the culture, as a result of early experiences that they have in common. Obviously, this does not mean that the behavior patterns of all members of a culture are similar. There is a wide range of individual differences, but there are many aspects that most of the people share to varying degrees. Hall states, “Deep cultural undercurrents structure life in subtle but highly consistent ways that are not consciously formulated. Like the invisible jet streams in the skies that determine the course of a storm, these hidden currents shape our lives; yet their influence is only beginning to be identified.”²⁴

A Framework for Negotiating

William J. Stripp, a respected colleague, developed a framework for profiling one’s negotiating counterparts. According to Moran and Stripp, negotiation is a process involving policy formulation, the interaction of the negotiators, deliberation of the issues, and an outcome. Hypothetically, company A from the United States wants to negotiate an alliance with company B from Mexico. Stripp explains:

In preparing for the negotiations, A wants to answer the following questions about B: **Policy**—What is B’s philosophy of negotiation? How does B choose its negotiators? What does B want? How will the negotiators act? **Interaction**—How will B’s negotiators try to persuade us? What forms of nonverbal communication will be used? How will B’s negotiators organize time? **Deliberation**—How can we get B’s negotiators to trust us? Are they willing to take risks? On what will they base their decisions? **Outcome**—How can we reach an agreement?

“Policy” defines the vital interests of a business and describes the customary course of action used to protect and promote those interests. In world trade and investment, businesses have three broad policy alternatives: isolation in the domestic market, competition on a global scale, or cooperation in the creation of strategic alliances. All three choices require cross-cultural negotiation.

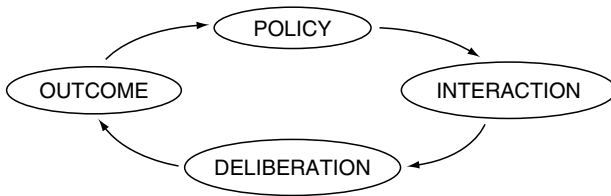


Figure 4-2 Global negotiations flowchart.

“Interaction” is the period of information exchange during which the negotiators propose offers and counteroffers. The process of interaction is a continual stream of acts, words and gestures that are intended to persuade the counterpart. The flow of information permits each party to learn about the counterpart’s expectations.

“Deliberation” is the process by which the negotiators evaluate interaction, adjust their understanding of the counterpart’s requirements, and reformulate expectations, preferences and proposals in an effort to resolve conflicting interest.

“Outcome” refers to the final understanding reached by the parties. The negotiators may come to some agreement or may conclude that agreement is impossible.²⁵

(See Figure 4-2.) Table 4-1 illustrates broadly a comparison of negotiation styles between North Americans and Latin Americans. Following is a more detailed look at the predominant Canadian, United States, and Mexican negotiation styles.

Profile of Canadian Negotiators*

There are two dominant cultural groups in Canada, and each of these groups has a “typical” negotiating style. The English Canadian culture is the dominant group in the provinces of Ontario, British Columbia, Alberta, Manitoba, Saskatchewan, Nova Scotia, New Brunswick, Newfoundland, and Prince Edward Island. There is also a strong English Canadian minority in the province of Quebec, mainly centered in Montreal. The French Canadian culture is dominant in Quebec, where the official language of the province is French. There is also a

*The profile of Canadian negotiators was written by Neil R. Abramson, Ph.D., Associate Professor of International Business, Faculty of Business Administration, Simon Fraser University, Burnaby, British Columbia, Canada.

Table 4-1
Comparison of Negotiation Styles between North Americans and Latin Americans

North American	Latin American
Little value placed on emotional sensitivity	High value placed on emotional sensitivity
Direct and impersonal conversation	Emotionally passionate conversation
Conciliation emphasized over litigation	Tends to participate in power plays
Little commitment to employer	Strong commitment to employer (who could very well be family)
Decisions are made through a cost–benefit analysis; face saving is not a high priority	Face saving to preserve honor and dignity is a high priority and is crucial in decision making
Decision makers are often influenced by special interests often not considered ethical	Special interest is expected and condoned in decision making
Impersonal argumentation of right vs wrong	Passionate argumentation of right vs wrong
Documentation is very important for evidence	Documentation is often seen as an obstacle to understanding general principles
Decision making is often methodically organized	Decision making is often impulsive and spontaneous
Ultimate aim is profit or individual good	Ultimate aim is what is good for the group
Decision making is impersonal with an avoidance of personal involvement or conflict of interests	Personal involvement is crucial for good decision making

Source: Adapted from Casse, P. *Training for the Multicultural Manager: A Practical and Cross-Cultural Approach to the Management of People*. Washington, DC: Society for Intercultural Education, Training, and Research, 1982.

strong French Canadian minority in New Brunswick and in eastern Ontario around the national capital city of Ottawa.

Basic Concept of Negotiation

English and French Canadians tend to confront conflict and focus on points of disagreement as they work through a linear problem solving process. This process involves identifying the problem or opportunity, the objectives of the negotiation, the alternatives, the decision, and the plan for action. English Canadians tend to focus on abstract or theoretical values and less on practical facts of key issues that have come out of the negotiation process.

French Canadians tend to prefer a more instrumental and individualistic approach to negotiating. The goal of French Canadian negotiators is to influence the other party, and there is a greater concern with achieving one's own goals irrespective of the goals of the other side. They tend to focus on relationship building during non-task activities but take a more aggressive, controversial, and argumentative approach to the actual negotiations.

Selection of Negotiators

English and French Canadian negotiators usually are chosen for a negotiating team based on their knowledge, expertise, and previous experience concluding successful negotiations. In technical negotiations, technical experts may be brought in to present complex information. Individual differences such as gender, age, and social class are less important for English than French Canadians. The latter tend to accept greater levels of inequality and ability between different levels of management and are more likely to not send any negotiators if the situation will not allow them to achieve their individual objectives.

Role of Individual Aspirations

Canadian culture encourages individual aspirations and achievement. Most Canadians are expected to represent the objectives of their organizations ahead of their personal objectives.

English Canadians, however, believe that it is in their self-interest to adopt cooperative bargaining strategies to achieve cooperation from their counterparts. French Canadians believe that it is in their self-interest to use more competitive strategies because cooperation does not elicit mutual cooperation in Quebec.

Concern with Protocol

English and French Canadians tend to be at least superficially friendly and informal. English Canadians are less concerned with protocol and usually commence their business with very few preliminaries. They tend to be organized in firms with relatively flat hierarchies, and superiors mix and interact freely with subordinates. French Canadians are more concerned with protocol and ceremony. They do tend to recognize the authority and additional responsibility of superiors.

Significance of Type of Issue

English Canadians are dedicated to the goal of getting the job done. They seem even less concerned than Americans with building and developing relationships and are both impersonal and task oriented, as are the French Canadians.

Complexity of Language

English Canadians, like their American neighbors, are low-context communicators. The message sent by the words spoken is the intended message. French-speaking Canadians are high-context communicators because the spoken word is only one part of the total message.

Canadians have been described as being “relentlessly polite.” Canadians often do not communicate their expectations clearly because it might be perceived as impolite. Canadians, however, are adept at picking up these signals. A Canadian negotiator might “suggest,” “hope,” “think,” or “wish,” but intend this as a strong statement of expectation. Canadians may not complain openly about the negotiating process, but if their signals are ignored, they may become less conciliatory and cooperative. Canadians often do not give clear instructions to subordinates or negotiation counterparts, but within Canadian management culture, the instructions are clear and one is expected to execute them.

Nature of Persuasive Argument

Canadians use a rational presentation style with detailed facts and figures organized to support a clearly stated position. A deductive style is favored when parties are expected to be in agreement. This style

presents the key recommendations first, followed by the key supporting information. An inductive style is preferred when persuasion is necessary. In this case, supporting information is presented first that builds toward acceptance of an argument that is presented last.

Value of Time

English and French Canadians tend to be rigidly bound by their schedules and deadlines. Promptness both beginning and ending meetings is appreciated. If one is made to wait more than 5 or 10 minutes for a scheduled interview, many Canadian businesspeople would assume that a personal slight was intended.

English Canadians are significantly slower in their use of time than Americans because of their cooperative bargaining approach and their constructive approach to controversy and conflict handling. They prefer to delay decision making in favor of gathering more information, often to the frustration of their counterparts.

Bases of Trust

Canadian managers tend to believe that trust is an important component in achieving organizational and inter-organizational goals. They believe this even when dealing with negotiators from cultures where trust is not a competitive advantage or may even be a competitive liability.

English Canadians tend to trust the information that is being communicated as long as their counterpart uses a cooperative negotiating strategy that emphasizes the free exchange of information. An agreement will result in a contract that can be enforced legally. If, however, English Canadian negotiators perceive that their counterparts are not using a cooperative strategy, then trust is damaged because the counterpart may seem to be more interested in achieving individual outcomes rather than joint outcomes.

French Canadians may tend to distrust information more than English Canadians. French Canadians tend to use more competitive negotiation strategies that place individual objectives ahead of joint outcomes. These strategies are used even though their use lowers satisfaction with the negotiating process. If two parties are competing for advantage, misinformation could provide an advantage if it was believed by the other party. There is no advantage in providing correct information that helps a counterpart have a clearer idea of the situation.

Profile of American Negotiators

Basic Concept of Negotiation

American negotiators view conflict and confrontation as an opportunity to exchange viewpoints and as part of the process in resolution, negotiation, and agreement. Americans prefer outlining the issues or problems and a direct approach to determining possible solutions. They are motivated to further the interests of their corporation or government and have a highly competitive nature regarding the outcome or settlement. Americans respect their counterparts, but can take an attitude that “this is business” and set relationships aside to reach agreement.

Selection of Negotiators

American negotiators are usually chosen for a negotiating team based on their record of success in past negotiations and their knowledge and expertise in the area to be negotiated. Negotiations that are technical in nature require Americans with very specific knowledge and the ability to communicate their expertise. Individual differences, sex, age, and social class are not generally criteria for selection, but individual differences in character (cooperative, authoritarian, trustworthy) can determine whether one is chosen for an American negotiating team.

Role of Individual Aspirations

As a rule, Americans encourage individual aspirations and individual achievements. When representing their corporation or country, Americans temper their individualism and seek to accomplish and/or represent the positions of their company or country.

Concern with Protocol

Generally, Americans are friendly and open. Their etiquette is largely informal and so is their basic concern for protocol. They are relaxed in their business conduct and do not often adhere to strict or explicit codes of behavior and ceremony. They do recognize the authority and responsibility of superiors, but still feel, in most cases, that superiors are approachable.

Significance of Type of Issue

The American popular expression of “getting the job done” reflects their desire to assess the situation and get results quickly. In negotiations, Americans may focus on the tangible aspects of the negotiation without spending too much time on the more intangible aspects such as building relationships during the process. They want to reach an agreement that satisfies the tangible interests of the negotiation.

Complexity of Language

Hall²⁷ compares communication with interfacing with a computer. The communication is done through a system of explicit exchanges via prompts and responses, and if an inaccurate response is not within the realm of the computer’s programming, then “it does not compute.” Americans are low-context communicators. The message is primarily in the words spoken and is not overridden by nonverbal communication, the cues of gesture, eye contact, and silence. Many cultures are high-context communicators where much information is transmitted through the shared experiences and meanings of the culture and language, and the person speaking. English-speaking Canada is also low context, while French-speaking Canada and Mexico are high context.

Nature of Persuasive Argument

For Americans, a rational presentation with detailed facts and figures accompanied by logical and analytical arguments is usually the course attempted when persuading one’s counterparts.

Value of Time

Every culture has different ways of organizing time and using it. Some cultures are rigidly bound by their schedules and meeting deadlines, while other cultures have a relaxed attitude about detailed plans and schedules. Monochronic time emphasizes schedules, segmentation, and promptness. Polychronic time stresses involvement with people and completion of transactions rather than an adherence to a preset schedule. Americans generally have a monochronic time orientation, and for most Americans “time is money.” In negotiations, Americans set schedules and appointments and tend to prioritize events and move through the process “controlling” the time allotted them.

Bases of Trust

In negotiations, Americans generally trust that the information being communicated and negotiated is accurate, and they assume that the negotiations will have a desirable outcome. If, however, Americans have had a past experience with a counterpart who has not been trustworthy, they will withhold the trust. Americans are also more comfortable with legal counsel advising them during the process.

Risk-Taking Propensity

Americans are risk takers. In light of their history, their perception of their rugged individualism, and the rewards of capitalism, Americans have embraced risk and are not risk avoidant.

Internal Decision-Making Systems

Decision making is becoming more and more decentralized with authority, within predetermined limits, being given to those with negotiating experience. Most of the final decisions must be cleared with senior executives in the organization.

Form of Satisfactory Agreement

Because the American culture is legalistic, Americans prefer and expect detailed contractual agreements to formalize negotiations. A handshake may conclude negotiations, but the attorneys representing both sides will hammer out the legal implications of the agreement.

Profile of Mexican Negotiators²⁸

Basic Concept of Negotiation Process

Negotiating in Mexico is a complex and long procedure, covering several stages. First, the parties involved must determine if they, as individuals or organizations, can do business together. Establishing a warm working relationship with one's counterparts is essential to the process and facilitates the negotiation.

At the negotiation table, because of past historical context, a Mexican negotiator is wary of being taken advantage of by an American *gringo*. The Mexican pride, *machismo*, will not allow this to happen. It is

important for a negotiator to be sensitive to any obvious or implied messages regarding Mexican self-esteem.

Connections in Mexico are very important and the government has a significant influence in private business matters. Permits are required for just about every business transaction. As a result a government official might elicit a *mordida* (“a little bite,” i.e., a bribe) to complete the transaction.

Selection of Negotiators

Negotiators are selected primarily on status. Family connections, personal or political influence, and education are critical. Hence the importance of *ubicación* (where one is plugged into the system) becomes evident. Mexican negotiators tend to be high-level, male, and well-connected.

Role of Individual Aspirations

Whether Mexicans are individualists or collectivists seems to depend on the social arena. In business, and with other men, Mexicans tend to be competitive, set on pursuing individual goals and needs for their personal recognition. Often they feel they owe loyalty to their *patrón*, but they seek to project a public image of significance and power.

Concern for Protocol

Mexican culture is dominated by courtesy, dignity, tact, and diplomacy. Protocol is important and social competence is as critical as technical competence.

Significance of Type of Issue

For Mexicans, relationship-based and personal/internal issues tend to predominate and affect the negotiations, and Mexicans emphasize the social and personal aspects of their relationships with the people they encounter, including businesspeople.

Many Mexicans resent what they see as a long history of unfair treatment by the North Americans, and personal honor or dignity may be a factor within the Mexican negotiating team.

Complexity of the Language

Communicative context is formed by body language and emotional cues, not just the words spoken. Mexicans communicate with hand movements, physical contact, and emotional expressions, making Mexicans high-context communicators.

All Latin American cultures embrace closeness. People stand close to each other, sit close to each other, and often touch each other.

Nature of Persuasive Argument

Emotional arguments that are overly dramatic and patriotic are considered persuasive. Along these lines, there is the concept of *proyectismo* (constructing plans without critical analysis and assuming in time all will be accomplished). Perhaps much of this stems from the twin origins of Mexican culture: the Indian, based on magic and superstition, and the Spanish, based on imposition, dogma, and faith.

Value of Time

There is a relaxed polychronic attitude toward time. Although time is a concern, Mexicans do not allow schedules to interfere with experiences involving their family or friends. The culture is more people-oriented than task-oriented.

Bases of Trust

Evaluations of trustworthiness are based initially on intuition and then later on one's past record. Negotiations should take place within a generally trusting atmosphere. Trust must develop through a series of frequent and warm interpersonal transactions, either socially or business oriented.

Risk-Taking Propensity

Mexicans tend to be risk-avoidant. They will try to work something out to avoid risk as much as possible. Mexicans tend to be very pessimistic in any situation in which there is some amount of risk.

Internal Decision-Making System

Decision making is highly centralized in government, companies, and within negotiating teams. Mexican leaders tend to make decisions without concern for consensus. Individuals with *palanca* (leverage) tend to be well positioned, expressive, and forceful with their opinions and decisions.

Form of Satisfactory Agreement

The only way to be certain that a business agreement has been reached in Mexico is with a written document. Agreements in Mexico fall under the Civil Code, the Commercial Code, or the Law of Commercial Companies.

Conclusion

We began this chapter trying to understand Canadians, Mexicans, and Americans from their historical perspective when negotiating and concluded with general profiles of each country's negotiating teams. However, not every Canadian, American, or Mexican negotiator fits the profile perfectly; obviously there are important individual differences. The context of the negotiation, where it takes place, any previous relationships between negotiators, the corporate and/or government history, etc., all factor into the process and individualize each negotiation. These profiles are intended to be starting points to generate understanding and respect for the counterparts' cultural background and history, and optimally to create mutually beneficial business relationships.

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NAFTA Best Practices Case Studies

5

In the 21st century, it has been predicted that culture will be the fault line along which social divisions will occur. The events of September 11, 2001, indicate that this process of cultural polarization in the world is well under way. Cultural differences, fueled by xenophobia and stereotypes along ethnic, racial, and religious lines, have deep-seated historical roots throughout the world. North America is not immune from this phenomenon, with long-standing divisions dating from pre-colonial times. Numerous examples of cultural divisiveness exist in each of the three NAFTA nations. In the common interest of North American society, we must begin to deal with them proactively.

Borders will have less relevance.

Instead of borders, there would be moving “centers” of power, as in the Middle Ages. Many of these layers would be in motion. Replacing fixed and abrupt lines on a flat space would be shifting buffer entities, like the Kurdish and Azeri buffer entities between Turkey and Iran, and the Latino buffer entity replacing a precise Mexican border. To this one must add other factors, such as migrations of populations, explosions of birth rates, and vectors of disease. Henceforward, the map of the world will never be static. The future map—in a sense, the “Last Map”—will be an ever-mutating representation of chaos.¹

As the NAFTA economies converge and integrate, so too must the cultures of the member nations: maintaining their uniqueness and traditions, while finding new common ground in which to interact and transact. Common operating principles that transcend national culture in North America must be identified. Building the future of North America will require new levels of trust between all North Americans, regardless of nationality, and new levels of trust between peoples of different cultural origins or religious faiths within our communities. It would appear, however, that the trends and the facts are not in favor of the creation of more integrated, united communities. Instead, even within similar cultural groups, we are becoming increasingly sorted along lines of education and income. This sorting is even more pronounced between ethnic groups. The borders that are becoming less cut-and-dried around our countries are being replaced with numerous other borders less easy to see, but much closer to home. Robert D. Kaplan writes:

Patriotism will become increasingly regional as people in Alberta and Montana discover that they have far more in common with each other than they do with Washington or Ottawa, and Spanish speakers in the Southwest discover a greater commonality with Mexico City. (*The Nine Nations of North America*, by Joel Garreau, a book about the continent's regionalization, is more relevant now than when it was published in 1981.) As Washington's influence wanes, and with it the traditional symbols of American patriotism, North Americans will take refuge in their insulated communities and cultures.²

Trust is difficult to create within diverse nations, and more difficult among multiple nations that represent broad constituencies and differing points of view. Therefore, the success of creating a socially cohesive NAFTA region will depend on smaller groups that have already succeeded in building the cross-cultural trust that allows them to take advantage of NAFTA opportunities. We must all learn from them to make our businesses, our institutions, and our societies stronger.

Lawrence Harrison has suggested that cultural differences will prevent Latin America and North America from achieving a broader partnership under NAFTA, unless cultural accommodation and change occurs that fosters the creation of common values that can serve as the foundation for compatible institutions and social cohesion. The trade piece of NAFTA is important; but it's not the whole story. The social side of the equation, namely the increase in immigration, the blurring

of borders, and the coalescence of common problems, indicates the need for a greater sense of urgency around the need for cross-cultural understanding and integration, and for the creation of initiatives or institutions capable of addressing issues no longer able to be contained by national boundaries. This is really where NAFTA will impact us most directly.

What form will these initiatives, or institutions, need to take in order to be compatible? How will trust be created between increasingly fragmented societies, less willing to give their allegiance to national governments, and thus less able to be united by them? "A rule of thumb is that governments are determined not by what liberal humanists wish but rather by what businesspeople and others require."³ Idealists have dreamed of a world government for years. Supranational institutions have been formed to some degree around NAFTA, but the overwhelming preponderance of U.S. power, combined with the unwillingness of all parties to surrender sovereignty, will keep the reach of such institutions limited.

But:

A form of regional, indeed world, government is emerging, quietly and organically, the way vast developments take place in history. The increasingly dense ganglia of international corporations and markets that are becoming the unseen arbiters of power in many countries. It is much more important nowadays for the leader of a developing country to get a hearing before corporate investors at the World Economic Forum than to speak before the UN General Assembly.⁴

Globalization is real. It will not retreat. Current forms of political organization are powerless to stop it. As a percent of population, few people are consciously participating in it. The rest feel intimidated by it, threatened by it. Many blame corporations. Of the world's hundred largest economies, fifty-one are not countries but corporations. While the two hundred largest corporations employ less than three-fourths of 1 percent of the world's work force, they account for 28 percent of world economic activity. The five hundred largest corporations account for 70 percent of world trade.

To blame corporations for the changes taking place in our society and economies is misdirected. These changes are more fundamental, and corporations, rather than being the cause of the changes themselves, are simply the most adept form of human organization at adapting to them. They "are nothing less than the vanguard of a new Darwinian organization of politics. Because they are in the forefront of real global-

ization while the overwhelming majority of the world's inhabitants are still rooted in local terrain.”⁵

In North America, examples of the trust needed to foster socially cohesive economic integration, and the building of compatible institutions, already exist in small groups and networks of family, friends, and business associates. This trust is most likely to continue to be formed inside and as a part of extended networks of customers and suppliers surrounding the activities of multinational corporations.

We all have a choice: we can find ways to learn from the winners in the new game, or reject them and cling to traditional ways. We can choose to join “McWorld,” or stay closer to home by the “Olive Tree.”

Regardless of our choices of where to fit in to the global economy, and the individual reasons for which we make them, we must begin to change the way we view corporations. They may be the most capable of providing goods and services globally, but they don't have a monopoly on that ability. In fact, in the increasingly “unbundled” economy, they will be relying more than ever on outsourcing providers and partners, as opposed to vertically integrated operations. So, instead of viewing them solely as exploiters, or entities that play one side off against the other for profit, we must begin to see the unheralded and seldom-mentioned other side of globalization: the role of corporations in teaching us how to prosper in the global economy. The organization of NAFTA Community Dialogues is one way suggested to facilitate that learning. This concept will be further discussed in Chapter 7.

Creating universal cultural systems that transcend national cultural differences is the area where corporations are truly paving the way as new forms of political organization.

For instance, ABB Asea Brown Boveri Ltd. is a \$36 billion-a-year multinational corporation divided into 1,300 companies in 140 countries; no one national group accounts for more than 20 percent of its employees. ABB's chief executive officer, Percy Barnevik, recently told an interviewer that this diversity is so that ABB can develop its own “global ABB culture—you might say an umbrella culture.” Barnevik explains that his best managers are moved around periodically so that they and their families can develop “global personalities” by living and growing up in different cultures. ABB management teams are never composed of employees from any one country. Barnevik says that this encourages a “cross-cultural glue.” Unlike the multiculturalism of the left, which masks individual deficiencies through collective—that is ethnic or racial—self-esteem, a multinational corporation like ABB has created a

diverse multicultural environment in which individuals rise or fall completely on their own merits.⁶

Somehow, corporations are finding a way to create ethnically and culturally diverse meritocratic societies, while societies at large continue breaking down along the very same lines. The Best Practices that follow in this chapter have been selected from numerous interviews conducted with different organizations that operate within the NAFTA region. The featured organizations serve as examples of practices that exist in many other international organizations, and that may yet be applied to many more.

The Best Practices within individual organizations and groups, when multiplied across society, begin to form the foundation for a convergence of cultures, in the sense of common essential values, understandings, and methods that permit free trade and the exchange of ideas, and contribute to socially cohesive communities, at the local and national levels. They permit the formation of common value systems that transcend culture and ethnicity, and promote diversity and meritocracy. They could become the seeds that, if further developed and extended to a wider network of organizations and institutions, will accelerate a socially cohesive and sustainable form of economic integration in North America organized around a framework of shared values.

With community coordination and participation, through a process such as the NAFTA Community Dialogues (see Chapter 7), the most relevant and successful practices of the pioneers of globalization may be brought to light and shared across all interested segments of society. Corporations are increasingly the places where we work, eat, live, shop, exercise, and study. By recognizing the impact of corporations in our lives, we as individuals will be better prepared to work with them, and may also in so doing have a larger role in determining, guiding, and benefiting from, their future activities.

NAFTA Best Practice One: Fosters a Spirit of Community Volunteerism Within Local Employees

Citibank

For many years before NAFTA, the Mexican financial sector was notoriously closed to foreign institutions. Citibank NA was established in

Mexico in 1929, but it was not until 1991 that the Mexican government broadened Citibank's operating authority, allowing it to enter into additional sectors of the financial services industry traditionally reserved for local players. Already engaged in pre-NAFTA conversations, the government could foresee the day when they would open the financial sector to other foreign banks, and wanted to experiment with the impact of foreign competition in previously protected sectors. That same year, the newly formed Citibank consumer banking division issued the first credit cards.

Citibank lobbied heavily for the passage of NAFTA, believing that it would benefit the bank and its clients. With the passage of NAFTA, Jorge Tejeda, currently Citibank's Director of Public Sector and Institutional Clients, took on the responsibility of converting the Citibank NA branch into a subsidiary of a new legal entity called Grupo Financiero Citibank. Under NAFTA, foreign banks were allowed to register for "Grupo Financiero" status, which permits them to cross-sell products and services across subsidiaries (for a complete description of the requirements for obtaining Grupo Financiero status, see the Mexican Congressional Publication "Diario Oficial").

Paving the Way for Foreign Banks in Mexico

Citibank's already significant presence in the country positioned it to be the first bank to go through this process with the government and regulatory authorities, which Tejeda described as "learning as they went along." Citibank Grupo Financiero was initially formed with the bank, a leasing company, and a brokerage as subsidiaries. As other banks began to enter the market, Citibank openly shared its experiences and recommendations with them to help ease the process. Citibank literally "wrote the book" on foreign banking in Mexico.

The era ushered in by NAFTA meant an important change in identity for Citibank, which from that moment forward was registered as a truly Mexican "Sociedad Anonima." Citibank senior management felt that it was important that its employees and clients understood the different rights and responsibilities that came along with their new Mexican legal status. They also wanted to reposition the image of the bank in the eyes of the Mexican community they formed part of. Mexican "citizenship," they felt, should bring with it a heightened level of commitment to corporate responsibility and philanthropy on the part of the institution and its employees.

Traditional Culture Not Community Oriented

However, as Lawrence Harrison notes in *The Pan American Dream*, a tradition of private philanthropy and charity at the community level is not well-rooted in traditional Mexican and Latin American society. Mexican author Mario Cerruti has called as well for a higher level of private and corporate philanthropy as necessary to redress stark differences in income distribution in Mexico.

That is not to say that there is no private philanthropy in Mexico, as examples are numerous. Overall, Mexican culture and society have led to low levels of social capital. Philanthropy and commitment to the community are reflections of the values of the community and its people. Corporate leadership is always needed in this area and does exist in Mexico. However, the efforts have tended to be more focused on large donations by corporations and their owners to local projects.

Although this is certainly needed and helpful, the leadership demonstrated by Citibank in Mexico in this arena goes far beyond writing a check. The corporation and its senior leadership instilled in its employees the value of private philanthropy and a commitment to community volunteerism at the individual level. By catalyzing a change in employee values, the impact of Citibank's corporate philanthropy is multiplied many times over.

Stimulating Employee Commitment to the Community

Citibank followed three major phases in achieving this change in attitudes and values among its employees:

1. **Internal Communication: Changing Attitudes and Values.** Citibank engaged in a formal communications campaign within the bank to raise the awareness among employees that truly being a corporate citizen of Mexico came with additional responsibilities to the local community and people. The company provided the momentum for stimulating a reassessment of employee values, and the structure and support needed for employee volunteer organizations to be effective.
2. **PR Strategy: Changing Values and Image in the Community.** In order to support the new employee-driven initiatives, Citibank invested in creating awareness of them in the local

community. The intention was to underscore the company's commitment to the community, and to clarify that it was sincere and employee driven. They hoped that this message would increase community support for and involvement in their employees' volunteer efforts. They hoped the message, which is also good for business, would serve to persuade other large companies to follow a similar path.

3. **Community Involvement: Employee Driven.** Organizations of company volunteers were formed, who select community projects and volunteer their own time. The company will provide resources and dollars to support these initiatives. Since then, Citibank's community efforts have been unequaled.

Citibank is a large company, with tremendous resources. Its employees are leaders in their local communities, as are the employees of many major corporations. By reinforcing the importance of the cultural value of philanthropy and volunteerism within their corporate organization, they have created an example that will permeate society far beyond the four walls of the bank, and multiply through the contacts their employees have with fellow citizens.

Companies of All Sizes Needed to Help Communities

The example Citibank has provided can be followed by any organization, regardless of size. All that is required is a commitment to the community demonstrated by company leadership, and a way of consciously developing organizational values to encourage employee support for that commitment.

Citibank of Mexico President Julio de Quesada commented that he recognizes that true cultural change takes centuries. Nevertheless, he believes that the philanthropic and volunteer activities of the Citibank organization and its employees in the Mexican community, like those of other leading companies, are paving the way for a convergence of cultural values one day and one person at a time. Citibank's activities in Mexico represent a NAFTA Best Practice for fostering a spirit of community volunteerism within local employees. This process will never be completed, but whatever progress it makes will contribute to stronger local communities, increased integration, and the formation of cultural synergies in North America.

NAFTA Best Practice Two: Stimulating the Development of Flexible Labor Markets and World Class Suppliers

McDonald's

McDonald's has become one of the most powerful symbols of globalization and American popular culture. From its beginning in the 1950s with a single store in Illinois, the company has grown and now has 28,000 stores around the world including over 13,000 in the U.S. There are 200+ stores in Mexico that employ more than 9,000 people, en route to a projected 400 stores by December 2003.

The arrival of McDonald's in a country has also been described as a harbinger for the impending social and political changes that will occur as the forces of globalization arrive in a local economy. Not long after the opening of the McDonald's in the Red Square in Moscow, the Berlin Wall fell. The opening of the store in Beijing was followed closely by the ending of the era presided over by Deng Xiaoping. In Mexico, McDonald's arrived not long before NAFTA and played a part in the early liberalization of labor law and practice that played a role in shaping NAFTA.

There are many who would claim that McDonald's is the tip of the spear of cultural homogenization that penetrates and chips away at traditional culture. Such observers, often wealthy intellectual and cultural elites, deplore the changes being wrought by globalization in societies that have favored their interests. They brand companies like McDonald's, and other well-known brands symbolic of global culture, as cultural bulldozers.

Multinational businesses have long been the target of complaints about the Coca-Colonization of the planet, about globalization creating a McWorld in which people in a standard and ultimately antiseptic global village are cowed into existing on Big Macs and fries. But the growing worries about what some people, even in Europe, see as American cultural imperialism sweeping the globe, as well as the events since September 11, have infused the debate about culture and cuisine with the even more volatile issues of politics and religion.⁷

But this is telling only one side of the story; the story of what is being lost that makes no mention of what is being gained. Just as the well-intentioned opponents of low-wage work in developing countries make fallacious arguments blaming free trade for its existence, critics of com-

panies like McDonald's fail to recognize the many positive changes they catalyze to the benefit of many people. Such is the example of McDonald's in Mexico.

Mexican Labor Law Does Not Permit Part-Time Work

When McDonald's arrived in Mexico in 1985, Mexican law did not recognize or permit franchises. The government of President Miguel de la Madrid felt that permitting McDonald's to open would signify selling Mexico out to the U.S. and global capitalism. The government eventually conceded and allowed the first stores to be opened by McDonald's S.A. de C.V., but stipulated that the company be formed as a partnership with local Mexican investors in a 51/49% partnership that put McDonald's Corporation in the position of minority shareholder. This was a common practice used during much of the 1980s to gain entrance to the Mexican market.

The first challenge McDonald's faced was the Mexican Federal Labor Law (Ley Federal de Trabajo, or LFT), which did not allow for hourly, or part-time, work. McDonald's solution to this dilemma, which initially stymied their business model, has created opportunities for thousands of young Mexican workers and paved the way for other Mexican and global companies that use hourly workers, and thus represents a NAFTA Best Practice.

The LFT requires work be structured in 8-hour shifts, with anything more counting as overtime. One "Minimum Wage" (Salario Minimo) was to be the equivalent of one 8-hour shift, and a work week was not to exceed 48 hours of work.

Persons under age 14 are not allowed to work. Those from age 14 to 16 may work with their parents' written permission and the fulfillment of certain other requirements. Once an individual reaches age 16, he or she may work without parental permission.

McDonald's Paved the Way for Part-Time Work

According to César Martínez, McDonald's VP of Human Capital, these legal requirements posed serious recruiting and staffing difficulties to McDonald's. Because of its traditional reliance on part-time employees, who are often slightly younger or older than full-time workers and therefore require a job that offers a flexible schedule, the law would have made it difficult for the company to operate within its normal business model.

McDonald's proactively proposed a part-time wage scheme to the Mexican authorities that divided the daily minimum salary by 8 hours and multiplied by the number of hours worked to determine an hourly wage scale. The company argued that permitting hourly work would create an entirely new employment market for 16- to 18-year-olds who were completely prevented from working by the LFT. In an economy desperate for job creation, in which many children from needy families are required to work on the street, this proposal made sense for the people. But the LFT did not encompass the concept of part-time work in 1985, and actually has not yet been modified officially to this day. Fearing little repercussion from one store, the government essentially looked the other way.

Part-Time Work Created a New Category of Desperately Needed Jobs

Before opening the first store, in the Pedregal neighborhood of Mexico City, the company conducted an open house for the parents of its young employees. They wanted to reassure parents that the young people were working in safe and decent conditions. The restaurant opened to smashing success, depleting its stocks of supplies, intended to last 3 months, in the first 6 days. Within 2 weeks, however, union protestors representing the CTM, a labor union affiliated with the then ruling PRI party, had closed the restaurant. The CTM claimed that McDonald's had violated the LFT and insisted on unionizing the workers.

McDonald's agreed to sign a contract with the union, which showed its understanding of the system of work the company required and the type of worker it needed. The union also sought guarantees, which the company provided, that hourly workers would be given the opportunity for promotion into salaried management. Beginning at entry level, or "crew," McDonald's employees then advance to trainer, swing manager, second assistant, first assistant, and finally to store general manager. At this level, they are sent to McDonald's University for training in business management. The next step is operations supervisor, who may have responsibility for overseeing the operation of numerous restaurants in a region. By 1990, the government of President Carlos Salinas de Gortari took the step of permitting franchises in Mexico, at which time McDonald's Sistemas de Mexico, a corporate subsidiary, was created. Today, however, 80% of McDonald's more than 9,000 Mexican employees are non-union.

Shortly after the ratification of NAFTA, the Mexican peso crisis of December 1994 worsened into a deep recession in 1995. To date,

despite having twice as many restaurants, McDonald's still has not achieved the same level of sales as it had enjoyed prior to the crash. Aside from the fact that the macroeconomic situation of 1994 has only just been regained, many other factors in the business environment have changed since NAFTA took effect.

McDonald's Leadership Transformed the Mexican Labor Market

The fast food market has grown by over 30% since 1994, with sales increasing from \$600 million to over \$800 million in 2000. In that period, however, more than seven new competitors have entered the market, including: Burger King, Whataburger, Carl's Jr., White Castle, Domino's, Pizza Hut, and KFC. Thanks to the headway made by McDonald's, who had paved the way for flexible part-time work and franchises, they were able to start up much more quickly. Mexican restaurant chains, such as VIPS and Sanborn's, as well as many other types of new business models reliant on flexible labor have also followed the same business model and are now forceful local advocates of reform to the LFT. Today, thanks to the impetus provided by McDonald's, many more jobs exist, offering flexible schedules and safe, clean workplaces, for the more than 1 million Mexicans who will enter the workforce each year to occupy.

Developing Local Suppliers

In 1994, McDonald's was heavily reliant on imported foodstuffs. This was largely due to the low price of U.S. food and the lack of a well-developed local supplier base capable of meeting the company's exacting standards. When the peso crashed in 1995, their menu was priced out of the market. This resulted in a difficult financial situation for the company that lasted nearly 5 years, and led to the creation of a strategy to develop local suppliers. McDonald's Mexico Director of Purchasing Juan Enrich is proud of the positive ripple effect the company's strategy had in the economy by creating many more needed jobs in Mexico and strengthening other Mexican companies. For example, one of Mexico's largest and most successful companies, bread maker Bimbo, built a new plant just to be able to comply with McDonald's quality requirements for buns. The large initial investment required of Bimbo has paid off handsomely now that the McDonald's business has grown. Bimbo has become a key supplier and net exporter of bread to McDonald's in other regional markets. The new capabilities McDonald's helped push Bimbo

to develop have contributed to the company becoming a dominant player in its industry throughout Latin America. NAFTA has indeed contributed to helping Mexican companies emerge from relative isolation to global competitiveness.

Providing a Safe, Clean Place for Families in Unstable Communities

When McDonald's began in Mexico, it was an expensive novelty enjoyed by the upper classes. The first restaurants were situated in affluent parts of town, where early adopters and trendsetters are found. Today, thanks to its expansion, and lower prices resulting from the development of local suppliers, it has been largely abandoned by the upper classes and has settled firmly into a position as a restaurant preferred by the lower-middle and lower classes. The average Mexican can afford a meal at McDonald's for 15 pesos. The McChicken sandwich has been particularly successful in Mexico because of its reliance on locally produced chicken, which is far less expensive than beef. Still, even in France, the fact that the company uses local suppliers has not overcome vocal objections to the fact that it promotes a lifestyle that infringes on traditional customs.

Future growth in Mexico and Latin America, given the demographics, means that the company will need to expand into poorer areas in general, many outside of the largest cities. The company recognizes that it must play a larger role in the poorer communities it now forms part of. McDonald's is still perceived as a "gringo" multinational in Mexico, according to Julio Portales, VP and Director of Corporate Communications at McDonald's Sistemas de Mexico.

Community Commitment May Help Overcome Resentment of Global Brands

Some branding experts believe that global branding, particularly for visible American brands such as McDonald's, may become as much a liability as an asset. "The great appeal of the global brand in the '50s, '60s, and '70s was that it could be the same worldwide; that it's just a question of distribution. But you're getting a lot of reaction against that, particularly against the big American brands," says Alan Brew, a branding expert at Addison, a communications company in San Francisco.⁸

But Portales states that the company is committed to bringing its well-known philanthropic efforts up to speed in Mexico, witnessed by the establishment of the McDonald's Foundation in that country in 1998, and the Ronald McDonald House in 1999.

In countries such as Mexico, which lack high levels of social capital, there have traditionally been few examples of corporate philanthropy, and community and national solidarity breaks down along socioeconomic lines. In poor communities everywhere, where unemployment and under-education prevail, there are few clean, safe places for people to congregate. Therefore, the company is striving to equip its stores to become safe havens in their communities. The company hopes that their clean, safe, and affordable restaurants will be places where mothers can meet and allow their children to play in safety.

As many a hungry backpacker in Europe or traveler along a dusty American highway can attest, the familiar sight of the Golden Arches in the distance can be a welcome respite from the uncertainty of a strange and unfamiliar place. In the world of the 21st century, with another 3.5 billion people in the world by 2050 and ever-wider gaps between socioeconomic groups, that strange and unfamiliar place may begin to surprise many of us much closer to home.

However, “the lines between America, its foreign policy, and its corporate brands are blurred, particularly in parts of the world (like Mexico) where governments own or control oil companies, utilities, and other big businesses. Americans are not simply a diverse, freedom-loving people,” branding experts say, “they are the sum of their corporate identities.”⁹ The crisis of September 11, 2001, has “made it clear that Americans have no idea how they are perceived around the world,” says Benjamin Barber, author of *Jihad vs. McWorld*.¹⁰

McDonald’s represents a NAFTA Best Practice for the many unheralded upsides that its presence brings with it in Mexico and other developing markets: jobs for people that had none, business opportunity and technological assistance for local suppliers, and a clean, safe place for everyday people to eat.

Paul Krugman argued that opposing low-wage work in Third World countries on idealistic grounds was denying poor people access to a better life for the satisfaction of our own aesthetic standards. The sensitivities of cultural elites around the world, who bristle at the presence of this icon of globalization, should recognize the good McDonald’s does in spite of any perceived transgression against local culture. Nevertheless, the challenge will remain for the company to address the apparently growing resentment against its Americanism. Its strategy of giving back more to, and positioning itself at the center of, local communities would seem to come at a good time.

NAFTA Best Practice Three: Creating a Customer Service Culture

Blockbuster Video

Blockbuster Video first entered Mexico through a franchised location in 1991. The passage of NAFTA gave the company the confidence as investors to purchase the franchise back in 1995 and enter the Mexican market on its own account. Their principal competitor was Videovisa, a chain owned by Mexican Television giant Televisa that operated more than 1000 store locations across the country.

In 1997, Videovisa had an estimated 65% share of the market, and Blockbuster had 20%. By the year 2000, Blockbuster's share had risen to 45%, and Videovisa's had fallen to an estimated 30–33%. Blockbuster's success is owed to the four pillars upon which their business strategy was built:

1. Customer service
2. Talent development
3. Marketing focus
4. Expansion

In this case, the first two will be focused on.

Transplanting U.S. and Canadian Customer Service Levels Breeds Success in Mexico

Blockbuster recognized that the standard for customer service was much more developed in the U.S. and Canada than in Mexico. Accustomed to years of receiving poor customer service, Mexicans did not naturally consider the potential competitive advantage in providing it. Videovisa locations were typically not well located and were laid out haphazardly; the staff stayed behind the counters and didn't proactively assist customers.

Blockbuster realized that creating an in-store experience was the key to winning. They developed store formats that complemented the products and were impeccably clean, carpeted, air-conditioned, and over-illuminated. But those elements, important as they may be, can be copied quickly. What the company needed above all was to develop a culture of customer service driven by passionate employees. Such a cul-

ture would create a store atmosphere, and a competitive advantage, that differentiated them from Videovisa or any other competitor and that cannot be quickly copied. Blockbuster management wanted to make their stores places that felt like “a little slice of Hollywood” in Mexico. In order to do so, they needed to build a company where people aspired to work and pursue a career.

Great Customer Service Starts with Treating Employees Well

Diego Cosio, General Manager of Blockbuster Mexico and VP for Latin America, stated that the true key to Blockbuster’s success in Mexico was their ability to build a customer service culture based on fair employment practices and talent development.

Treating employees fairly has made them proud to be associated with Blockbuster. Cosio identified the elements of “fairness” that were most meaningful to his employees:

1. **An informal and meritocratic culture**

- Little hierarchy
- Open, democratic communications
- Regular access to store managers and senior management
- Managers conduct regular “town hall” meetings
- Performance-based incentives

Blockbuster management culture is not typical for most Mexicans, but its success is yet another indication that Mexicans desire change, and that convergence of management values and practices is possible in North America.

2. **Commitment to fairness and integrity**

- An ombudsman was established for employees to raise issues and concerns.

Traditional Mexican management culture has large power distance. Employees of any culture are often reluctant or afraid to report wrongdoing if it means going against a higher-ranking employee. Senior management commitment to fairness and the ombudsman process help overcome this reluctance.

3. **Company attention to meaningful amenities**

- Employees receive two free sets of uniforms: Blue Polo oxfords and Dockers trousers—clothes that employees feel proud to wear outside of work as well.

Many companies charge even low-paid employees for uniforms. The fact that Blockbuster provides the uniform, and that the clothes themselves are expensive and prestigious brands, makes employees proud of themselves and their company.

The corporate culture that Blockbuster created is quite different from the traditionally hierarchical and centralized Mexican management culture. It was heartily accepted by the middle- and lower-middle-class employees who have little chance to benefit in a culture based on nepotism and privilege.

For those employees, it became apparent that customer service was what made their company successful. They could feel the difference when they visited a Videovisa location, and friends and family commented about it to them as well. Their personal desire to succeed, through helping their company succeed and knowing they would share in that success, suddenly made customer service fun. They could see as well that the efforts of the whole team were needed. This contributed to creating a sincere belief in the Blockbuster Video organizational cultural values that are much more closely aligned to those of their NAFTA partners than the prevailing traditional management cultural values and practices in Mexico.

Training and Promotion from Within

The employees knew they would share in Blockbuster's success because of the openly stated commitment to talent development at Blockbuster Mexico, which consists of the following types of support:

- On-the-job training
- Promotion from within at all levels
- Incentives for outstanding customer service
- English and computer skills classes
- College scholarships

For young people without contacts or family money to rely on, which is the situation faced by the great majority of young Mexicans, Blockbuster has provided an environment that shows them a performance-based path toward a better life.

When contemplating how to enter the Mexican market, or debating whether to consider Mexican employees as capable of low-wage work

alone, there can be no doubt that the approach taken by Blockbuster will produce similar results for all companies who follow it. Local talent development in Mexico pays off enormously, and it is precisely what is needed by businesses to produce results and by North American society to reduce disparities and promote integration. In this way corporations such as Blockbuster are contributing meaningfully to the convergence of values that will be a prerequisite for economic integration and social cohesion in North America.

Blockbuster Video de Mexico has developed a NAFTA Best Practice through their ability to derive market success from creating a uniform customer service culture based on talent development and fair employment practices.

NAFTA Best Practice Four: Investing in Education

The Ford Motor Company: Attack the Real Divide Before the Digital Divide

Much has been said about the “digital divide” which separates children with access to the Internet from those who do not. It is said that those who live beyond that divide will not have a fair chance to advance in the global economy. However, before the issue of whether or not children have access to the Internet becomes relevant, they must have the requisite skills, including computer skills, to know what they need the Internet for, and how to access it.

The real dividing line in the increasingly “sorted” economies of the global world is between those who have the skills to prosper and those who do not. The disparity in skills often starts at an early age. There are large disparities in the U.S. between the level of per capita resources devoted to the education of an individual child, depending on where that child goes to school. The same holds true in Mexico as well, where some children do not go to school at all, or drop out in junior high school because they need to work to eat. In both countries, economic necessity perpetuates a cycle of poverty, as children who have not studied at all, or who have attended underfunded institutions, lack the skills today’s economy demands.

In Mexico, even those students who are fortunate enough to complete an education at public schools study in an environment where few

resources are available. PRI presidential candidate Francisco Labastida was criticized for his 2000 campaign promises to put a computer and English teachers in every school, when many classrooms lacked chalkboards, windowpanes, and light bulbs. Similar to the U.S., children of wealthy Mexican families attend private schools and receive a far superior education. Private sector support for public education in Mexico is desperately needed.

Basic Skills Needed Before Computer Skills

Aware of the strategic value of education in a nation's development, Ford and its Mexican dealers created the Ford School Construction Program in 1966. This charity focuses on the construction of schools in areas with limited economic resources, both urban and rural. The typical school consists of six classrooms, two administrative offices, and a multipurpose room, with surrounding recreational areas. Since the inception of the program, more than 190 elementary schools have been built and donated to Mexico's national educational system.

As the Internet revolution began to arrive in Mexico in 1998, Ford and its dealers recognized the importance of equipping the schools with the tools the children would need to access digital information, and began to retrofit the schools with multimedia computer labs.

Corporate Leadership Needed in Support for Education

Ford schools have provided an education to more than 60,000 Mexican students annually, and during the 35 years the program has been in operation more than 1.5 million children have received their elementary education in a Ford School.

The Ford Schools Construction program represents a NAFTA Best Practice for the investment it is making in educating future generations of Mexicans. This program represents a clear example of how private sector leadership, when properly focused, can help identify and redress some of the difficult side effects of global capitalism.

Far from becoming obsolete in a world economy increasingly dominated by multinational corporations, national governments are needed to demonstrate leadership and provide the coordination needed to ele-

vate the importance of education for national competitiveness and the reduction of socioeconomic disparities. Such coordination might unite the efforts of many more corporations for the construction of new schools, and the improvement of existing public schools that are under-resourced or under-performing.

NAFTA Best Practice Five: Commitment to Integrity

The General Electric Company

Lawrence R. Harrison identified important differences between North American and Latin American societies relating to their conception of “ethics” and “justice.” The differences between these critical values, he believes, will impede the formation of partnership between the two regions.

In *Built to Last*, James C. Collins and Jerry I. Porras explore the “core ideologies” in visionary companies. For the successful companies profiled in the book, one of the most commonly identified elements of their core ideologies relates to the concepts of honesty and integrity. Within the corporations studied, these principles are closely related to Harrison’s notions of ethics and justice. They refer to an element of these corporation’s operating cultures that is instilled in their employees and that makes clear the corporation’s expectation that all employees adhere to company policies, as well as to applicable local legislation, in whatever jurisdiction the company may be operating.

For a multinational corporation with operations in many countries, shady dealings in any one of its operations, by even one employee, can have repercussions in its other businesses around the world. In contrast to the traditional political economies of Mexico and other Latin American countries, which have been typified by a reliance in the public and private sectors on nepotism, corruption, contacts, and kick-backs, employees of multinational corporations doing business in those countries’ systems are generally expected to comply with a higher standard.

They are expected to adhere to internal company policy and operating procedure, which is the same around the globe. And they are expected to uphold the company’s integrity in all dealings, even when business opportunity or advantage may be sacrificed in the process. In this way,

the company's commitment to integrity also inculcates in its employees a new set of values, and in so doing prepares them to become change agents in their societies. Seeing the results of fairness and integrity in their business dealings, they will become advocates of new values and standards of conduct in both the private and public sectors of their societies. Thus the role of the employee of the multinational corporation in Mexico is contributing to the convergence of values necessary to achieve further growth and stability through continuing integration in the NAFTA community.

A NAFTA Best Practice is represented by the commitment to Integrity within the General Electric Company. GE has operations in all three NAFTA countries and many others around the world, but operates with one single set of values and policies. First and foremost among them is the company's commitment to integrity.

Former GE Chairman of the Board and Chief Executive Officer John F. Welch outlined this commitment for all GE employees in a document that each employee is required to sign upon joining the company; employees must also affirm annually that neither they themselves, nor any other employee they are aware of, has violated the document. The following is an excerpt from the GE "Statement of Integrity":

For more than a century, GE people have created an asset of incalculable value—the company's worldwide reputation for integrity and high standards of business conduct. That reputation, built by so many people over so many years, rides on each business transaction we make. Integrity is the rock upon which we build our business success—our quality products and services, our forthright relations with customers and suppliers and, ultimately, our winning competitive record. GE's quest for competitive excellence begins and ends with our commitment to ethical conduct. For each person in the GE community, I ask you to make a personal commitment to follow our Code of Conduct:

- Obey the applicable laws and regulations governing our business conduct worldwide
- Be honest, fair and trustworthy in all of your GE activities and relationships
- Avoid all conflicts of interest between work and personal affairs
- Foster an atmosphere in which equal opportunity extends to every member of the diverse GE community
- Strive to create a safe workplace and to protect the environment

- Through leadership at all levels, sustain a culture where ethical conduct is recognized, valued and exemplified by all employees

Guiding us in upholding our ethical commitment is a set of GE policies on key integrity issues. All GE employees must comply not only with the letter of these policies but also their spirit.

If you have a concern about what is proper conduct for you or anyone else, promptly raise that concern to your manager or through one of the other channels the company makes available to you. Nothing—not customer service, competitiveness, direct orders from a superior or “making the numbers”—is more important than integrity.

GE leaders have the additional responsibility to make compliance a vital part our business activities. Adherence to GE policy and applicable laws is the foundation of our competitiveness. Concerns about appropriate conduct must be promptly addressed with care and respect.

We are all privileged to work for one of the best companies in the world. We must, every day in every way, preserve and strengthen for those who will follow us what has been GE’s foundation for success for more than 100 years—the GE commitment to total, unyielding integrity.

While purchasing managers at companies across the street may routinely take kickbacks from suppliers, the GE purchasing manager knows that this will result in his or her termination. In direct contrast to authoritative and hierarchical traditional Mexican management culture, which would mete out heavy consequences for anyone who violated organizational protocol, the GE integrity policy provides channels that permit employees to confidentially inform management of potential violations of policy, with the reassurance that they will suffer no repercussions.

Breaking environmental rules could improve a company’s financial results and make doing business in a developing country with lax enforcement of environmental regulations appealing to companies without a commitment to integrity. Thanks to the integrity policy, the GE manager knows that breaking the law or company policy is not an acceptable route to achieving results.

As companies with a commitment to integrity like GE’s grow internationally, a new generation of employee is developed within traditional societies that may have differing conceptions of ethics and justice. These systems may have encouraged one type of behavior, typified by corruption, and rewarded it with advancement and promotion. However, such practices are increasingly out of step with the global

economy and the multinational corporations that drive it. However, employees of GE and other companies who place a cultural value on integrity see the path to professional success paved with fairness and honesty, as opposed to corruption.

The commitment to integrity at the General Electric Company represents a NAFTA Best Practice for its role in developing employees who will become change agents in societies around the world. These employees will promote a convergence around a more common conception of the values of ethics and justice, and contribute to greater social stability and economic integration in North America and the world.

NAFTA Best Practice Six: Effective Management of Multicultural Virtual Work Teams

Eviciti de Mexico

The nature of business today and in the future will not likely differ much from that in the past in terms of the essential elements of a transaction. It will just be simpler, more efficient, and much faster. Organizations that were perfected in the 19th century—bureaucracies—are not sufficient to deal with the pace of change.

The World Wide Web effectively allows businesses to achieve a global presence. Assuming they are able to provide delivery of products and services to any location, their markets likewise may be extended. Many traditional organizations have found, after having passed through the stages of creating Web sites and portals for suppliers and customers, that the true long-term benefit of the Internet lies in creating more efficient internal work processes, and then using the Internet to automate these processes by putting them online.

Another benefit of the Internet lies in the speed and cost efficiencies that can be achieved by forming virtual networks of teams that cross organizational boundaries. In “Unbundling the Corporation,” an article in *Harvard Business Review* by John Hagel III and Marc Singer, the authors discuss how the Internet enables companies to stitch together networks between their own employees and partner companies to speed entry into new fields, outsource functions seamlessly, and share technology. The problems that companies have solved with virtual teams are familiar ones: time-to-market, product quality, profitability, customer

satisfaction, and strategic direction. Such teams also help cut travel costs, speed information sharing, and make it possible to bring together the diversity and skills of the best talent across the world.

Managing or working effectively in teams is a learned skill. Working in multicultural teams requires additional skills of team members, who must have enough cultural self-awareness and sensitivity to extract the benefit from the team's diversity. If the team in question is both multicultural and virtual, the difficulty is compounded. Distance undermines many familiar management controls, while demanding new skills in using various media to motivate, coordinate, and persuade.¹¹ Such open architecture and decision making presents a challenge to Mexican management culture, as well as to the culture of many "control-oriented" companies. The challenges in the cross-cultural dimension can be magnified by the lack of frequent face-to-face communication. By their very nature, virtual team management tools such as e-mail and team intranets are more suitable to participants from low-context cultures that place less importance on personal relationships.

Companies faced with the need to manage dispersed groups of people typically face two alternatives: co-location, or the use of distributed teams. Managers attempting to employ such technology practices between Mexico and North America must be aware of the limitations of either practice taken alone. The dichotomy is not so cut and dried, and what is actually called for is a combination of the two where possible.

An excellent example of a company that simultaneously faced the challenge of working with a multicultural group and the combination of co-located and distributed teams is provided by the case of Eviciti (www.eviciti.com), an Indianapolis-based provider of e-business consulting and services, which used Internet technologies to quickly and cost-effectively establish a presence in the Mexican market.

While studying for an MBA in Detroit, Mexico City native Antonio Sandoval saw the opportunity to leverage the learning curve developed by U.S. companies in the Web design and application development arena in Mexico, as that country's market for such services began to grow. He approached Eviciti and offered to represent them in Mexico. Eviciti agreed.

"We wanted to participate in the ramp-up of e-business in Mexico, which we believed was about to explode," said Scott Abbott, founder and chairman of Eviciti. As the new partners jointly developed a business plan, it was clear that revenue growth needed to precede large investments and headcount additions. They agreed to tackle the Mexican market through a combination of onsite and networked services.

Eviciti's existing U.S. personnel would perform less frequent but critical high-value-added work initially. Although labor costs would be higher than comparable services in Mexico, the speed-to-market advantage outweighed that. Higher volume work, such as HTML, XML, and Java programming, would be done locally in Mexico, where talented programmers and designers abound.

Sandoval conducted a market study in order to determine the most advantageous location in Mexico for the Eviciti Technical Development Center. The location selected was Puebla, which is situated less than 2 hours from Mexico City. Puebla is home to some of Mexico's best universities, has the fourth largest university student population in Mexico, and boasts a well-educated, skilled labor force. However, wages and costs of doing business are substantially less than in Mexico City. Within Mexico, as between different regions of the U.S. and Canada, significant differences in wages and worker skill exist that must be understood and taken into account when developing company plans.

Eviciti Mexico is able to draw upon the resources of the entire North American network. This allowed it to enter the market quickly and with a more complete offering of sophisticated services than many local competitors. However, the need to rely on U.S. developers in more complex projects had a cost impact that makes it more difficult for Eviciti to compete. The challenge was to develop a local revenue stream that could support the investment in training and development of local Mexican personnel.

For Eviciti's multiple offices in the U.S., the principal relationship with Mexico is one of providing technical support, training personnel, and transferring technology. Once this process is complete, Eviciti Mexico will become a largely stand-alone operation that will have created employment in and transferred skills to Mexico, while growing U.S. revenues. A win-win strategy for the company, and for its employees and customers on both sides of the border (Figure 5-1).

In order to unite the distributed, multicultural groups contributing to the development of client projects, Eviciti employees create a "Quickplace" for each project that allows team members to access and modify project-related documents and applications in development. They also use Sametime to facilitate real-time conferencing with whiteboarding capabilities between staff at geographically dispersed participating offices. These tools are used for daily internal project management, as well as between Eviciti and clients.

Yet Sandoval knows that nothing can substitute for the importance of effective relationship building in Mexico, and most everywhere.

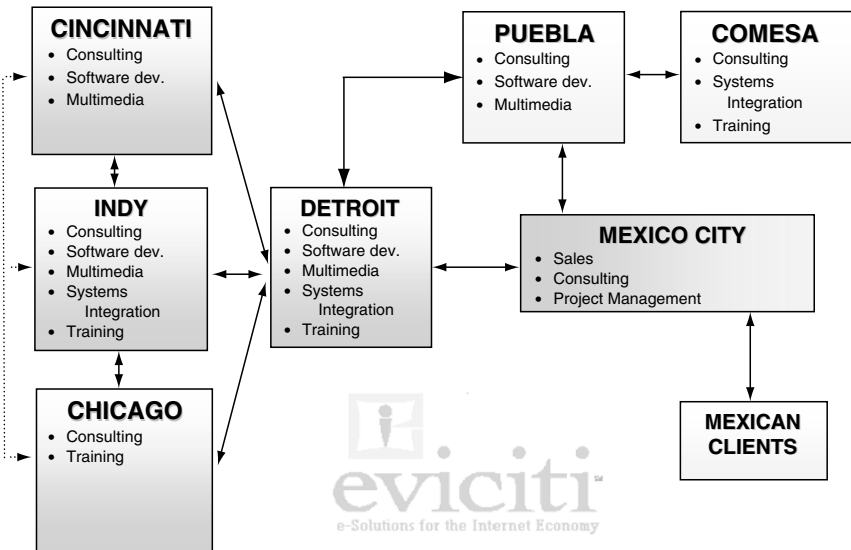


Figure 5-1 Eviciti Mexico and North American structure.

Therefore, he and his sales and project management teams regularly complement the Internet collaboration between their developers and clients with face-to-face meetings. This builds the trust necessary to sustain a distributed team, and reinforces the company's disciplined proprietary project management methodology.

Eviciti represents a NAFTA Best Practice for its effective use of Internet technology to overcome distance and accelerate market entry, and for understanding that no matter where the work is actually being done, it is essential to complement the use of collaborative tools with face-to-face management or customer relationships.

NAFTA Best Practice Seven: Identifies and Strengthens Cultural Synergies

The Washington Center NAFTA Internship Program

Pilar Mendiola Fernandez called me out of the blue in 1997, when I was working in Monterrey. She was in town to promote and seek sponsorship for the newly formed NAFTA Internship Program at the Washington Center. She is a woman with a clear vision about the type of future that is possible in the NAFTA region if cultural synergies are identified firsthand.

The objective of the NAFTA Internship Program “is to bring the best students from Mexico, Canada and the United States, ten from each country each semester, to intern in different organizations at agencies that deal with NAFTA on a daily basis,” she said. By the time I visited the Washington Center, in February 1999, some 100 students from Mexico, Canada, and the United States had taken part in the internship program.

Fernandez said the NAFTA Internship Program “is not only about trade. It’s also about friendships. It’s also about creating a network of leadership between (countries in) North America that will definitely facilitate relationships” among them. The Washington Center experience “has really changed” the lives of those Canadian and Mexican students who have taken part in the program so far, she said, adding that the Center hopes to increase the number of interns from those countries.

She said the Center recently started an initiative with Mexico to provide scholarships to public university students in Mexico, who otherwise could not afford to take part in the program. The governor of the Mexican state of Nuevo Leon has agreed to provide funding for one public university student each semester to enable him or her to attend the Center’s NAFTA program, Fernandez said. Jose Martinez Gonzalez, the Secretary of Education from Nuevo Leon, was the recipient of the Washington Center’s International Cooperation Award. With his help and the help of the Secretary of Commerce from Nuevo Leon, “now we have this scholarship from the first state of Mexico,” she said.

Students in the internship work in places such as the USIA and the U.S. Department of Commerce. Juliet Bender, Director of the Office of NAFTA and Inter-American Affairs at the Department of Commerce, said her office each semester has two of these students and “benefits tremendously” from them. “We are responsible for the implementation of the NAFTA agreement,” she said, “so we hope we provide them with a little bit of knowledge and expertise as well.”

William Burke, president of the Washington Center, explained that the purpose of the Washington Center’s new NAFTA program is not only to educate the Canadian and Mexican students, but also to educate the U.S. students. “We require that one American, one Mexican and one Canadian live in the same apartment,” he said. “When they finish those 15 weeks they have developed friendships and bonds that will continue the rest of their lives.”

Burke emphasized that all the Washington Center students “are leaders. We tell them that at orientation. We try to reinforce that during the

period that they are here. They are destined for leadership, and leadership we define as being a CEO (chief executive officer), a member of Congress, a parent, a teacher,” he said. “Leadership is very, very broad, as we all know,” he said.

During a visit as guest lecturer at the Washington Center in February 1999, we conducted a workshop with the participants centered around identifying common management cultural values, and extrapolating them into a work culture that would represent the best elements of each national culture through the creation of cross-cultural synergies.

The students first worked in groups, divided by nationality, to describe what they felt the current reality of a typical workplace environment in their country was like. Next, they identified what areas they would like to change if they could create the ideal working environment. Finally, the groups reconvened and shared their findings. Not so surprisingly, many of the elements they wished to preserve were seen to be lacking in the management culture of another NAFTA country. Similarly, the things they wanted to change were often present in the management culture of a NAFTA partner country.

Their conclusion? Cultural synergies in North America are more than just possible; they are right there waiting to be exploited to everyone’s benefit. It was clear to them, however, that there needs to be a process, such as the NAFTA Internship, to discover that fact and allow people to identify the synergies firsthand. That’s called creating buy-in. Figure 5-2 is a summary of the students’ conclusions.

The exercise revealed to the students that no one way of doing things is inherently superior. They could clearly see, for example, that despite the lower level of economic development in Mexico, there were many things that they liked about the way things are done in Mexico that they could learn from and would like to incorporate into North American management. This was an important education for the Americans and Canadians. For the Mexicans in the group, the biggest conclusion was the heightened level of personal responsibility and the need to submit to more rigorous competition in exchange for more workplace freedom and ability to participate.

The Washington Center NAFTA Internship is a NAFTA Best Practice because it provides an example of how cross-cultural interaction, focused around a common objective, can create the trust and cultural synergies necessary to take North America to the next level of integration and cooperation. The students demonstrated every day that when you get people together, we’re not really that far apart.

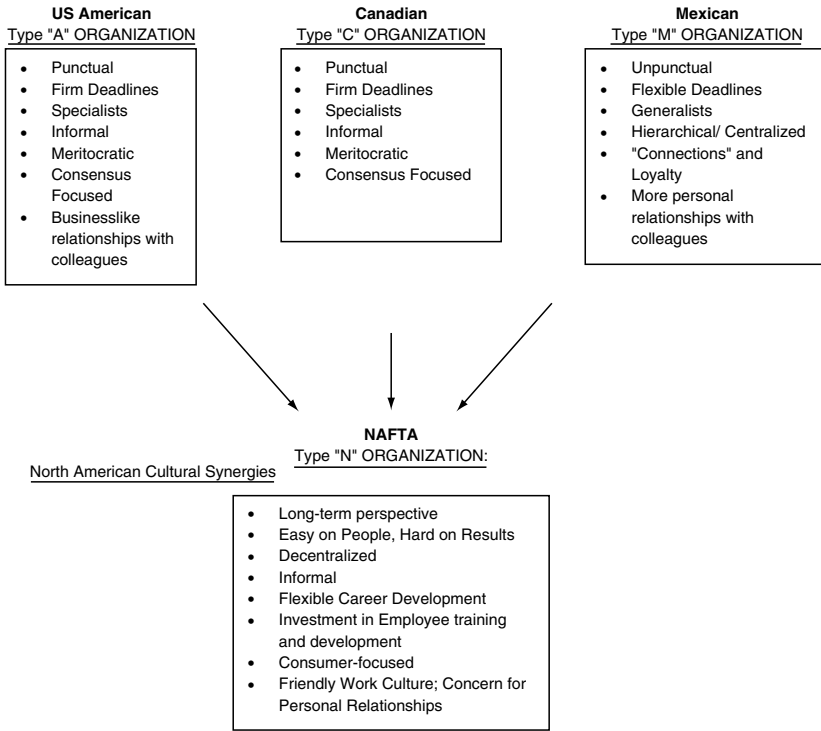


Figure 5-2 North American cultural synergies.

NAFTA Best Practice Eight: Integrates Local Networks into the Global Economy

Bioplaneta.com

Bioplaneta.com is a transactional Web site that features the products of small Mexican producers. It represents a Best Practice because it has harnessed Internet technologies and the opportunity they allow to access global markets, to the benefit of small local producers who may have been displaced or whose production methods may not have been environmentally sustainable. Without access to a larger, more profitable global market, they could not afford to develop new skills or employ more efficient technologies. Bioplaneta.com provides them access to that global market.

One example is El Mazunte. El Mazunte is a village located on Oaxaca's coast inhabited by people from the mountain range who set-

tled there about 30 years ago in order to benefit from the endless resources its untouched beaches provided. Specifically, they dedicated themselves to massive fishing and exploitation of sea turtles. This unlimited exploitation posed a threat to the survival of the species, and so in 1990 a ban was passed. This created great unemployment and led the families to extreme poverty.

With the help of national and international organizations, a program to create long-term economic development was established. Within this program, a small cosmetics factory was born. Cosmetics Naturales de Mazunte provides an income to the 15 owners who manage it. By purchasing Mazunte products, you are supporting an ecological project that not only benefits this community, but also protects the sea turtles and the wildlife of the Oaxaca coast.

If NAFTA community dialogues were organized across North America, how many other local groups of workers might find new partners, form new networks, and gain access to larger markets for their products and services, if the mechanisms were in place to create such cross-border networks? Bioplaneta.com is a NAFTA Best Practice, because it applies Internet technologies to create networks of local producers and integrates them into the global economy.

NAFTA Best Practice Nine: Inculcates Universal Cultural Values Across National Boundaries

Franklin-Covey

Since NAFTA, many companies and organizations are facing the need to rapidly effect organizational change in order to achieve international competitiveness and take advantage of NAFTA opportunities. This was particularly true in Mexico. Although NAFTA has changed some of the laws, and multinational corporations have introduced many new practices, the hardest thing to change is the mental programming of a human being. Cross-cultural flexibility and acceptance of diversity are difficult to build into an organization. At the individual level, cross-cultural skills and a global mindset are not easily developed without firsthand experience. For both, a jumpstart is often required.

There is often misalignment between a company's organizational structure (designed for previous conditions) and the current market conditions in an economy where change occurs faster than ever (Figure 5-3). Today, few organizations are effectively aligned to take full advan-

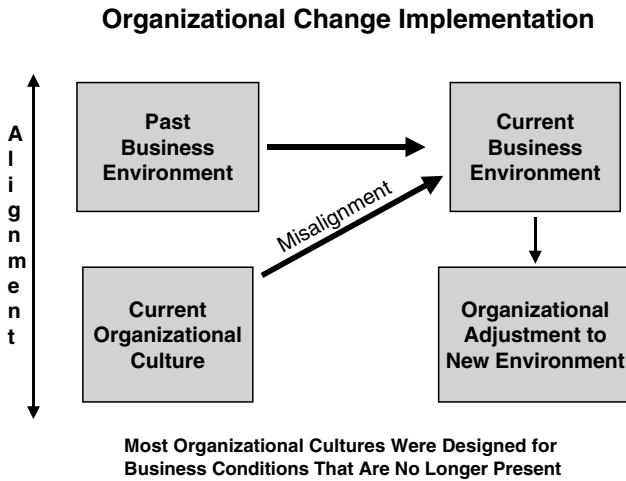


Figure 5-3 Organizational change implementation.

tage of NAFTA. Change in Mexico has occurred so rapidly that an entire generation of executives is tempted to address today's realities with yesterday's way of thinking. Similarly, international competition has created cost pressures in the U.S. and Canada that have led companies to implement Web technologies that have permitted more flattened and empowered organizational structures, as well as to pursue a higher degree of outsourcing. Their relationship to Mexico is changing, as Mexico grows in importance as customer and supplier. This has all happened so fast that it's not easy for old-school managers to adapt.

Although these changes required due to international competition and new technology are significant, at the bottom of them all what really must change is an organization's culture. This is perhaps the most difficult challenge facing companies and their senior managers today: how to develop an organizational culture that embraces change and allows the company to readapt itself quickly to new market conditions.

Often, the changes demanded by new market realities require different values, behaviors, and attitudes from senior managers themselves at the onset. If they do not change, their organization will not be able to, either. In professional organizations that attempt to induce a sincere and "principle centered" organizational change from the top down, the senior managers themselves are the first who must change. They must honestly desire to create a new company culture, and demonstrate their willingness and ability to live within its parameters, before that change will become credible with the rest of the organization.

The Seven Habits of Highly Effective People, by Steven R. Covey, lays out a framework for personal change that is based on a set of principles that are said to be universally applicable, regardless of one's culture, religion, or national origin. Although most of the Seven Habits arguably are founded on values that seem traceable to a particular culture (or cultures) of origin, that is not the point.

The importance of a value system such as Covey's is that it can quickly be used, by companies seeking to redefine their cultures in the face of change and diversity, as a nucleus around which to build a broader set of common corporate cultural values. The Seven Habits are a form of "cultural universals." They are:

1. Be Proactive
2. Begin with the End in Mind
3. Put First Things First
4. Think Win/Win
5. Seek First to Understand, Then to Be Understood
6. Synergize
7. Sharpen the Saw

The Seven Habits have also been extrapolated from the level of the individual to the level of organizational effectiveness, and have been expanded to become the basis for an organizational consulting practice whose mission is to lead organizations down the path of "principle centered" cultural change (Figure 5-4). The Seven Habits are an excellent starting point for the development of common corporate values in NAFTA organizations, since they cut across the values identified by Lawrence R. Harrison where most convergence is needed between North American and Latin American societies.

Given the many differences in national and management cultures among the three NAFTA countries, one might expect that some of the Seven Habits would be interpreted differently in each country. In the experience of Mario Borguino, Director of Franklin-Covey in Mexico, the principles remain the same when viewed at the individual level. Rather, the impact of national culture most notably comes into play during the process of *implementing* an organizational change initiative.

The key difference is in the first stage, involving senior management, since these leaders must first self-profile and compare their current values and attitudes to those that are necessary and desirable in the internationally competitive, culturally diverse company they seek to become. Borguino, a native of Uruguay who has lived and worked in the U.S.,

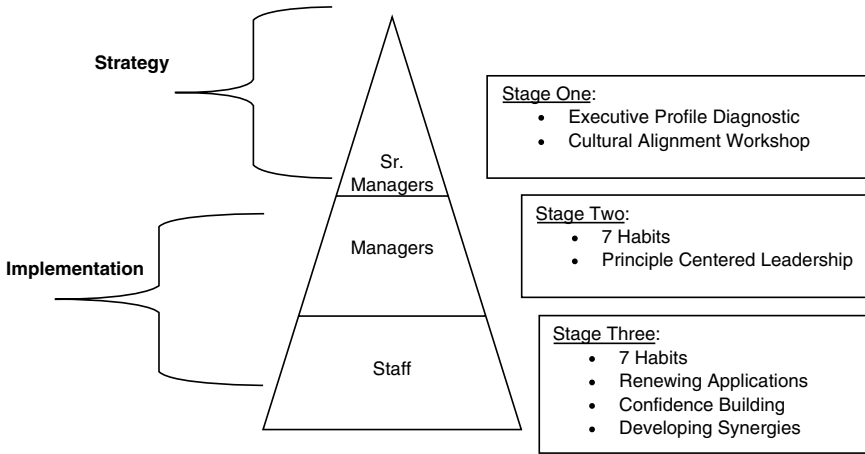


Figure 5-4 Stages of a cultural change program.

Canada, Europe, and various Latin American countries, states that human beings behave according to their education, as opposed to their intelligence. Latin Americans live in societies that have taught them to be unstructured, flexible, creative, short-term focused, and individualistic, whereas in Anglo-Saxon cultures Borguino has noted more structure, discipline, and subordination of the individual desire to the common good.

Given the characteristics of Latin American societies, identifying a common good is more difficult. Therefore, simply changing the organizational structure of a company in North America to better take advantage of NAFTA, without changing the culture, will produce little more than symbolic change. Senior executives seeking organizational change must first possess the maturity to understand the principles that would need to govern the new culture they are seeking to create, and the humility to subordinate themselves to it.

In the terminology of the Seven Habits, the executives must move from a Win/Lose orientation to Win/Win, and from a Scarcity Mentality (Zero Sum) to an Abundance Mentality. They must believe that the change benefits them as well.

While the Seven Habits are not an exhaustive list of universally valid principles, what matters is the process of undergoing culture change that any organization can follow to create an organization capable of taking full advantage of NAFTA.

The Principle Centered Leadership approach of Franklin-Covey represents a NAFTA Best Practice because it provides a common frame-

work, based on cultural universals, that can lead executives from North or Latin American cultures through the process of reflection and self-profiling necessary to create an organizational culture capable of functioning effectively, and enduring through time, across borders and across cultures.

NAFTA Best Practice Ten: Small Firms Integrating into the NAFTA Economy¹²

Express Relocation and First Resource Federal Credit Union

Many people are under the impression that NAFTA has only resulted in the loss of jobs in the U.S. and Canada, and the creation of new lower paying jobs everywhere, but particularly in Mexico. As was stated earlier, these structural changes in the economy are caused more by the aggregation of our own individual decisions made possible in the new global economy of choices. These forces are inevitable and irreversible, and not the result of NAFTA, or free trade in general. Corporations do not cause them; corporations have simply been more adept at adapting to the new realities.

The belief is widely held that only corporations are benefiting from NAFTA, and that smaller companies are not able to compete. It is probably more accurate that many small companies do not know what to do, where to get the contacts, how to change their business model, or how to reposition their products and services to capitalize on NAFTA. This does not need to be the case, and NAFTA Community Dialogues could fill this informational gap.

The following are examples of small firms in Mexico and the U.S. that have partnered with larger firms and have ridden the wave of NAFTA and globalization into areas of new business opportunity. The keys to success in both cases were a service that is in demand, a willingness to adapt to new customer needs, and the organizational flexibility and speed to permit this change to occur fast.

Express Relocation

Growth in trade between the U.S., Mexico, and Canada has increased the likelihood that managers will have an expatriate assignment in another NAFTA country. Most candidates will not have adequate preparation for this challenge as part of their backgrounds. Nevertheless,

it is the responsibility of the individual, with employer support, to develop the skills necessary to succeed in the other country.

Expatriates must have a high degree of cultural self-awareness. An expatriate who has a good understanding of his or her own national culture and the home company's organizational culture will more accurately profile other national and organizational cultures and thus be more likely to succeed in the expatriate assignment. Speaking the language of the host country is a "must," not a "nice to have." Those who rely on others' cross-cultural preparation miss the point: when in a foreign country, the onus is on the expatriate to adapt.

One of the most typical problems that increase the cost to employers of sending employees on expatriate assignment, while at the same time reducing the probability that the assignment will be successful, is the simple lack of fact-based information about the living and working environment the expatriate will encounter. Employees who don't know what to expect may fail to request adequate employer support.

They and their families may later become resentful if unexpected difficulties arise, or quality of life is diminished. Employers who do not possess a fact-based understanding of the host country environment to which they are sending their employee risk being exploited by incremental employee demands once the assignment has started.

Jack Fraind, President of Express Relocation, a Mexico City relocation consulting firm, recognized the consolidation taking place in the global employee relocation industry. More and more companies were relying on outsourced providers to handle their needs for international employee relocations, as opposed to retaining in-house HR specialists to develop and manage such programs. Fraind recognized the need to position his firm as the local affiliate of choice for the major North American and European companies that provide such expertise to corporate clients.

He was able to affiliate Express Relocation with numerous such companies, including Cendant International, which serves large multinational corporations including GE, General Motors, Procter & Gamble, and CEMEX. As a result, his organization has gained valuable experience in dealing with expatriates of many nationalities arriving for assignments in Mexico. Fraind and his Certified Relocation Professionals offer practical advice to the expatriates and their families, as well as their employers, that assists them in accurately evaluating the living and working environment they will encounter while on assignment.

The service provided by Express Relocation represents a NAFTA Best Practice because it shows how small companies can position

themselves for success under NAFTA. In this case, the value added is in providing both employee and employer with a practical, reality-based understanding of the assignment context, and the myriad of supporting services necessary to navigate it. By dispelling the misconceptions of all parties prior to the start of an assignment, Fraind and his team help increase the probability that an assignment will be successful.

Advice for Expatriates and Their Families

- **When being considered for an expatriate assignment:**

Request on-site interviews in the host location, and permission to bring spouse and family. There is no sense even being in the running for a position without family support.

Request a clear and specific written explanation of expatriate benefits for self and family.

Request a briefing on local security and environmental concerns.

Request a clear and specific written explanation of employer-provided relocation expenses and insurance coverage of personal belongings, including a repatriation clause should employment be terminated for any reason during the assignment.

- **If selected for an expatriate position:**

Request sufficient time to prepare self and family prior to assignment start. Sixty days is a rule of thumb. During this time,

Request support of a knowledgeable relocation counselor familiar with the local area.

Request a house and school hunting trip for self and family.

Request pre-departure language and cultural training for self and family. If the company is unwilling to support training, seek books such as *Managing Cultural Differences* by Philip R. Harris and Robert T. Moran and *So You're Going Abroad* by Robert T. Moran to prepare self and family.

Request employer support in obtaining all necessary legal documents pertaining to working in the host country.

Advice for Companies Sending Expatriates

- **Prior to authorizing an expatriate assignment**

Have a clear and specific written explanation of expatriate benefits for employee and family. If no such policy exists, work with an experienced HR consultant to develop one.

Clearly define the profile of the desired employee.

Identify multiple candidates.

- **Expatriate employee selection**

Plan ahead: ideally, allow 3–4 months for selection and preparation of the employee and family.

Budget for on-site interviews for employee and family as part of the selection process.

Analyze the true cost of living in the host location.

Proactively understand safety issues.

Individual and family preparation is the expatriate's responsibility, but should be employer supported. Working with a certified relocation professional prior to and during an international relocation can help ground both employee and employer in reality, maximizing chances of success and reducing the cost of an international assignment. No matter how well prepared, however, the expatriate and his family should cheerfully expect the unexpected and the countless things that will not go as planned, remembering that such is life, and not just in a foreign country.

First Resource Federal Credit Union

As Express Relocation is well aware, simple things that do not go as expected during expatriate assignments reduce the probability of a successful assignment. One example of such difficulties often faced by expatriates and their families is the challenge of managing their personal financial matters while living in another country. While being paid in another country, potentially in another currency, the family continues to hold financial obligations in their home country to which they are less able to attend. Such are matters that can be proactively resolved, or can deteriorate into a cycle of frustration for employer and employee.

Key to any company's ability to successfully deploy personnel in expatriate assignments is their ability to deliver compensation and other critical payments to their international assignees in an efficient, cost-effective manner. Likewise, employees themselves need up-to-date, convenient, and reliable access to their compensation, as well as to their bank accounts and other financial services.

First Resource Federal Credit Union (www.frfcu.org), headquartered in Southwestern Michigan, is an outstanding example of a small financial services institution that broke its own rules in order to grow with its customers as they entered the global economy. Originally the Employee Credit Union of Whirlpool Corporation, a global manufacturer and marketer of home appliances headquartered in Benton Harbor, Michigan, the credit union was called upon to offer new services as Whirlpool's rapid global expansion resulted in it sending numerous employees on expatriate assignments around the world. FRFCU could have looked at the complexity this presented and declined the opportunity by referring their customers to larger financial institutions better equipped to handle global banking needs. Instead, they realized that finding a way to meet their customers' new needs presented a chance to grow FRFCU's competencies and profits.

Speed and Flexibility Are Key

FRFCU empowered their international personal banker, Marie Arend, to do whatever was necessary to serve their customers on expatriate assignment. FRFCU did not have a template to follow at first and had to learn by doing. When customer needs ran into rules and procedures, Arend was able to call upon senior management to break the glass and authorize the needed flexibility. Today, Arend and her team are able to offer a cost-effective set of personalized services that meet both employer and expatriate employee needs.

These services, unique to an institution of FRFCU's size, include those in the following sections.

Personal Banking Support

FRFCU teams are knowledgeable about international banking practices, and experienced in helping expatriates manage their finances. They are on call during normal business hours to assist customers with funds transfers, account information, and other financial matters.

Business Services

FRFCU services also meet the needs of corporations like Whirlpool that operate in more than one country. FRFCU is able to customize a program that provides a valuable enhancement to a company's expatriates' benefits package:

- Global compensation delivery
- Host, home, and split payroll delivery through your existing domestic payroll system
- Reduced administrative time and costs

Expatriate Services

FRFCU can provide a number of financial solutions for expatriates working outside of their home country:

- Move money across international borders
- Meet home and host country financial obligations
- Preserve a favorable credit rating while on assignment
- Maintain and grow a financial portfolio

Bill Payment

While residing overseas, you may need to continue paying credit cards, mortgages, and other payments back home. To help maintain a healthy credit rating, FRFCU offers Powerlink Phone and Internet Banking to help customers pay bills.

Support for Foreign Nationals in U.S.

FRFCU recognizes the needs of foreign national expatriates on assignment in the U.S., and provides assistance to them with financial services, obtaining credit cards, and automobile and mortgage financing.

Marie Arend and her team at FRFCU, and the expatriate banking services they offer, represent a NAFTA Best Practice because they demonstrate how a smaller organization can develop new services and sources of business by growing with its global customers. The global NAFTA economy does not reserve its rewards only for large corporations, but rather offers opportunities to organizations like Express Relocation and FRFCU that possess the vision, speed, willingness to learn and change, and organizational flexibility necessary to embrace the future.

Summary

The elements contained in the NAFTA Best Practices are examples of how corporations are successfully confronting globalization in ways that other companies and institutions, in both the private and public sectors, may learn from. They share the common elements of fostering cross-cultural synergies, creating common values that unite people of different cultures, and empowering us to extract the most value from people and their capabilities.

Corporations will continue to globalize their operations and will develop more and more best practices with increasing speed. However, they and their employees will continue to work and live in local communities. Their individual and institutional neighbors may likely be less prepared by either necessity or capability to succeed in the global economy. It is in the interest of the local community, and of society itself, that these groups engage one another proactively in search of learning and synergies.

What's in it for government, small business, academia, and individuals at large? Learning from the winners in the current economic system. What's in it for the corporation? More capable partners, better schools, more capable employees, better communities and neighborhoods, and a reduced public backlash against their global activities founded on emotion and a lack of factual understanding.

It is a crucial time for public discussion about NAFTA and what it really portends. What is at stake is the very character and stability of our future societies. We live in a complex, dynamic economic and political system, and trends are already in place that will further extrapolate if they are not addressed now. The division that will widen between those who participate in, and those who are left out of, the global economy will undermine the viability of our democratic institutions. So will cultural and ethnic divisions already present in our countries. And we ought to be conscious of what will take their place, or we may find that the failure to plan and make conscious choices transforms us into something we could have never imagined. The classicist Sir Moses Finley wrote that what separated rulers from the ruled in the ancient world was literacy: the illiterate masses were subject to the elite's interpretation of documents.¹³ In today's world, increasingly fragmented along cultural and religious lines, cross-cultural literacy assumes a new importance for either ruler or ruled.

Analogous gulfs between rulers and ruled may soon emerge, not only because of differing abilities to process information and to master

technology but also because of globalization itself. Is it not conceivable that corporations will, like the rulers of Sparta and Athens, project power to the advantage of the well-off, while satisfying the twenty-first century servile population with the equivalent of bread and circuses?¹⁴

This is conceivable only to the extent that democratic leadership at all levels of American, Canadian, and Mexican society fails to unite all North Americans. This failure could take the form of failing to provide the facts necessary to refute the arguments of those who argue against globalization and NAFTA, rejecting it on the basis of idealistic principle as if it were something that we could wish away. This failure could result from the lack of a sense of urgency to create cross-cultural understanding as part of our education. The greatest failure will be to fail to proactively seek out and learn from, as a society, the most successful actors in the modern world of economics or politics: multinational corporations.

Endnotes

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3. *Ibid.*, p. 79.
4. *Ibid.*, p. 80.
5. *Ibid.*, pp. 80–81.
6. *Ibid.*, p. 82.
7. Barboza, David. “When Golden Arches Are Too Red, White and Blue.” *The New York Times*, October 14, 2001, section 3, p. 1.
8. *Ibid.*
9. *Ibid.*
10. *Ibid.*
11. “Dispersed Teams Are the People-ware for the 21st Century,” an interview with Jessica Lipnack and Jeffrey Stamps, in *Product Development Best Practices Report Online Edition*, March 1997.
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14. *Ibid.*

NAFTA and the New Economy: Rising Social Inequality

6

In recent years, the term “Latin-Americanization” of North America has been coined. This term has been used to describe the ways that Canada and the U.S. are coming to resemble Latin American countries, referring more to the growing economic inequalities and rise of individual versus community values, than to the immigration of Hispanics to North America.

Globalization and free trade are increasingly associated with widening social inequality in the U.S. and Canada, and with exploitation of workers in developing countries. In a moving photo-documentary book entitled *Juarez: The Laboratory of Our Future*, Charles Bowden writes,

In just five years, “free trade” has become synonymous with pollution, poverty, crime, and corruption. Now free trade simply means unfettered foreign investment anywhere that guarantees substandard wages and absolutely no environmental regulations; a place where capital moves freely and labor is held hostage.¹

A recent article by Scott Rogerson in the *Weekly Alibi* newspaper in Albuquerque, New Mexico, characterized the inequality between the U.S. and Mexico as follows:

Driving south to El Paso you come over a rise and the first thing you see is a vast sprawling city choking the Rio Grande valley. If you were on vacation and had never been there before, you would think El Paso is a much larger city than what your map indicates.

But as you descend further and draw nearer you notice the rat maze of shacks covering the hillside along the valley and realize it looks like no other American city you have ever seen before. Then you grasp the reality.

The hillside is Mexico. The rat maze of shacks is a cardboard colonia. The city, of course, is Juárez. Charles Bowden calls it “the laboratory of our future,” where free-marketers are loose to test the human and environmental limitations of money.²

Another similar perspective based on life in Nogales, Arizona, is provided by Rick Ufford-Chase in *The Maquiladora Reader*:

When you arrive in Ambos (both) Nogales, you'll find a rusty steel wall dividing Nogales, Arizona, from Nogales, Sonora—now two cities, though historically one. You won't have trouble finding the wall, for it rises twelve feet high and snakes almost four miles through the canyons of downtown Ambos Nogales. As it climbs the hills that surround Ambos Nogales, and then trails off into the desert, the wall that divides this city becomes five-strand, barbed wire fence. But almost 400 U.S. agents persistently patrol the Arizona boundary between the U.S. and Mexico. Their mission? To ensure that this division will effectively perpetuate realities crucial to the globalization of the world's economies.³

Neither Rogerson nor Ufford-Chase is exaggerating in their descriptions of life along the border. The squalor is visible from miles away, and there is indeed a line drawn across the desert sand that separates the First and Third World. However, these comments could just as easily describe many communities in Mexico that the authors have seen firsthand, and not just along the border.

The stark contrast of rich and poor does not lie only along the border, between Americans and Mexicans, nor was it caused by NAFTA. The fact is, such conditions are present in all Mexican cities of any dimension. Shantytowns ring Mexico City, Monterrey, Guadalajara, and most large towns, providing homes to uncounted millions. In 2000, a sewage canal broke open during torrential rains and flooded entire neighborhoods of Mexico City with effluent. Months later, toilet paper still blew along the roadsides as a reminder of the gray waters that had receded and of the second-class economic citizenship that still remains. And

Mexico is very well off compared to most parts of the developing world. Population pressures on insufficient infrastructure bring about these conditions.

Yet we need not venture as far as the Mexican border to find disparate conditions. Inequality today is visible almost everywhere; the relative levels of what is considered poverty in the three NAFTA nations are what differs. Tolerance of, or the refusal to tolerate, extreme social inequality is a reflection of social and cultural values and principles of fairness, regardless of the absolute levels of wealth involved. The depictions of shantytowns and cardboard cities are not used merely for their “shock value,” but rather because they are emblematic of black and white contrasts in levels of social equality.

Even though such stark differences may not be as apparent in the U.S. or Canada, where inequality visible to the eye exists more in shades of gray than black and white, how different are the depictions of the stark differences between Ciudad Juarez and El Paso from the contrast between affluent American suburbs and the urban ghetto tracts described by William Julius Wilson in *When Work Disappears?* Urban ghetto tracts are defined as areas where more than 40% of residents are considered poor. These areas are largely abandoned, lacking in social organization, enjoy few support services, offer almost no employment opportunities, and have become a haven for drug-dealing gangs and prostitutes. They have become geographically isolated from the suburbs surrounding them by a lack of affordable public transportation, and are difficult to commute from to the areas where most employment opportunities have relocated.

Although the living conditions may not be as desperate, this depiction of inner-city America sounds hauntingly similar to the words used to describe the ills supposedly brought about along the Mexican border by NAFTA and free trade. In the 100 largest American cities, such urban ghetto areas have doubled since 1970 to the point that 1 in 7 urban census tracts is now considered an urban ghetto. Such areas exist just blocks away from the elegant boutiques and astronomical rents of the Magnificent Mile shopping district and the Gold Coast of Chicago—and in the ghettos of Miami, where young people, it has recently been discovered, were being exploited as “restaviks” (essentially slaves or indentured servants) in the homes of affluent Haitians who lived just blocks away and probably shopped in the fashionable Coco-Walk shopping district in affluent Coconut Grove, Florida.

In the year 2000, 12.3% of individuals and one in seven U.S. households had an income of over \$100,000 per year, and the median household income topped \$40,000. A December 2000 article in *Money* magazine described the growth of a new “ultra middle class,” consisting of families with household income above \$150,000, which appears to be the “dividing line of confidence and the real psychology of affluence.”⁴ Forty percent of the wealth is controlled by 1% of the population.

At the same time, a higher percentage of Americans than at any time in the past were considered to be living beneath the 1999 poverty line of \$17,029 for a family of four (Table 6-1).

Such disparities in wages have inspired the “living wage” movement, started by religious and labor groups, that focuses on local-level ordinances to require employers to pay at least \$8.19 an hour, or 60% more than the federal minimum wage of \$5.15.

These figures do not mean that low-wage workers have nowhere to sleep or nothing to eat. Further, only 12% of families would be classified as poor, since many of the 25% of the workforce that do not earn a living wage have working spouses.

Today’s poor in the United States spend less than half their income on basic necessities. Some people may be surprised to learn that 50 percent of Americans defined by the government as poor have air conditioning, 60 percent have microwave ovens, 70 percent have one or more cars, 72 percent have washing machines, 77 percent have tele-

Table 6-1
Poverty-Level Wages: How Widespread?

Share of Employees Earning \$8.19* an Hour or Less	
Men	21%
Women	34%
Whites	26%
Blacks	34%
Hispanics	45%
15–24 Year-Olds	65%
25–44 Year-Olds	23%
45–64 Year-Olds	19%

*The wage a full-time worker needs to earn \$17,029 a year.

Source: Data from Census Bureau; “What Exactly Is a ‘Living Wage?’” *Business Week*, May 28, 2001, p. 78.

phones, 93 percent have at least one color television and 98 percent have a refrigerator.⁵

One reason why the poor live so much better than the numbers suggest is that the numbers don't take into account government benefits that supplement the earned income of the poor. Reports have suggested the Census Bureau is aware of the need to revise the numbers and may lift the poverty line to \$19,500. This would classify another 10 million people as poor, but would not change their standard of living.

Clearly the disparity between living standards of rich and poor in the U.S. is of a different nature than that which further divides the U.S. and Mexico. "As Mexico's President Vicente Fox frequently points out, 51 percent of Mexicans live in poverty and 17.9 million, including the great majority of Mexico's Indians, live in severe poverty on less than \$2 a day."⁶ Such levels of poverty, even for those considered poor in America or Canada, are, quite frankly, almost impossible to conceive of.

To put the disparity between the U.S. and Mexico into a perspective most people will find easier to relate to, \$16,000 a year is solid middle class in Mexico, close to the top 10% of wage earners. College graduates from top Mexican universities earn \$5,000–12,000 annually upon graduation. Others from less prestigious universities may earn only slightly more than secretaries. The working lower class earns from \$40 to \$80 per week, or \$2,000–4,000 per year, and few have any healthcare benefits.

The gap in well being between Mexico and the United States is vast: the poverty line in the U.S. is the middle class in Mexico. It is not only a question of salary and benefit levels that are about ten times greater in the United States. Social services, including schooling for children and free medical services, are infinitely better north of the border.⁷

As we discuss levels of compensation and annual income between Mexico and the rest of North America, it becomes clear that we are not comparing apples to apples. There is a problem with the word "work."

It is used to characterize two radically different, indeed sharply contrasting, commitments of human time. Work can be something one greatly enjoys, that accords fulfillment and accomplishment and without which there would be a feeling of displacement, social rejection, depression or at best, boredom. It is such work that defines social position—that of the

corporate executive, financier, artist, poet, scholar, television commentator, even journalist. But work also assigns men and women to the anonymity of the toiling masses. Here it consists of repetitive, tiring muscular effort replete with tedium.⁸

The types of jobs that are relocated to Mexico are the latter, as are most jobs accepted by Mexicans coming to work in the U.S.

A poor American or Canadian has had the opportunity (whether taken advantage of or not) to receive at least a high school education. Up to that point, he feels he is on a par with those around him. Later, if he has not gotten ahead while others have, there is a feeling of having lost something. That sense of par has not been maintained. He may have enough to eat, but he realizes that he is shut out of opportunities, and surrounded by affluence: a loser in a system where everyone is supposed to have a chance to win.⁹ In short, the poor have unfulfilled expectations. Psychologically, for those who have fallen behind relative to their peers, that can be devastating. Because the question remains: If the game is fair, whom can you blame when you lose? For North Americans who feel marginalized, it is tempting to try to find someone to feel “better than”—someone less skilled, someone less educated, someone “lower.” They must resist the temptation to blame NAFTA, or Mexican (or any other) immigrants, for the situation they find themselves in, however difficult that may be.

In *The Good Society*, economist John Kenneth Galbraith counsels,

The tendency to see the poorer immigrant as an intruder and in some measure as a burden is something the good society rejects. It sees the immigrant worker in the full light of the service he or she performs. It is understood and accepted that life in the advanced countries would be difficult without a steady foreign contribution to what, admittedly, are the lower, more arduous levels of the labor force. Accordingly, those coming and so serving should be both welcomed and encouraged, and needless to say, should encounter no discrimination or hostility based on race, color, language or cultural difference.¹⁰

In Mexico, a near-subsistence way of life persists for many people. However, many such impoverished persons are unlikely to have completed more than a primary, or perhaps secondary, education. Most live in tight-knit families and communities, driven by the need to share the

burden of living expenses, and have never known anything different. Life has always been a struggle; the system has seldom been fair. Typical occupations include gardeners, domestic servants, housecleaners, or chauffeurs for the upper classes; or workers in offices and factories; or undocumented street vendors. Although they certainly see the affluence around them, and what they are missing out on, they effectively live in another world, lacking in insights and skills, and would have little idea what it would take to get ahead in Mexican society in their lifetimes. Even if they had the skills, they would most likely not have the connections. They have been conditioned to have little expectation of ever doing so. In Mexico, in a system that has had few pretensions to being fair and offers fewer educational opportunities, those belonging to the permanent underclass simply have fewer expectations.

The promise of “el otro lado,” or going to “the other side” of the border and working in the U.S., raises the expectations and hopes of the Mexicans who do so, whether it be seasonally or during a period of several years, legally or illegally. The mere fact that they see a route to improvement of their standard of living, paved with sweat and hard work, provides hope and motivation. Many do not desire to emigrate permanently. They only want to work long enough to save money and return home with enough capital to start a business, or pay for a home. Even while working in the lowest paying jobs in the U.S., they are still enjoying a significant improvement over their standard of living in Mexico.

The same system that makes one feel like a loser allows another to feel like a winner. It all comes down to expectations. As we contemplate the issue of social inequality within the U.S. and Canada and attempt to assess NAFTA’s role in creating or abating it, we should resist the temptation to think only in terms of impersonal statistics about jobs created and lost, or to compare our incomes only to those in the group above us. Poverty, in the form of a lack of food, clothing, and shelter, is no longer a significant problem in the U.S. and Canada. What remains is relative inequality, and the question, “Does that matter?”

Social inequality in North America was not caused by NAFTA. Social inequality in North America, whether in Mexico, the U.S., or Canada, is increasingly due to a relative lack of education and skills with respect to the types of jobs the economy is creating. The economy is increasingly integrated in North America. And so is the society, for those who are open to seeing reality. North American cultural and economic influence in Mexico is everywhere, and so is Mexican influence in the U.S. The NFL plays an exhibition game every year in Mexico

City. The U.S. is home to the world's fifth largest Spanish-speaking population. Compact discs with compilations of Latin music are on sale at Pottery Barn, Brooks Brothers, Pier One Imports, and Williams-Sonoma at this very moment. Add to that the Mexican restaurants in nearly every community. The influence of Mexican or Hispanic culture is ubiquitous in a commercial sense, but remains on the fringes socially.

John R. Logan, a sociologist at State University of New York in Albany, believes that segregation of Latinos is partly explained by discrimination in the housing market, and partly by their own choice to live in the ethnic Hispanic enclaves, which are usually the first stop for recent immigrants. Language ability is a key factor in the immigrant's ability to integrate into society. The middle- and upper-class Latinos typically move out into less segregated communities and leave the working class behind. "Latino children tend to remain bilingual at home even in the third generation, particularly when they remain in concentrated enclaves."¹¹

Whether we have chosen to see it that way or not yet, North America is increasingly one society. Social inequality in North America is not an "us versus them" issue, or a win-lose proposition. It is an issue that transcends borders and requires joint solutions. As the economies of North America become more integrated, improved education and worker training, accompanied by the existence of real opportunities for upward economic and social mobility, are needed in all three countries. Through coordinated national and cross-border initiatives, NAFTA can do far more good than harm to reduce social inequality for all North Americans and provide the tools for individuals to make the most of the opportunities reasonably available to them.

Historical Sources of Inequality

When Europeans first arrived in the Americas, two civilizations at different stages of advancement collided. The standards of the victorious were imposed. While fully recognizing the rich cultural traditions of the indigenous peoples of North America, one must also understand that poverty in Mexico predates even the Spanish. The indigenous peoples in North America were very advanced in many respects. But when suddenly they found themselves conquered, theirs became a relative poverty of *relevant* know-how and skills in the *new* reality that had been imposed upon them. The relative level between the skills possessed by

the European colonists and the native peoples of North America is intricately linked to culture and natural circumstance.

In *Guns, Germs and Steel*, author Jared Diamond delves into the issue of the causes of unequal levels of economic development in the modern world from the angle of a natural scientist, as opposed to a historian or economist. The conclusions are forceful and should challenge our notions about the sources of poverty, and our supposition that someone must ultimately be to blame. Diamond traces the path of human history from around 10,000 BC, beginning in the Fertile Crescent in the Middle East. He seeks an answer to the question of why human civilization advanced there first, and not somewhere else. How did societies in some parts of the world, notably Europe, advance so much more than the native societies of the Americas by the time of the discovery of the New World?

He contends that the reasons are ecological and climatic. Human population growth requires a surplus of food. The agricultural know-how required to produce such crops, and generate food surpluses, was spread naturally from its origin in the Fertile Crescent to Spain and northern Africa in the west, and China in the east. This dissemination and rapid adoption was possible given that all of these areas share similar topography and climate. There were few geographical barriers to its dissemination. For the recipients of this technology emanating from the Fertile Crescent, it was not as necessary to innovate, since it was possible to import and adopt proven practices.

When a surplus of food exists, population grows; people can specialize and develop more sophisticated culture, language, theoretical sciences, and forms of social and political organization. As food surpluses grow, enough is left over to feed domesticated animals, whose labor helps till fields, and whose milk and flesh in turn provide still more nourishment that allows the human population to grow even larger.

As domesticated animal herds grow, they reach a critical mass at which point certain pestilences that require a large host population in which to thrive begin to multiply. These contagions, if the human population is large enough, may jump from beast to man. The plagues of Europe in the Middle Ages were catalyzed as the human population and its density in urban centers passed that population threshold, and people were infected by variants of plagues that had festered among their livestock. Countless people succumbed to the plagues. Those who did survive, following the logic of Darwin, were better equipped to survive. It was their descendents who, better genetically equipped to resist the plagues several centuries later, voyaged to the Americas and encoun-

tered its native peoples. Already possessed of language, industry, a history of contact with foreign peoples, and greater immunity to plagues, they encountered native peoples who had faced a very different set of natural circumstances.

In North America, only 4 of the 56 strains of crops found on earth that are suitable for large-scale domestication were to be found. Those crops that were there were hard to domesticate, with smaller and less nutritious yields. The potential growth in human population was thus constrained. Furthermore, there were no large mammals in North America suited to domestication, even if there had been a surplus of food to feed them. So, the population of animals never grew large enough for a plague to develop, or for humans to catch it, and in the process develop immunity to it. Thus, when Europeans arrived in North America, by far the majority of indigenous lives were claimed by disease, rather than by the sword. Diamond states that more than 80% of Native American casualties, in the present-day American states bordering the Mississippi River, were due to European diseases transmitted through trade that actually preceded the arrival of the first European settlers.

North American native populations were also geographically isolated, and thus less experienced in dealing with other societies. Thanks to harsh north–south geography, such as the deserts separating Mexico and the U.S. in the north, and impassable rain forests throughout Central America, barriers to diffusion existed that prevented what learning there was in native American civilizations from being disseminated to more distant tribes. The Incas never contacted the Aztecs, as the English did the Spanish. When the Spanish contacted the Incas and Aztecs, their isolation, coupled with their lack of written language and communication networks, had not allowed the latter to receive any advance warning from other nearby civilizations, or harbor the suspicion that the Spanish represented a threat.

Diamond summarizes his findings by asking, “Why were the trajectories of all key developments shifted to later dates in the Americas than in Eurasia? Four groups of reasons suggest themselves: the later start, more limited suite of wild animals and plants available for domestication, greater barriers to diffusion, and possibly more isolated areas of dense human populations in the Americas than in Eurasia.”¹²

On the basis of these conclusions, there is no reason, Diamond asserts, to assume that native intelligence, race, or any other innately human characteristic in which the Native American peoples were deficient is able to explain why one group won out over another. Rather,

their state of development prior to the arrival of Europeans was a function of the natural inheritance that they had to work with. Given more limited resources, and the fact that they were working in isolation, they were just not as far along the learning curve as some other human societies. It would have taken them longer to develop to the point of advancement that Europeans had achieved when the two cultures collided. Thus, the disparity between rich and poor in the Americas, while it is often cast as one of merely material differences, has really always been more one of the lack of relevant and useful knowledge and skills (and immunities) that might have developed had other physical conditions been present. Looked at from this angle, it has always been a knowledge economy.

The analysis presented by economic historian David S. Landes in *The Wealth and Poverty of Nations* picks up where the train of thought begun by Diamond leaves off, and again seeks to understand the causes of the disparities in economic development between nations. Although the two may not agree on all of the causes of economic disparities between nations, Landes reaches a similar conclusion: culture and knowledge are of paramount importance.

At the time of the first European colonization, Latin America was not poorer. In material terms, the Spanish and Portuguese thought that their English rivals were “orphans of destiny” since the lands in the north could not compare to the fabulous riches of the ones they had lain claim to. Yet, by the time of the American Revolution, North America surpassed South America by almost any measure.¹³

In 1848, future U.S. President Ulysses S. Grant, at that time a lieutenant in the U.S. Army, wrote to his wife from Tacubaya, a municipality near Mexico City, and made the following observations that concur with Landes’ assessments:

I pity poor Mexico. With a soil and climate scarcely (sic) equaled in the world she has more poor and starving subjects who are willing and able to work than any country in the world. The rich keep down the poor with a hardness of heart that is incredible. Walk through the streets of Mexico for one day and you will see hundreds of beggars, but you will never see them ask alms of their own people, it is always of the Americans they expect to receive.¹⁴

English settlers came in families, to build communities and escape doctrinal thinking. Spanish colonists were, by a 10 to 1 ratio, men who

came to take advantage of the existing system, profit from it, and go home. They wanted to get rich quickly, not through hard work.¹⁵

If the indigenous peoples of Mexico (and their counterparts in North America) had been isolated previously by geography, as Diamond contends, their isolation was not totally ended by the arrival of the Spanish. For the Spanish themselves were isolated in Europe and sought to isolate their colonies by limiting the entrance of other foreign immigrants. Landes believes this is one of the prime causes of the slower pace of development in the Spanish colonies:

The (Spanish) crown did its best to keep these outsiders away from its possessions in the New World. This exclusion deprived the empire of badly needed skills and knowledge, to say nothing of the cultural advantages of diversity, of those quarrelsome Protestant heresies that fostered intellectual challenge and sustained an appetite for education. Everywhere in the Spanish colonies, moreover, the Inquisition pursued heresy. . . . The aim was to complete the cleansing; the effect, to recreate the closed environment that prevailed at home. All of this proved great for purity, but bad for business, knowledge and know-how. . . . In this simulacrum of Iberian society, the skills curiosity, initiatives, and civic interests of North America were wanting. Spain itself lagged in these respects, owing to its spiritual homogeneity and docility, its wealth and pursuit of vanities; and Spain exported its weaknesses overseas. How could it otherwise?¹⁶

In 1776, the United States began its war for independence. Canada, while possessing many similar cultural values, elected to remain a part of the British Empire.

The British colonists made their revolution. They picked and defined the issues, challenged the rulers, sought the conflict; and when they had won, thanks in part to the assistance of some of Britain's rivals in Europe, they already possessed a sense of identity, economic aspiration and national purpose.¹⁷

Many of the same rights and freedoms the Americans had won through war were granted proactively to Canada by the British parliament to avoid further potential conflict. Its smaller economy and population, its similar cultural values, and the fact that it had not passed through a defining moment of national identity like the American Revolution may contribute to the often-discussed search among Canadian Anglos for a cultural identity that is distinctly different from that of the U.S.

In Latin America, however, the independence the colonies eventually gained was not the result of any distinct political ideology or different values. Independence just happened, resulting from the weakening of Spain's position in Europe and inability to rule from across the seas.

Local strongmen slid in to fill the power vacuum that Spain's gradual disengagement left agape. Society was not united by common purpose and was in a state of anarchy that left it capable of little more than switching allegiance to a new master. Can any society long live in such an atmosphere? Or get anything done on a serious, continuing basis? The answer is that these were not "modern" political units. They had no direction, no identity, no symbol of nationalism; no measure of performance, no pressure of expectations. Civil society was absent.¹⁸

Latin American states continued to be economic dependencies of the advanced industrial nations: Britain, Germany, and in the past century, the United States. Foreigners built industry and railroads, but even after these had been constructed in most cases the locals did not move on to manufacturing on their own. Generally speaking, they did not develop the capability to design and create and invent, instead only repairing what others had built for them. Industrial materials often had to be imported, and knowledgeable local talent was scarce. "It was all very rational: comparative advantage made it easier and cheaper to buy abroad."¹⁹

The maquiladora industry operates today under much the same premise and accounts for a large percentage of Mexico's manufacturing exports. Upon closer inspection, it would seem that very little has really changed over the centuries. That is why NAFTA represents such a historic opportunity to permanently alter the nature of the cultural interactions among the nations that the British, French, and Spanish colonies grew to become in North America. Doing so will require that we make the choice to understand the sources of our cultural and socioeconomic differences as ones of societal inheritance that can work for or against us as individuals, as opposed to individual ability or merit.

Success Yields More Choices

The new economy has brought with it more choice, more opportunity, and more possibilities than ever before for investors and consumers to

get exactly what they want, how and when they want it. The Internet and falling costs for telecommunications and transportation have created a revolution of choice. It feels fantastic to those who are getting treated better than ever, and getting more bang for their buck. As individuals, or as companies, all become freer to choose between various alternatives of what to buy, where to invest, where to live and do business, etc. All service providers must work harder and harder to retain their loyalty.

However, when the tables are turned and you are one of those service providers, this results in an ever more frenetic pace of work, as the demands of satisfying the more and more demanding business customer or end consumer translate into harder work—and less certainty about your jobs, or the future of your employer's business, if you fail to retain that customer's business. What is certain is that we as individuals and companies will have to keep competing, every single day, to keep what we have earned. If we compete successfully, the fruits have never been sweeter, or the potential upside bigger. However, if we do not compete effectively, the downside is a steeper and more slippery slope than ever as well. Higher stakes are a feature of the new global economy.

So we are continually “switched on,” leading more frantic lives every year. “Everyone says: go faster. Everyone says: upgrade. Everyone says: be more efficient. We all hang on the curve, afraid to fall off. But the curve itself is not a parabola, it is a paradox.”²⁰ We somehow feel that living faster means living more, and that having more choices and more money allows us to squeeze more “living,” more experiences, into our life.

Milan Kundera writes in his novel *Slowness* that “speed is the form of ecstasy technical revolution has bestowed upon man.”²¹ But the speed of technology, as opposed to the speed that our bodies are physically capable of, has no limits. Mark Kingwell, a professor of philosophy at the University of Toronto, suggests that in some way our fascination with acceleration, our drivenness and ambition to do more and achieve ever more in less time, is an extension of our fear of mortality. It is we, he says, not our faster computers or machines, who are fascinated by speed, and who are ultimately the “motor” that is propelling our lives ever faster, as a way of “pressing the limits of our mortality.”²²

Whether these thinkers have accurately identified the subconscious motivation of our lust for speed, efficiency, and increased choice is immaterial; what is undeniable is that it is real. It is really *we* who are

responsible for the changes taking place in the economy and society around us. Not foreign factories and workers. Not globalization, NAFTA, or unethical corporations. *Our* choices, and *our* desire to find a better deal, a faster and higher rate of return on our investments, are creating a whole new set of economic relationships. If we could just get it, or do it, *now*, whatever it is, we could cross it off our list, and still have time left to accomplish more in our lifetimes.

Companies must now scour the globe for ever better deals at lower prices on everything from phone service, to call takers, to industrial boots, to raw materials, to employees . . . or risk failing to meet *our* insatiable demands for better stuff at better prices, or better than expected quarterly earnings. Mutual fund managers who move in and out of the NASDAQ, the Nikkei, or the BMV (Bolsa Mexicana de Valores) at the speed of light do so not because they are unethical, but rather to satisfy *our* desire for higher returns and security of capital in our investments, and therefore ultimately to safeguard their business relationship with us.

Neither an external force, a conspiracy, evil corporations, nor NAFTA is bringing about the changes in our society and economy. Nor is it something we are entirely powerless to control. Globalization and technology are simply giving us more choices, and the ability to squeeze more into our lives. We have accepted these choices, maybe without recognizing that one of their consequences would be more social inequality. Having choices is directly related to one's level of income, so by default there are more and more people who have fewer choices, while some have more than ever. Higher levels of income allow one to "free up" time by eliminating less pleasant tasks, such as cleaning, in favor of more enjoyable and productive tasks.

Absent a major souring of the American economy, there is every reason to think that Americans will become increasingly reliant on paid housekeepers and that this reliance will extend ever further down into the middle class. For one thing, the "time bind" on working parents shows no sign of loosening; people are willing to work longer hours at the office to pay for the people—housecleaners and babysitters—who are filling in for them at home. Children, once a handy source for household help, are now off at soccer practice or SAT prep classes; grandmother has relocated to a warmer climate or taken up a second career.²³

Clearly, there are better things to be done with one's time than tasks such as cleaning. (Cleaning is used as an example of the many types of chores one might choose to "outsource" from the home.) Nobody ques-

tions the utility or the liberating feeling of being able to discard unpleasant tasks in favor of more productive, remunerative, or leisurely ones. The feeling of self-satisfaction that comes with the ability to make such choices is the reward of hard work and success and should be enjoyed. However:

In stating that one has something better to do with his time, by implication one is also stating that someone else, in this case the service provider, has nothing better to do with his or hers. In defining their attitude towards and relationships with their service providers, those fortunate enough to be able to make such choices may recall the argument that was used by feminists in the 1960s that housework defined a human relationship and, when unequally divided among social groups, reinforces preexisting inequalities.²⁴

As someone who has lived extensively in Mexico, and had a housekeeper, I have always been amazed at the differences between the way many Mexicans treated their domestic help as compared to North Americans. For North Americans, usually temporary residents in Mexico, it is a novelty and a privilege to have help in administering and performing daily household tasks. As such, it is an eye-opening experience to see how fortunate one truly is, and to be able at the same time to make a difference in the life of the people who contribute to your well-being. The Mexican employees themselves often commented on this as well, stating that they felt North American employers' treatment was more humane, and showed concern for them as people. Wealthy Mexicans, on the other hand, generally *expect* to be served by others whom they view as "lower" than themselves.

Upper-class Mexicans realize that those serving them have few alternatives. This power imbalance in the social and economic relationships between employer and employee causes a degradation of civility, segregates society, and makes the formation of a unified community across socioeconomic levels nigh unto impossible. And it encourages corruption, ultimately in the form of abuse and exploitation of those who have no alternative but to submit to it.

In *Here, A Biography of the New American Continent*, Anthony DePalma writes,

As I lived in Mexico, I learned that this system of deference, subservience and respect that at first seemed so gentle and old-fashioned was in fact more like an elaborate fantasy. Using the honorific term Don for the gardener was not, as I had first thought, the reflection of a society blind to

class differences or social asymmetry. Rather, it was an artifice of a society bent in large measure on preservation of the status quo. The artificial gentility that Mexico's upper classes show toward those below is just one attempt among many to disguise a culture that has solidified into vastly unequal social strata . . . the powerful oblige the powerless because doing so helps ensure the order of society . . . gardeners remain gardeners and so do their sons, and corporate vice presidents make their sons corporate vice presidents.²⁵

In North America, services of all sorts tend to be provided in a much more impersonal, businesslike fashion. We often do not know, and do not want to know or have a relationship with, those who provide us services. There is no relationship, and the presumption of relative equality between employer and service provider is maintained precisely by the lack of intimacy. In Mexico, by point of contrast, service providers are persons who are often quite literally dependent on their employers for their subsistence, and who at the same time become more intimately involved in their employer's personal lives. There is some relationship, but one based on inequality and falseness as described by DePalma.

In *Trust*, Francis Fukuyama dissects the differences in social values in what he terms "Low-Trust Societies and the Paradox of Family Values," and "High-Trust Societies and the Challenge of Sustaining Sociability." In Mexico, there is the illusion of warmth and familiarity, but at a deeper level there is a supreme mistrust that prevents social cohesion. In North America, a high level of trust, based on the ability to resolve interpersonal issues through governmental institutions and the legal system, eliminates the need for people to have much of a relationship at all with anyone.

The point here is that as inequalities widen, and some groups in the new economy have the power to make more choices, they ought to remain cognizant of the flip sides of their choices. They must be aware that their ability to make choices is related to, although not responsible for, another's relative inability. Allowing our growing ability to make choices to cause those very choices to become increasingly uninterested and selfish as regards other human beings; to be based on relationships of de facto dependence superficially veiled by a lack of intimacy; or to alter our attitudes about the intrinsic value of the service providers themselves as human beings by allowing their human worth to be equated with the nature of their work or their level of income—all would represent a disturbing shift in the North American ethic of human rights, fairness, and equal opportunity which we have espoused

around the world as the source of our democracy, strength, and prosperity. And if we were to become complacent or accepting of the idea that some people do not deserve the right to achieve equal levels of the “ability to make choices,” it would be an example of how North American attitudes are becoming more similar to those prevalent in Latin America.

The Tyranny of Small Decisions

In *The Future of Success*, Robert Reich presents a stunningly logical and easy-to-understand summary of the social impact of the new economy and globalization, and the proliferation of choices. The same forces of globalization mentioned earlier, namely lowered transportation costs and new information technologies, have given us not only more product and investment choices, but also more choices about whom to associate with.

The term Reich uses to describe it is the “sorting mechanism.” By this, he is referring to the daily rational choices that we all make about where to live, where to send our children to school, where to shop, etc. With more choices than ever, and low barriers to switching, we move continually in search of a better deal. It is not something we necessarily do consciously, but the sum of our individual decisions is adding up to social trends that we may not have chosen.

One of the areas where the impact of “sorting” can be most easily seen is in the economic disparities between our communities, and the racial segregation that often accompanies it. Additionally, much has been written about the decline in community spirit and the general lack of loyalty many feel toward their communities. Reich says that Americans still join together in communities, but with a much lower commitment to one another. Instead of joining as participants, they join as consumers by pooling resources for common ends such as day care, elder care, health care, schools, recreational facilities, or investment clubs. And since they join with little commitment, they can easily abandon a community when a better deal comes along.

Given the range of choices and ease of switching, we’re sorting ourselves into communities of people with roughly the same incomes, the same abilities, the same risks, and the same needs. Where we live has more to do with how much we earn than ever before. It’s Vail and Greenwich versus the communities who attend to them—but on a much larger scale.

People who are the most buffeted by the new economy—whose incomes have eroded the most, whose earnings are the most precarious—are ending up together in the same poor communities. Their schools are among the worst. They have less medical attention. Their insurance is more costly. Even when they pool what they can afford, parents of toddlers still can't raise enough for good-quality day care. This sorting process started years ago, but it's become far more efficient, just when the people who are being sorted away into neglected communities need help the most.²⁶

Along economic lines, people are organizing themselves into the best communities they can afford. As this sorting takes place, people with greater resources move into communities offering better services, and likewise people with fewer resources are finding themselves being reorganized into communities made up of folks with similar resources. It is a purely rational thought process that people go through in trying to get the best combination of characteristics that are important to them, and that they can afford, in a place to live. Dinesh D'Souza characterizes this as a switch from *Gemeinschaft* (German term for a community based on solidarity) to *Gesellschaft* (German term for a community based on commerce).

Examples of such sorted communities include exclusive residential areas linked with golf and country clubs. Another example is wealthy retirement communities that collect assessments focused on the needs of that age group for healthcare, recreation, and transportation, but whose residents are exempted from paying school taxes for other people's children through zoning and deed restrictions that prevent families with children from living in their jurisdiction. Reich describes this as the "secession of the successful."

The other extreme has already been mentioned: the urban ghetto tracts described by William Julius Wilson in *When Work Disappears*. Many urban residents have witnessed neighborhoods that gradually improve or decline. One can sense the borders of the sorting process in cities where neighborhoods are going through a restoration, and more affluent residents are moving in to refurbish old brownstones or loft apartments. Unintentionally over a period of years, the increase in property values they induce gradually drives the former residents out as rent and taxes rise. It may help to visualize the relationship between unrestrained liberty and freedom of choice and the consequent sorting that it precipitates. Figure 6-1 shows our take on the relative position of the NAFTA partners, and the rest of Latin America (LA), along these two axes.

Choice	Hi	CAN	USA
	Low		MEX LA
		Low	Hi

Degree of Sorting

Figure 6-1 Choice = The amount of merit-based freedom of choice and opportunity available in a society. Sorting = The degree to which society is structured along lines of socioeconomic class.

Canada, while less dynamic and entrepreneurial than the U.S., does not experience the same levels of inequality. The U.S. is highly dynamic, and characterized by perhaps the highest degree of meritocracy and individual opportunity of any society in the world. Its system, however, produces big winners and big losers, and the cycle of winning and losing can be perpetuated by the resulting high levels of inequality. Mexico and Latin America are characterized by high levels of socioeconomic inequality, and lack opportunities for individual advancement on the basis of merit. This results in less dynamic and entrepreneurial societies and economies.

Because of the sorting mechanism, everyone is working harder to stay on, or get on to, the right side of the dividing line. The stakes are higher. If you make it, you'll live in a great neighborhood, send your kids to great schools and universities, and enjoy excellent healthcare and recreational facilities. And this cycle will repeat itself since your kids will have better contacts, and will have started out with more opportunity. But if you don't make it, you and your children will be less likely to enjoy these privileges.

The new economy is increasingly composed of big winners and big losers. So you need to work while you have work, since the security of having it tomorrow has diminished. If you do work in high demand, today's speed of change may allow for only a limited window of opportunity to cash in, and the payouts are better than ever for those at the top of the pyramid or with a valuable new idea.

Should you choose to "downshift" in order to have more time for your family or other interests, the price you and your family will pay,

perhaps for generations to come, is very high. So, the temptation that many overworked, affluent people feel today to scale back their work and achieve a more balanced life comes with a high price tag. They feel they cannot afford not to work. The opportunity cost is too high. For the working poor, the mere ability to contemplate such alternatives would be a luxury.²⁷

Only those who slavishly worship success can think that effectiveness is admirable without regard to what is effected.

—Bertrand Russell

Conclusion

NAFTA encompasses all of the promise and contradictions of modern day economic life, and as such represents much more than merely free trade. All of these ironic contradictions confound the messianic American worldview. “This American experience is a refutation in parable of the whole effort to bring the vast forces of history under the control of any particular will, informed by a particular ideal.”²⁸

No matter how hard we try, we can’t force everything to work our way. We can’t just have free trade with Mexico and not deal openly and directly with the other far larger social issues that loom just below the surface of the NAFTA dialogue.

There is a growing awareness among leaders of developing countries that what they need in order to succeed in the globalization system is not just an emerging market, but what former U.S. ambassador to Hungary Donald Blinken called an “emerging society”: “It does not pay to privatize your economy in a societal and governance vacuum. Putting the market before the society is an invitation to trouble and disappointment.”²⁹

Clearly one of the most important decisions the United States and Canada must make on the world scene in coming years has to do with the position we adopt toward NAFTA and Mexico. Mexico’s future hangs in the balance, as do a host of common issues that affect all three countries. Our future is more intertwined with Mexico’s than we realize.

Will Mexico become the next Afghanistan, harboring resentful hordes walled out and waiting to do us harm? Will we have the wisdom and vision to recognize this historic peacetime opportunity? Or will we continue to fall victim to national, cultural, and racial stereotypes and

short-term, individualistic thinking that limit us from working at closer than arm's length? To do so would be to fail to live up to our cultural heritage. But there is a certain human propensity, almost a logic some would say, in the repeated failure to learn from the past. This propensity must be overcome by the public and private sector leadership in North America.

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Building Consensus to Make NAFTA Work: The Logic of Failure

7

Moving NAFTA and North America forward will require that NAFTA be better understood and more broadly supported by the people of North America. There is not sufficient consensus among different groups of society about where NAFTA fits into the many other changes they feel taking place around them. In order to build consensus, there must be far more dialogue and education on the topic than there has been to date. NAFTA must be understood as a system of interdependent variables in order for this consensus to be built. It cannot be understood in terms of “either/or” dichotomies, such as jobs for Canadians *or* for Mexicans; or economic growth *or* sustainable environmental practices.

In his book *The Logic of Failure*, German sociologist Dietrich Dorner dissects human decision-making behavior in a series of different situations that require management of a system of interdependent variables. Dorner terms such a system “complex.”

Studying groups of managers during simulations of complex systems made it clear that one of the first and most common management mistakes is to oversimplify, by failing to see a system in place of a series of independent linear relationships.

We find a tendency under time pressure, to apply overdoses of established measures. We find an inability to think in terms of nonlinear networks of causation rather than chains of causation—an inability that is to properly assess the side effects of one's behavior. We find an inadequate understanding of exponential development, an inability to see that a process that develops exponentially will, once it has begun, race to its conclusion with incredible speed. These are all mistakes of cognition.¹

In the context of NAFTA, similar errors of cognition are being made, as the complex system of interrelated variables is being oversimplified in terms of independent linear relationships such as jobs, immigration, drugs, or the environment. Following Dorner's framework, NAFTA must be understood as a system, a network of variables with differing levels of interaction (Figure 7-1). And we must seek to understand the behavior of this system, by going back in time and identifying causes of its current state, and attempting to extrapolate different potential future outcomes from today's decisions.

Dorner² identifies four essential characteristics of a system:

1. *Complexity*: "The more variables, and the greater their independence, the greater that system's complexity. Variables are interrelated if an action that affects or is meant to affect one part of the system will also always affect other parts of the system."
2. *Dynamics*: "Dynamic systems move on their own, creating time pressure. They must be dealt with using partial solutions, based on available information and an understanding of where the system is heading over time."
3. *Intransparency*: "When what planners and decision makers would really like to know is not knowable, and insufficient information is available, this adds uncertainty."
4. *Ignorance and mistaken hypotheses*: "To operate within a complex and dynamic system, we have to know not only its current status, but where it is heading, and what effects our actions on it will have in the future. To help simplify, most people try to build a reality model to help them understand a system. These may be based on explicit knowledge, which can be verbalized although not always be made useful, or based on implicit knowledge, which is often thought of as intuition. As a rule, reality models are both incomplete and wrong. But people are most inclined to insist they are right when they are wrong, and

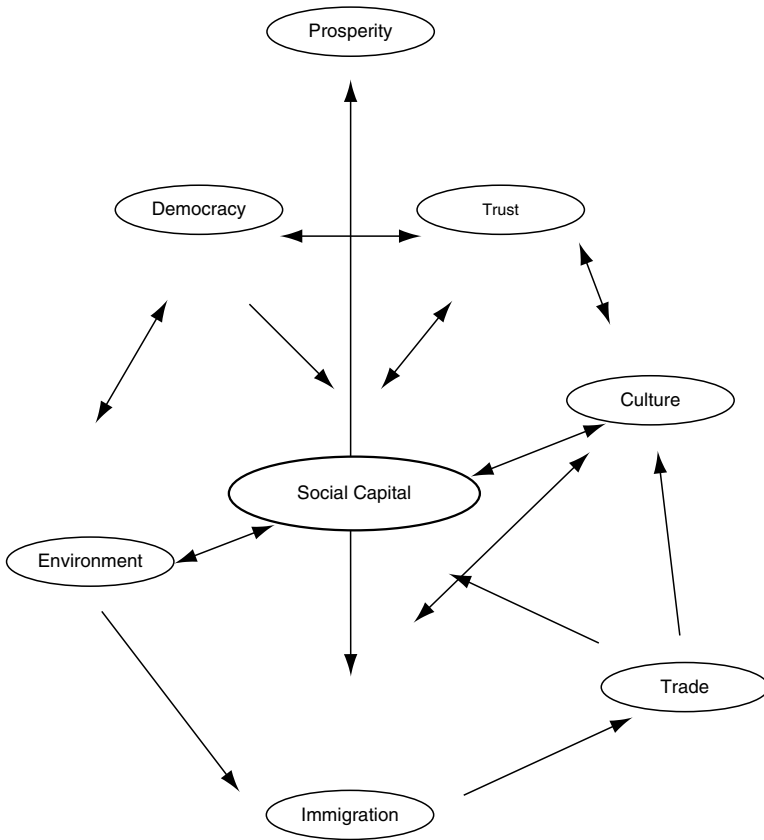


Figure 7-1 NAFTA as a system of interdependent variables.

when they are beset by uncertainty. The ability to admit ignorance and mistaken assumptions is a sign of wisdom, and most individuals in the thick of complex situations are not, or not yet, wise.”

NAFTA Interpretation

NAFTA is more than a trade agreement already. It is the focal point of, and catalyst for, a highly complex system of interdependent variables that have interacted since long before the agreement itself was signed. We must attempt to understand what the NAFTA region will become given relative levels of proactive Canadian and U.S. engagement with

Mexico. We don't have forever to decide what our roles will be. Choosing not to decide still represents a choice and allows current, and perhaps suboptimal, realities to continue to advance. Different observers, depending on their degree of familiarity with these variables, will perceive this complexity to a greater or lesser degree. Most people lack necessary information to understand NAFTA and harbor many misconceptions as a result. So they form reality models that are most likely wrong. For example, the methods of international import/export accounting make it difficult to ascertain what is truly Canadian or Mexican, when finished goods are assembled from components sourced around the world. It is difficult and costly to assess the full extent of environmental contamination underground. Predicting flows of future illegal immigration is imprecise. It is hard to quantify the benefit of job training and investment in people.

Most people have an implicit reality model about NAFTA, based on a "gut feeling" about where greater openness in North America will lead us. It is influenced by misconceptions about the reasons for painful economic change occurring in our societies, and exacerbated by long-standing cultural and racial stereotypes, nationalism, and xenophobia. We need to allow for the fact that these assumptions are most likely all wrong, and leading us to suboptimal outcomes that destroy future wealth and social capital in North America.

What Is the Real Goal of NAFTA?

The key to avoiding erroneous decision-making in complex systems, according to Dorner, is the proper formulation of goals. So what is the long-term goal of NAFTA? Does anybody really know? Will NAFTA be complete once it is completely implemented as it is written today, or is it just one step forward in an inevitable succession of steps that will lead to closer economic and cultural integration in North America? Will NAFTA evolve into a common market? Is it necessary to have a long-term goal and strategy for NAFTA?

In Dorner's terminology, NAFTA would be defined as a complex system of variables that links three nations across borders in a system as complex as human civilization itself. This system existed before the ratification of the agreement itself; NAFTA simply altered some of the relationships between certain variables.

The goals of NAFTA may be clear to its framers, but the majority of the public in Canada, Mexico, and the U.S. seems not to have a very

clear idea what it is and what it is not. Yet most of the opportunities that NAFTA presents, and the problems it faces, involve significant trade-offs that will require public support in all three countries. We must begin now to combat misinformation and lay the groundwork for the public consensus that will take NAFTA to the next level.

When defining goals, Dorner cautions decision makers to understand the different kinds of goals that exist. Properly defining the goal improves the chances of success.

Types of Goals

1. *Positive or Negative*

- Positive goals are those where we are working toward a desirable state of affairs. How things “should be.”
- Negative goals are those where we are working to change, abolish, or avoid undesirable conditions.

Dorner recommends that whenever possible, negative goals should be converted into positive goals, since the latter are by nature less vague.

NAFTA Interpretation. We must ask ourselves what we want the NAFTA community to “become.” Example: Are we “reducing” immigration or “creating” an alternative to it? Are we “lowering” tariffs or “building” a more stable and integrated economic community? It may sound like semantics, but Dorner’s research shows that having an affirmative outcome clearly in mind produces better results.

2. *General or Specific*

- General goals are defined by a single criterion or a few.
- Specific goals are defined by many criteria; they can be described and conceptualized very precisely.

Dorner advises that general goals should not be converted to specific goals unless there is a commonly understood overarching framework or vision that guides the conception, or else behavior will correspond to immediate demands.

Additionally, planners are encouraged to seek what he terms “efficiency diversity,” or a situation in which there are many different possible outcomes, each with a high probability of success, that can be pursued even when we cannot specify the final goal.

NAFTA Interpretation. Without a shared common vision of where NAFTA is taking us, what the desired end result is, we run the risk of focusing on minutia and demonstrating inconsistent decision making that shifts course with the winds of the moment. Even if we do not know what the desired end result of NAFTA is yet, we can focus on constructive medium-term solutions that head in a positive direction toward solving real current problems.

3. *Clear or Unclear*

- Unclear goals lack criteria for deciding with certainty whether they have been achieved. They are vague, and generally composed of multiple subgoals.
- Unclear goals should be deconstructed to define in detail exactly what is meant. In breaking them down, we increase the goal complexity. In such cases where multiple goals are found, Dorner recommends studying interdependencies between variables, finding central themes, and ranking in terms of importance and urgency.

NAFTA Example. The creation of jobs is a goal the public associates with NAFTA. Yet nobody is sure how to measure job creation or loss directly associated with NAFTA. Opponents and supporters of NAFTA use different methods to measure job loss and creation. Even if it were straightforward, the issue of “what kind of jobs?” and “where?” would surface. Since job creation is not centrally managed, and cross-border job creation programs are not formalized, how can we ever be sure if this goal has been achieved? Is this something that when discussed should even be aggregated at the national level, since nobody agrees on how to measure it, and NAFTA governments don’t create or eliminate the jobs? This goal is unclear.

4. *Multiple or Simple*

Where multiple goals or subgoals exist, they can be either:

- Positively linked (i.e., more of one:more of the other)
- Negatively linked (i.e., more of one:less of the other)
- Not linked

Simple goals are generally multiple goals in disguise. Decision makers must understand their interrelationships.

NAFTA Example. The goal of reducing illegal immigration may actually consist of treating causes *and* symptoms. Creating more jobs in Mexico, controlling population growth, or, perhaps conversely, creating more legal opportunities for citizens of North America to move about freely could be component parts of the solution.

5. *Implicit or Explicit*

- Implicit goals go unnoticed during early stages of planning, emerging after we have pursued other goals with which they are negatively linked.
- We tend to focus on current problems alone and not on problems that do not exist yet. We don't spend enough time thinking of what problems our solutions could generate.
- The mistake lies less in failing to foresee unexpected side effects, than in simply not wanting to know about them, a myopia that results from overfocusing on an acute problem.
- To avoid this pitfall, Dorner recommends always keeping in mind the features of the current situation one wants to retain or leave unchanged. Such an analysis is the only opportunity to make implicit goals into explicit goals.

NAFTA Example. We all desire more choices, better prices, and better returns on our investments. We have little loyalty to companies or service providers that do not meet our expectations of immediate gratification. We have also enjoyed living in a relatively peaceful and egalitarian society without enormous socioeconomic disparity. The new economy of choice and globalization is bringing us the results of the choices we demand, but it is fundamentally altering social relationships. As we speed toward the future, is there anything about the way things are today, or were in the past, that is worth preserving even if it costs a bit more? Now is the time to ask those questions.

If we fail to adequately define and deconstruct the goals of NAFTA, decision makers leave uncovered many contradictory relations between partial goals, and this can lead to decisions that replace one problem with another. "A vicious circle is commonly the result. By solving problem X, we create problem Y."^{3,4}

When decision makers realize that they are confronted by contradictory goals and falling into the pattern of vicious circles, they usually use one of the following ways of dealing with the situation:

- *Goal inversion*: They give up on the goal, or even pursue the exact opposite of the original goal.⁵

NAFTA Example: The complete retreat from NAFTA, or some element of it, because of unforeseen side effects would be an inversion of goals. The recent discussions regarding whether to adhere to the NAFTA provisions about allowing Mexican trucks into the U.S. is an example.

- *Conceptual integration, or “doublespeak”*: They attempt to verbally unite two incompatible realities. “They want to keep one thing without losing the other—and verbally it seems to work. It is worth noting in passing here that these verbal integrations of incompatibles can, over time, produce changes in the meanings of words.”⁶

NAFTA Example: Noam Chomsky of MIT has often accused the U.S. of utilizing doublespeak in its foreign policy pronouncements. He supports this argument by analyzing public speeches of U.S. leaders that extol liberty and democracy, and comparing them after the fact to the actual U.S. policies. He notes that U.S. endorsements of and support for past Latin American governments have not consistently supported democratic movements.

- *Conspiracy theories*: Out of the need to save face and protect our self-esteem, we struggle to admit and accept our failures, instead looking for someone to blame.⁷

NAFTA Example. The Dependency Theory of Latin America blamed the United States and other industrialized nations for the region’s economic underdevelopment. Mexico criticizes the treatment of migrant and maquiladora workers, while providing no better treatment in Mexican national facilities.

Dorner’s findings are important and relevant in the context of NAFTA, which is a complex system, a network. If NAFTA were able to be converted into a large computer simulation game that our leaders could practice on first, nothing could be more important than setting the right goals for NAFTA, and managing expectations accordingly.

If the long-term goal cannot be discerned, constructive medium-term steps must be identified. If we do not accurately profile and deconstruct our goals, our performance will suffer, and we will spend all of our time fighting fires, or in the terminology of the management study outlined in *Built to Last*, by James C. Collins and Jerry I. Porras, “telling time” instead of “building clocks.” This will lead to unproductive man-

agement behavior at the national level. “Ultimately, we may find ourselves choosing projects for their obviousness, rather than for their importance. If we overlook implicit contradictions in our goals, we may achieve good results initially, but in the long run we will produce many bad results.”⁸

A recent profile in *Detail* Magazine of George P. Bush, the son of Florida Governor Jeb Bush, stated that, in the future, politics in the U.S., whether Republican or Democrat, were going to be Hispanic. The current president’s nephew and namesake is a fluent Spanish-speaking Latino named Bush. Millions more Mexicans will immigrate to the U.S. in coming years. They will become the new swing vote. And they will keep their cultural traditions alive, because of the closeness of their homeland, and the low cost of telecommunications and transportation that keep them linked to it. The relative segregation between cultures will no longer be able to be symbolically maintained by a border. A more complete embrace of Mexico and more proactive integration of the Hispanic culture must increase. For the U.S., that’s the big story behind NAFTA, not just the jobs and the exports. Are we adequately preparing for it on a social level, or just on a commercial level? Or are we merely reacting to it?

NAFTA, although most believe it to be “just” a trade agreement, and one that could even be canceled, is the glue that holds together North America now. We cannot allow it to fail, even if such failure can be logically explained or rationalized after the fact. We should begin to use it as the umbrella under which social cohesion in North America is planned for. The anarchic, chaotic, and unjust possible future scenarios foreseen by futurists that were outlined in Chapter 2 are worth avoiding. But elements of them are already visible today, and they could be real possibilities if the convergence of institutional frameworks of trade in North America is accomplished in a way that does not create trust and respect among Spanish-, English-, and French-speaking cultures.

Trust and Social Capital

Is there a trust problem within NAFTA? In the case of the U.S. and Canada, important issues separate the two allies, such as the Kyoto Treaty on global warming. However, the issues that periodically rupture consensus have never been so large as to destroy a fundamental trust that exists between two almost sibling nations who share an open relationship of allies with highly integrated economies. But let’s face it; the biggest unspoken problem about NAFTA is the lack of trust between

Mexico and the United States. Trust, that familiar word in the names of so many financial institutions (i.e., State Street Bank and *Trust* Company), is intricately linked to credit. The word *credit* derives originally from Latin words meaning “to believe in” and “to entrust to.”

Writing in the *New York Times*, the Chairman of the Mexican Senate Foreign Relations Committee, Fernando Margain, and Walter Russell Mead, proposed the following in June 2001:

The NAFTA nations should learn from the example of the European Union. Worried that migrants from Spain, Portugal and Ireland would flood into the richer E.U. nations, the union provided loans and grants for large-scale development and public works programs to create jobs for these workers in their own countries. In North America, a similar strategy could work. Public agencies with equal representation from all three NAFTA countries could be created to borrow money cheaply, with loans backed by the governments, to finance large public works projects across Mexico such as highways, with money set aside for environmental cleanup. . . .

Internally, Mexico needs a system that gives ordinary people access to credit, including micro-credit, at reasonable interest rates so that families can buy houses and even the smallest businesses can grow. Canada and the United States provide models of bank regulation Mexico could adopt.

With commitment from its NAFTA partners, Mexico can become an advanced industrial democracy within a generation.⁹

The authors are calling for what? They propose credit and increased cooperation from Canada and the U.S. to accelerate Mexico’s development. There are so many things that Mexico would like to transform, but it is going to take money to fix all of them. And Mexico does not have the money. Just because the U.S. and Canada *could* lend money does not mean that they *have* to, or *want* to. Being pressured into a lending situation (such as the \$20 billion bailout package the Clinton administration assembled to help Mexico through the 1995 peso crisis) to fix a problem is akin to a creditor repossessing a failed business; it feels bad. There is nothing to look forward to, as contrasted with a situation of investors jointly and optimistically going into a new project together.

There can be no credit without trust. The cost of credit goes down as trust goes up; trust mitigates risk. In other words, the lack of trust between the NAFTA partners has a very tangible cost which continues to destroy value and prevent value from being created in North

America. The lack of trust perpetuates the need for arcane customs and legal documents that increase transaction costs. Our historical mistrust has always been expensive, but is even more so today as the tools for doing business from a distance open so many previously closed possibilities. Institutions such as the National Law Center for Inter-American Free Trade at the University of Arizona School of Law have devoted years of research to the harmonization of customs and commercial law procedures between the U.S., Canada, and Mexico, but many differences still remain. Regular trade, as well as e-commerce and e-sourcing, are complicated by these differences. With more trust, these opportunities to lower transaction costs can be more fully exploited.

Given the tremendous common opportunities, and the extent of shared problems, what we need to find are reasons why working together to expand NAFTA is good for all of us. The problems will end up requiring joint funding that nobody will feel good about if viewed on its own merits, unless it is placed under the rubric of an overarching vision and goals, and a more optimistic portrayal of the opportunities. Although this may well seem like a stretch, putting a better face on NAFTA and explaining what it could become needs to be elevated to the level of a national project.

If trust is the basis of credit, then we need to find ways to build trust between Mexico and the United States and Canada. We could start by finding ways to capitalize on the trust that already exists in the form of cross-border networks of individuals and small groups, of extended families, or between corporations and their subsidiaries in other NAFTA nations, and extract their best practices for everyone to see. A sincere interest in developing a more profound understanding of one another's culture will be critical for each NAFTA partner because "social capital, the crucible of trust and critical to the health of an economy, rests on cultural roots. At first glance, it seems quite paradoxical that culture should be related to economic efficiency, since culture is totally arational in its substance and in the way it is transmitted . . . culture can, however, have its own deep adaptive rationality."¹⁰

In defining culture, cultural anthropologists generally describe it as symbols, ideas, values, religion, and ideology. Sociologists, on the other hand, describe it more in terms of social structures such as family, legal systems, and health systems. Chapter 3 included elements of both types of definitions. Francis Fukuyama, in the book *Trust*, defines culture in a way that integrates these two approaches. He defines culture as

“inherited ethical habit.”¹¹ Cultural differences can foster or inhibit the creation of trust. Without trust, wealth creation is hindered. Without trust, NAFTA will not achieve its potential. Huntington, Barber, Kaplan, and Friedman have all written from different angles that cultural differences will lie at the heart of the potential for conflict and erosion of social cohesion in North America in the 21st century. However, overcoming them proactively has enormous upside potential.

Lawrence R. Harrison believes that the differences between North American and Latin American culture are so large that they will impede the formation of a true NAFTA community beyond the scope of an arm’s-length trade accord, much less a broader free trade agreement encompassing the Western Hemisphere. Based on personal experience in Latin America and Mexico, and on sources such as Max Weber’s *The Protestant Ethic and the Spirit of Capitalism*, Harrison posits that Latin America must become more like North America in terms of the cultural variables, listed in Table 7-1, that divide them. If synergy could be created to resolve these differences, he believes stable institutions and community could be formed.

Harrison contends that trust and partnerships cannot develop between cultures that are so divergent in their cultural foundations. What will it take to cause such different cultures to converge sufficiently in order for greater cooperation, and the formation of social capital and wealth, to take place?

The cultural values of the Anglo-Protestant tradition such as merit, education, sense of community, ethics, and justice are what formed the basis for the creation of stable and effective institutions and communities in Canada and the United States. Latin American societies have traditionally been anything but meritocratic, community oriented, ethical, or just. They will have difficulty in developing these characteristics, since this runs against traditional Ibero-Catholic cultural values. Harrison suggests that Latin America and North America may not be culturally compatible or able to bring about an enlarged free trade area, unless Latin America moves closer to the cultural values of the North and strengthens the institutional base that will permit democracy and free-market capitalism to prosper.

Harrison warns that a situation such as the separatism in Quebec might result if cultural integration is not achieved in the United States.

I hope that the leaders of Quebec appreciate that the conditions in the province prior to the quiet revolution were chiefly the consequence of a traditional, religious culture that persisted for two centuries in sub-

Table 7-1
Cultural Variables That Divide North and Latin America

Value	Progressive Societies: Canada and U.S.	Traditional Societies: Mexico and LA
Time Focus	Focus on the future	Focus on the past or the present—the future is often in the other world
Work	Work is a source of satisfaction and self-respect, the foundation of the structure of daily life, and an obligation of the individual to the broader society	See work as a “necessary evil” and real satisfaction and pleasure are attainable only outside of the workplace
Frugality	Save the fruit of work for investment or subsequent consumption	See what one gains or saves as coming at the expense of others, thus the elaborate ceremonies and fiestas where savings are redistributed
Education	See education as the key to progress	See education as a frill for the masses, reserved for the elites
Merit	Merit as the basis for advancement is a reality	Family, friends, connections, and nepotism are what count
Sense of Community	The sense of community extends beyond the family to the broader society. It creates a broader radius of trust and spontaneous association, and it contributes to entrepreneurialism and the creation of social capital	Identification and trust are confined to the family. Those outside the family are inconsequential, possibly hostile, and certainly outside a felt “community.” The lack of a sense of community nurtures authoritarianism and is also linked to nepotism, corruption, tax

Ethics	Possess a more rigorous ethical code that influences economic efficiency and political performance and increases social trust, which in turn builds community	evasion, lack of punctuality, and absence of traditions of philanthropy Societies that emphasize the afterlife typically have more flexible ethical systems
Justice	The idea of justice and fair play is nurtured by both the sense of community and a rigorous ethical code	Justice is a highly theoretical concept and in practice a rare commodity that is undermined by money, influence, politics, and kinship
Authority	Recognize merit and allow for specialization in government and business. Resulting in more creative, productive, and entrepreneurial organizations and societies	Encounter difficulties in establishing forging pluralistic political institutions, and in the case of Latin America (but not Asia), authoritarianism stifles dissent, creativity, and entrepreneurship and ignores merit
Secularism	Religion is confined to the spiritual sphere	Religion intrudes into worldly affairs including economics and politics

Source: Adapted from Harrison, Lawrence. *The Pan-American Dream: Do Latin America's Cultural Values Discourage True Partnership with the United States and Canada?* Basic Books, New York, 1997.

stantial isolation from the progressive cultural currents that were driving the rest of Canada and the United States toward modernity. Canada's agony over Quebec underscores three important lessons for the United States:

1. Multiculturalism without a foundation of shared values and attitudes, and without a sense of national community, is a recipe for traumatic fragmentation.
2. The existence of more than one official language is an obstacle to the achievement of the sense of national community.
3. Bilingual education with the goal of anything other than rapid mastery of English works against the achievement of a national community.

Could a "Quebec" take shape within the United States, in the form of a large, non-integrated voting bloc that speaks a different language and has different cultural values and traditions? It already has. However, that is only part of the story. The transition from the industrial economy, and from a century of top-down management in large organizations and governments, to the decentralized "power to the people" information economy and "winner take all" markets is revealing that North American values, at least among the upper classes, are changing. Rather than simply Latin American values moving toward those of North America, what seems more likely to be happening is that we are converging to meet Latin America in the middle. Community is eroding, according to Fukuyama. Stephen Carter, in his books *Integrity* and *Civility*, comments on the demise of these individual and community virtues in America at the expense of instant gratification and selfishness.

Cultural Synergies Must Be Found

Our leaders, in the public and private sector, have much more in common than they realize with their Latin American counterparts. Today, many national and local politicians, and most top-level business executives, are very wealthy. Both categories of individuals now have more in common than ever before as members of a privileged upper class in economically stratified societies, whether their possession of such status came through birth, bona fide achievement in their own lifetimes, both, or other means. They face similar social and business issues, at the local and global levels, in a globalizing economy, that transcend culture. Most

speak English, and many have been schooled together in the U.S., Canada, or Europe. They should understand that they have a great deal in common, as individuals and in the roles their respective societies.

Their challenge is to openly and publicly identify and promote cultural synergies and convergence that will become the basis for greater cooperation and integration, while preserving cultural uniqueness. Their challenge under NAFTA is also to help bring meritocracy to Mexico and Latin America, without allowing its unrestrained advance in the U.S. and Canada to lead to the same levels of permanent and marked social stratification prevalent in the former. Their challenge is to demonstrate the leadership at the highest levels of society and business that will provide the example for all North Americans that we have more in common than that which separates us, and that we can live and work together (as opposed to playing on nationalist sentiments in their political stances while privately enjoying global lives).

As we move forward under NAFTA, there are valuable lessons to be learned from the past. In the U.S. and Canada, culture, and the education and skills with which the culture equips its citizens, is what makes possible our confidence in the value and potential contribution of each individual. This belief in, and investment in, people's abilities is what makes it possible for people to succeed in a meritocracy. It is a self-fulfilling prophecy. In the new placeless economy, however, it has proven easier and faster to exploit skills wherever they may be found. As long as there is sufficient supply of skills elsewhere, the pressure to develop or retrain local workers may not ever reach a critical mass in any particular society, unless there is a more deeply held value in each than the search for immediate profits.

The success and the legacy of NAFTA depend on the development of an attitude of true partnership with Mexico, and the willingness to share best practices from history, culture, and commerce. Poverty and underdevelopment in Mexico, and all of the spillover issues these create for the partners, will persist without that change in our attitudes. So, too, will the widening inequality in the United States. We are facing a choice between perpetuating a situation that is in conflict with our traditionally espoused North American cultural values, and making the commitment to help improve it. Our choice, in the end, comes down to the value we place on people, irrespective of nationality: Mexicans, and our own neighbors. This value cannot be measured by the wages they are paid, or whether a job is "taken" from them or "given" to them. The value is derived from our motivations as we make the decision that sets the parameters for how business is conducted under NAFTA.

For the losers in this “casino economy,” typically lower wage service workers, community sorting occurs along economic lines. Robert Reich cites a study claiming that the typical working person in Vail, Colorado, would have to hold down five full-time service jobs to be able to afford to live in that same community. Thus, most travel to work from an hour or more away, adding time to their workdays and reducing their take-home pay. The surplus of labor dictates the wages and eliminates the need for programs that would transition people out of this level of work.

In Mexico and the rest of Latin America, the working poor face a similar but even more difficult situation. Many labor as domestic servants, gardeners, security guards, or chauffeurs, and in other related service occupations in the homes of the upper-middle and upper classes. The neighborhoods where they live are often far removed from the elite and segregated *colonias* of the wealthier classes that employ them. In Mexico, the rich people don't want, any more than do rich Americans or Canadians, apparently, to have desperately poor people living right next door. But the disparities are so great that the rich live in gated communities, with walls topped with broken glass and barbed wire surrounding their homes. Since all three countries have enjoyed the luxury of ample space and open land, moving away from social problems is an easy decision for privileged North Americans to make.

Most upper-middle- and upper-class Mexican families have domestic servants they call “muchachas,” slang for “girls.” These individuals, typically young women with on average an elementary or perhaps junior high school education, can earn a wage similar to that earned by workers in maquiladoras. The going rate in Mexico City these days is around \$50–60 per week for a full-time live-in maid who works from Monday morning through Saturday afternoon. Some spend the night, others commute daily. In some cases meals are included, and often a private room. If the girl is fortunate enough to find employment in a middle-class family, the level of her accommodations and personal security will be superior to other alternatives available to her, including staying at home.

This type of work is preferable to no work at all, but the real catch is that there is seldom a way out of it. There is no path to personal or vocational advancement that would make this a stage in the development of these individuals en route to better employment opportunities. The surplus of labor dictates the wages. Custom and immense educational barriers between employer and employee lead the employer to assume that the employee is capable of doing little more.

There has traditionally been a marked difference in terms of how individuals are valued in Mexico and Latin America, versus how they have traditionally been valued in the U.S. and Canada. In the former, a waiter is a waiter, a maid a maid, and a laborer a laborer. There is no hope of advancement, because there is no fundamental belief in society that the people are capable of more. This is often confirmed by observation because the lack of educational opportunities marks a permanent and real difference in capabilities between the classes. In the U.S. and Canada, however, the belief is generally held that a person may be a waiter or cleaning lady at the moment, but given the right access to opportunities people are capable of whatever they put their minds to. Economic and social class membership is mutable. Most all of us can recall many times having been waited on, at a restaurant or retail store, by a student who later in life might become their lawyer or cardiologist, or met a retired person pursuing a university degree en route to a new career.

Here is an area where tremendous value in Mexico remains to be created by the NAFTA partners. Many intelligent and talented Mexican people have not had many opportunities for personal growth. But we must not assume them to be incapable of making a larger contribution to society, whether it be in Mexico, or in the U.S. or Canada. They may have lacked the opportunity to receive an education, but that does not mean they should be permanently labeled as someone incapable of doing more. Many corporations are beginning to recognize this and make a larger contribution to the development of local talent in Mexico—not only because the wages are lower, which they undeniably are, but because the people are capable of more.

Similarly, in the U.S. and Canada, we cannot allow “sorting” to become so intense and so perpetual that it engenders conditions of inequality such that we later produce a host of persons who have lacked opportunities their entire lives, whom we later declare to be capable of little more than their current station. That would, ironically, be importing (or permitting the rise of) some of the worst aspects of hierarchical, stratified society from Latin America into the U.S. and Canada. On the contrary, the NAFTA challenge is to demonstrate through our example (through actions as opposed to hollow pronouncements) that valuing people and believing in their inherent capacity to grow and contribute more, if allowed to do so, is one of the principal cultural foundations of prosperity in North America.

The leaders in the NAFTA region, and throughout the Americas, who need to work together should not struggle to find common

ground. At the far extremes the lifestyles and attitudes of individuals in a meritocracy or an aristocracy begin to converge and become nearly indistinguishable. Many very successful people in a meritocracy have personal servants and assistants who attend to every detail of their hectic lives, managing their household and often intimate details of their personal lives—just as their counterparts in aristocratic societies have domestic servants. The difference is that their service providers had differing levels of choice in selecting their role in society.

This is an odd twist on history: the old aristocracy in places such as England or India grew up with servants and practiced being incompetent from birth; now the aristocrats are out in the marketplace desperately trying to prove they can cut it as meritocrats. The meritocrats, meanwhile, need to display real skill to get to the top, where they can achieve helplessness as the reward for former know-how.¹²

Harrison is correct that cultural change must occur in Latin America. But given that people will cling to culture in the face of the approaching monolith of globalization, represented most often by the U.S., cultural change must also occur proactively in America. Without some moderation of the messianic conviction that the American way is the only, the best, and the morally sacrosanct course, the ability of the U.S. to provide leadership will be diminished. U.S. unilateralism as a nation on the world stage is akin to authoritarianism and autocracy at the individual level in the workplace, and surprisingly out of step with the participatory and facilitative management practices that characterize the most successful global companies.

As difficult as effecting cultural change may be, Francis Fukuyama believes that because culture is based on ethical habits it is capable of change. Despite the time required to effect cultural change, Fukuyama believes that political acts can bring it about.¹³ He notes that, all around the world, a basic convergence is taking place that is moving countries toward liberal democracy and market economics. He speculates that perhaps we are approaching the end of history in the sense that the broad process of human social evolution is culminating in this single model similar to the Hegelian vision of a bourgeois democratic society.¹⁴ Changes in the institutions of government in many traditional countries represent the political actions that will set cultural change in motion. In Mexico, the ratification of NAFTA and the end of the domination of the PRI are clear indications that this change is occurring. In many ways, Mexico is accepting the introduction of institutions and frameworks that run contrary to its culture.

Could the same be said of Canada and the U.S.? To the extent that the establishment of regional institutions may limit previously unchallenged national sovereignty over some issues, or that unprecedented prosperity and inequality foster increasingly exclusionary social attitudes? NAFTA requires sacrifices of each partner. The rapid modernization taking place in Mexico and the common framework that NAFTA provides will cause barriers to trade to decline and become fuzzier. In response to global competition, companies with operations across the NAFTA region are trading best practices to increase their competitiveness. However, it is this very same standardization of practices and institutions that many will feel to be a form of cultural homogenization, and, when combined with increased cultural cross-pollination through trade and immigration, it will cause them to seek to preserve those aspects of their culture that differentiate them—what Benjamin Barber referred to as “Jihad,” and Thomas Friedman as the “Olive Trees.” The protection of cultural industries in Canada has long been a goal in the face of U.S. influence. What will stop the Hispanic culture from remaining so isolated even as it burgeons in the U.S. that it will become the equivalent of an amorphous American Quebec?

What becomes critical at this juncture for NAFTA is identifying which aspects of the three national cultures might be subject for mutually sharing and adopting in order to achieve optimal social effectiveness, and which should be maintained as unique regardless of effectiveness.

Modern liberal political and economic institutions not only coexist with religion and other traditional elements of culture, but many actually work better in conjunction with them. If many of the most important remaining social problems are essentially cultural in nature and the chief differences among societies are not political, ideological, or even institutional but rather cultural, it stands to reason that societies will hang on to these areas of cultural distinctiveness and that the latter will become more salient and more important in the years to come.¹⁵

The difficulty in sustaining an objective discussion of necessary cultural changes lies in the politicization of the dialogue, and the inability to use economic performance as the standard for comparisons of the effectiveness of different cultures without evoking cries of cultural arrogance or racism.

The question becomes how to discuss objectively and openly the aspects of culture in North America that, if changed, would improve

NAFTA integration and economic performance, without offending by assuming that the changes will be a one-way flow of ideas, from North to South only. All North Americans share a desire for increased economic prosperity, which is an almost universal human desire. Landes, Fukuyama, Harrison all agree that it is nearly impossible not to form some conclusions about the relative strengths and weakness of different societies. With so much poverty in Mexico and another million Mexicans joining the labor force each year, and growing inequality in the U.S. and Canada, we don't have forever to take different paths and hope to reach the same destination. "How a society arrives, and the speed at which it does so affect the happiness of its people and some never arrive at all."¹⁶

We need to begin to have much more open and pragmatic conversations about the areas where the sharing of best practices among NAFTA nations, and between companies and communities, can put us on a common path to increased prosperity. Common institutions and frameworks provided by NAFTA can help create the parameters within which trust can be formed. But more must be done to foster the creation of commercial networks that foster trust and build cross-cultural bridges at the grass roots level. This is precisely where the role of the private sector can be increased, and learned from, if it is allowed to be an actor within NAFTA on a more public stage. President Vicente Fox of Mexico has insisted that Mexicans working in the U.S. should not be forced to "hide in the shadows"; companies that do legitimate cross-border business should not have to, either.

Echoing the beliefs of Fromm, that all people have an innate desire to contribute and help, Fukuyama accepts that the type of rational, self-interested decisions that Reich describes as leading to a more sorted and stratified society are a natural and real aspect of human utility maximizing economic behavior.

But they also have a moral side in which they feel obligations to others, a side that is frequently at cross-purposes with their selfish instincts. As the word culture itself suggests, the more highly developed ethical rules by which people live are nurtured through repetition, tradition and example. These rules reflect a deeper adaptive reality; they may serve economically rational ends; and in the case of a few individuals they may be the product of rational consent. But they are transmitted from one generation to another as arational habits. These habits in turn guarantee that human beings never behave as purely selfish utility maximizers postulated by economists.¹⁷

If people do indeed have such an innate cultural desire to help, serve, and cooperate with others, how can we find a way in North America to encourage this desire? To help it to span local, state, national, and cultural borders, rather than have these very same be the stumbling blocks where trust breaks down? The first obvious obstacle to creating trust beyond cultural differences might seem to be distance: the majority of Americans, Canadians, and Mexicans have few opportunities to interact with one another. However, distance affects even people who live across the street from one another, so it need not be the excuse. Tools exist today that render distance impotent. There are aspects of NAFTA that require more government involvement and leadership, and others that require much less.

Building trust and consensus and sharing best practices are far more important than Fast Track negotiation authority for the long-term success of NAFTA.

NAFTA Needs Cross-Border, Cross-Cultural Networks

Setting the right goals for NAFTA, and working together to execute them, will require effective teamwork among Americans, Canadians, and Mexicans. Working well in teams has always been a necessary workplace skill for individuals, but it comes less easily to nations. As NAFTA continues to be defined and implemented, individuals and smaller groups, and companies and agencies that have cross-border activities, are weaving its true fabric. Our governments will need to develop new ways of working together that are faster, more frequent, and overcome distance.

In *Virtual Teams*, Jessica Lipnack and Jeffrey Stamps discuss the need for professionals to add virtual teamwork skills to their list of core competencies. As companies continue to globalize supply chains and markets, their own organizations will grow around the globe as well. It is increasingly likely that their employees will be part of a diverse, global workforce. They will need to develop the skills necessary to interact with colleagues from other cultures. What is true for companies is also true for governments and NGOs.

The rise of Internet-based collaborative tools has also made it more likely that this interaction will be virtual the majority of the time. Seeking to speed project development time and reduce costs, tools such

as Lotus Sametime are being implemented by many global organizations. Now, the challenge of teamwork in a cross-cultural setting takes on an additional element of complexity, since nonverbal communication cues can be used to help interpret the meaning of messages. Although an employee in Mexico or Quebec may write e-mails in English, his or her methods and expectations of interaction are still governed by culture. Everything that goes wrong with “in-the-same-place” teams also plagues virtual teams—only worse.¹⁸

A virtual team is defined as “a group of people who work together interdependently with a shared purpose across space, time and organization boundaries using technology.”¹⁹ In the past, most teamwork was characterized by face-to-face interaction.

Members of Parliament or Congress from the NAFTA nations meet with one another very infrequently. Heads of state make symbolic visits maybe once a year, and often no more than every five years. Senior business executives, responsible for setting regional or global policy within their organizations, are unlikely to visit all their foreign locations with any frequency. All of these individuals, who in some way are shaping the future of NAFTA, are members of virtual teams. And so are most of the rest of us.

Lipnack and Stamps assert that virtual teams depend on two things to be effective:

- Communication and collaboration tools
- Trust

If we were to imagine that all the members of the respective governmental communities are responsible for some aspect of NAFTA as members of a large team, how would we evaluate the performance of that team? How well equipped is the team to achieve its mission? Similarly, how many companies and communities have seamless links that allow them to transact within NAFTA efficiently? As shown in Figure 7–2, NAFTA represents the most complex type of virtual team: a global, cross-external team comprised of different organizations, cultures, and geographies.

Communication and collaboration tools are well known and commercially available, but the development of trust, which is the cement that binds the team together, requires more effort. In order for there to be trust there must first be a common mission, and a willingness to change and adapt on behalf of all parties comprising the team. The implementation of communication and collaboration tools requires

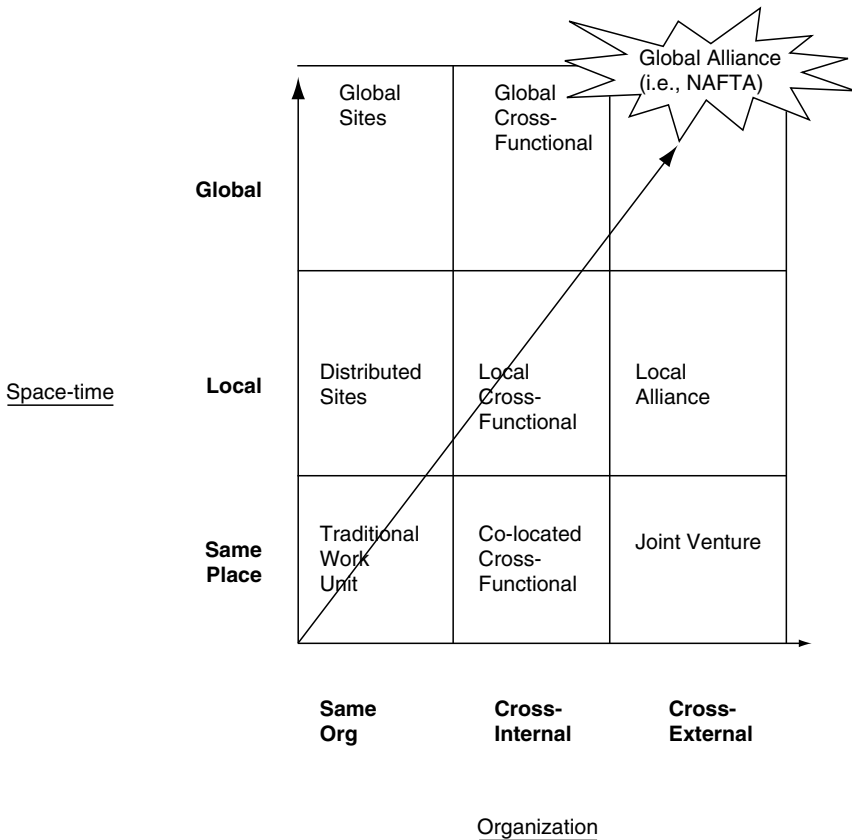


Figure 7-2 Varieties of Virtuality (Adapted from Lipnack, Jessica, and Jeffrey Stamps. *Virtual Teams*. New York: John Wiley and Sons, 2000, p. 62.)

that the organization’s management culture adapt as well, as information is accessible to the entire organization. The top-down decision making of the industrial era is being discarded in favor of pushing decisions down and out, closer to the work and closer to the customer. The narrow, one-way channels of communication and decision making and the cultures of hoarding information and power must be left behind.²⁰

Consensus Needed

The principal difficulty with NAFTA and globalization, which is manifested by the protests in Seattle, Quebec, and Genoa, is that ordinary

people in modern, progressive societies have become accustomed to having the right to participate in their society and their workplace on a daily basis. They have demanded this, and the organizations they belong to, both political and commercial, have had to adapt to their constituents' demands. NAFTA, however, to most ordinary people, represents an example of autocratic, top-down decision making in which the constituents were not adequately involved or consulted with. Therefore, there is not sufficient "buy-in" in any of the countries at the grass-roots level. Any organizational or cultural change initiative is doomed to fail if there is no grass-roots organizational buy-in, as well as support from the top. The process of participation that has worked internally for corporations and governments somehow has been bypassed in the case of international accords such as NAFTA.

MIT's Noam Chomsky contends that NAFTA and the WTO are the results of blatantly undemocratic processes. Chomsky asserts that transnational capitalist (corporation) interests are seeking to subvert the democratic process by not allowing citizens to participate in the public arena and providing them little to no information about the consequences of these trade policies for their lives.²¹ As the crowds of demonstrators that appear wherever a WTO or G8 meeting are held attest, many ordinary people feel the same way. Alan Rugman retorts that NGOs are also unelected and undemocratic institutions whose views are unrepresentative, but that still have an undue influence on the media.²² Governments presumably try to take the views of citizens, corporations, and NGOs into account when making policy.

The discussions over a united Europe have been taking place for decades, and still many people, and some entire nations, are not completely convinced that merging their nations into a larger entity is the right thing to do. However, Europe has found what Dornier calls "efficiency diversity": they have kept moving forward incrementally on numerous fronts even though not everyone agrees on the ultimate end. The decisions not to move forward were made by public referendum, by a public that had access to information and conducted dialogue.

Are NAFTA and Free Trade Open for Discussion?

The official U.S. government version of this story on NAFTA consensus building is very different from that of its critics. Charlene

Barshefsky, U.S. Special Trade Representative during the Clinton administration, stated on April 23, 1999, at the NAFTA Ministerial Conference in Ottawa, Canada:

The second lesson we have learned is that trade policy does not succeed without the inclusion and participation of all elements of our society. As we see in our experience over the last five years, the work of the Commissions on environmental and labor cooperation has given ordinary people and civil society groups interested in trade a chance to participate in the implementation of our agreement. All of us have learned from this process. Those who administer these agreements and citizens in all our countries believe more strongly than ever that these accords have helped us reach the NAFTA's larger goal of cooperation and progress in North America.

We are convinced that the same will be true of our work outside North America. If it lacks transparency; if civil society does not feel it can participate; we may not succeed. And the guarantees of participation will not only strengthen the consensus for APEC, or the WTO, or the FTAA, but also improve them.

In the FTAA process, we have therefore—for the first time in any major international trade negotiation—we have created a Committee on Civil Society to advise governments on the views of business, labor, consumers, environmentalists, academics and other citizen associations. Thus, both the negotiations and the FTAA can strengthen, throughout the hemisphere, the sense of mutual benefit, citizen participation, shared values and common destiny which today allow the three nations of North America to live together in peace and prosperity.

Likewise at the WTO, we are determined to lead in the creation of consensus on reforms that will improve transparency and access for citizens—more rapid release of documents, the opening of dispute settlement proceedings to interested observers, and the creation of more permanent fora in which groups can exchange ideas with WTO members and staff.²³

Barshefsky seemed to believe that the process had been open and transparent, while the demonstrators on the streets disagree and companies that participate in free trade hide in the shadows for fear of public reprisals. The letter below explains the sentiments of a virtual team that spans the Americas and consists of 340 civil and not-for-profit organizations that have overcome cultural differences and national borders to unify around the common goal of gaining a voice in the FTAA negotiations, which would be essentially an extension of a NAFTA-like free trade regime across the Americas. These comments come some 18 months after Barshefsky's comments.

7 November 2000

Dr. Adalberto Rodriguez Giavarini
Chair, Trade Negotiations Committee
Esmeralda 1212
(1053) Ciudad De Buenos Aires
Argentina

Dear Dr. Rodriguez Giavarini:

We are writing to express the growing concern of civil-society organizations throughout the Americas about the secrecy of the negotiation of a Free Trade Area of the Americas (FTAA). We urge you to publish the current negotiating texts of the FTAA so that an informed public debate on the nature of that accord can take place.

We understand that the official mechanism to channel civil society participation in the FTAA process is supposed to be the Committee of Government Representatives on the Participation of Civil Society. Many of us have submitted documents to that Committee, but it is an inadequate mechanism. Even if all submissions were accurately and completely transmitted to the ministers, the result is not the participation of civil society in this process but simply a one-way communication. It is impossible for us to engage in a serious dialogue on the FTAA when we do not know the actual content of the negotiations.

We understand that the negotiations in many sectors are quite advanced, but virtually no public information is available on the content of those talks. The establishment of an FTAA would involve much more than a simple reduction of tariffs. The trade liberalization, in addition to provisions on services, investment, agriculture, intellectual property rights and other issues under negotiation could clearly have far-reaching impacts on our economies, societies and environments.

In each of the Summits of the Americas, pronouncements have been made on the commitment of the 34 governments participating in this process to strengthen democracy throughout the hemisphere. The secrecy of the FTAA negotiations contradicts that laudable goal. Even the representatives of our respective legislative bodies have not been fully informed of the substance of the FTAA negotiations.

If the FTAA is to serve to advance the interests of all of the peoples of the Americas, then there must be a healthy public debate on the nature of such an accord. That debate will not be possible until accurate and up-to-date information is available on the content of the FTAA negotiations. The Chilean government recently published the annotated outlines from some of the negotiating groups as part of its dialogue with representatives of Chilean

civil society. We welcome the precedent that this dissemination establishes. At this time, we urge the TNC to publish immediately the current negotiating texts from each of the nine negotiating groups. We would also appreciate receiving copies of the texts that each of the negotiating groups delivers to the ministers at the end of the year. We also request that you send us lists of our governments' representatives to each of the negotiating groups in order to facilitate the process of dialogue. We look forward to hearing from you on this matter. Please direct responses to this letter to Hector de la Cueva, Executive Secretary of the Hemispheric Social Alliance.

*Sincerely,
Hemispheric Social Alliance²⁴*

Whether one's sympathies are for or against NAFTA or free trade in general, it is difficult not to form the impression that the public does not feel there has been adequate dialogue on the subject. Professional economists and well-trained observers have a much clearer understanding of what is really at stake for citizens of all countries under NAFTA, or as the NAFTA free trade regime is extended toward the goal of creating a Free Trade Agreement of the Americas (FTAA). The ordinary citizen would need to undertake a significant research effort to become well informed on the topic because of its complexities. It is not reasonable to expect that they will do so, although the course each nation chooses to pursue with respect to free trade will profoundly affect the lives and futures of all of its citizens. More open dialogue is necessary regarding NAFTA. The same is true for the WTO, the FTAA, and any other international trade accord.

Princeton professor of economics and former vice chairman of the Federal Reserve Board Alan S. Blinder wrote on July 29, 2001, in the *New York Times*:

The sad truth is that despite 225 years of trying, economists have not been able to convince the public or its elected representatives of the virtues of free trade. This constitutes pedagogical failure on a grand scale. Perhaps not enough people have taken Economics 101, or of those who have, not enough remember what they learned. Instead, the same false arguments against free trade and for protectionist policies that Adam Smith demolished in 1776 dominate public discourse about trade. Listen to the political rhetoric, and you will hear only about the virtues of exports. Imports are, at best, a necessary evil. Thus, the United States is said to make a "trade concession" whenever we allow in more foreign goods, even though our citizens enjoy cheaper prices

when foreigners work for us. And we are said to score a victory whenever we persuade foreign countries to open their borders to our goods, so that we Americans can work for them. These misconceptions have an important practical consequence: they make free trade difficult to sell politically.²⁵

Blinder goes on to say that all the discussions about granting fast-track negotiation authority to the president is misplaced effort. Even if that authority existed, an agreement will take years to negotiate and bring to Congress for a vote. Without public consensus, and without an agenda that frames the dialogue, even incremental steps are hard to make. Efficiency diversity is difficult, and goal formulation difficult to impossible without an overarching vision. That is where time must be spent now: framing a public dialogue and setting an agenda for NAFTA and free trade in general going forward. Perhaps the public uprisings in Seattle, Quebec, and Genoa are what prevent an agenda from being framed. Or fears of election-year fallout for the party that attempts to discuss a future that would include much closer integration with the other NAFTA partners.

That is why the role of NGOs, such as those that were signatories to the above letter, is so critical to fostering a well-informed debate that includes dissenting, well-substantiated positions. Given the importance of the issue, it does seem fair and just to expect that in democratic societies a broader dialogue that includes differing points of view, and objective analysis, would be actively encouraged by our leaders. We must all fight against misinformation, and where possible, aid our communities and neighbors to better understand in rational terms what is occurring, in order that they may prepare themselves and their children proactively, and in so doing avoid the need to become “victims of NAFTA or globalization.” No one who has been given advance warning and factual information about where the economy is going, the types of skills it will require, and the opportunities it will offer can later claim to have been victimized. However, that claim is more easily substantiated if all discussions are conducted behind closed doors and never explained.

NAFTA Can Become a Virtual Team

As the nations of NAFTA seek to work together to find common solutions, they must first seek to build this social consensus that was

leapfrogged in the flurry of the moment as legislatures sought to get NAFTA passed. An opportunity exists to facilitate adequate goal setting for the future of NAFTA and consultations with a multitude of interest groups, through a common method of collaboration that canvasses, involves, and integrates all interested parties. Even if such collaborative methods and tools were in place, the NAFTA leaders would probably discover that a lack of trust exists between them. This is the first issue faced by nearly all virtual teams. In seeking to build consensus about NAFTA in their societies, governments will face problems faced by most virtual teams.

- “A virtual team, distributed in space and time, but from the same organization, is likely to find that communications and participation issues dominate its development.”²⁶

NAFTA Interpretation: Even for people from the same country and culture, communication and participation will be the largest hurdle to achieving consensus about NAFTA

- “A co-located cross-organizational team is likely to experience difficulty establishing a common purpose and making decisions. Typically, you will need more time, more cycles, and more patience to deal with the details as you translate a broad, shared mission into goals and tasks.”²⁷

NAFTA Interpretation: Even if the citizens of the different NAFTA countries and their elected representatives could all be together in one place, the fact that they are from different cultures and “organizations” would make it more difficult and time-consuming for them to set a common vision and objectives for NAFTA.

- “Virtual teams that are both distributed and cross-organizational will experience both stretched communications and stressful purpose setting. These are the teams most in need of new ways to work and new technology-support infrastructures.”²⁸

NAFTA Interpretation: The governments and other organizations that must work together to create NAFTA's future are both cross-cultural, and separated by distance. They are perfect candidates for new ways of working assisted by communications and collaborative technologies.

Virtual teams make it almost certain that culture and language barriers may be crossed. As seen in Chapter 3, even if both parties are communicating in the same language, degrees of formality, intimacy, and directness vary considerably across the cultures. However, “when people

know they are at a distance—culturally, linguistically, as well as spatially—they are more conscious of the need to be explicit and intentional about communication.”²⁹ However, NAFTA’s scope is far broader than the specific interests of most individuals.

Research has shown that unless people are extremely closely co-located, their probability of interaction is nearly the same as if they are at a great distance. Companies faced with the need to manage dispersed groups of people typically face two alternatives: co-location, or the use of distributed teams. Most managers generally assume that if team members are co-located, collaboration and communication will be improved, and assume that persons working in distributed teams via computerized networks will not communicate well with one another.

In *Virtual Teams: People Working Across Boundaries with Technology*, Lipnack and Stamps assert that this is a false dilemma for anything other than a very small group. “One place or many,” “co-located or distributed,” are false dichotomies in the real world of work.³⁰ In their article, they include Figures 7-3 and 7-4.

A 1988 Bell Labs/University of Arizona study that looked at the probability of researchers collaborating as a function of distance shows that people in nearby offices tend to collaborate more than people farther away. The drop-off rate of collaboration is steep and quick. Moving from a common corridor to another location on the same floor reduces the potential for collaboration five-fold. . . . The data suggests that it would be better to be at a different site altogether than on a different floor.³¹

The steep drop-off in the effect of physical proximity confirms the general results reported by MIT researcher Tom Allen in the late 1970s (Figure 7-4). Allen studied the probability of communication as a function of distance between potential communicators. The likelihood of talking to people who work several feet away is high, but plunges to less than 10% within 30 feet. After about 60 feet, it appears that the distance between potential communicators no longer matters since the likelihood of their communicating is so low that they might as well be in another country. Without communication, there can be no interactions, no relationships, and much less collaboration.

Lipnack and Stamps reach a simple conclusion from this data, “Only people in small groups can really co-locate. Large groups are by nature distributed.”³²

Office Location	Total pairs	% Collaborating
Same corridor	243	10.3
Same floor	1038	1.9
Different floor	1736	.3
Different buildings	1261	.4

Figure 7-3 Distance between offices and probability of research collaboration (Adapted from Lipnack, Jessica, and Jeffrey Stamps. *Virtual Teams*. New York: John Wiley and Sons, 2000; data from Kraut and Egide, Bell Communications Research, and Galegher, University of Arizona, CSCW, 1988.)

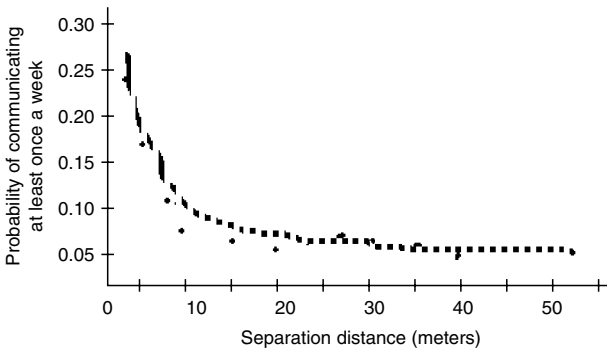


Figure 7-4 Probability of communication by distance between potential communicators (Adapted from Lipnack, Jessica, and Jeffrey Stamps. *Virtual Teams*. New York: John Wiley and Sons, 2000; data from Allen, 1977, and reprinted in Kraut et al.)

The solution lies in an adequate mix of co-location and distributed team networks.

Virtual Teams Could Help Create Trust and Social Capital in North America

Somehow trust must be created between the peoples of North America. That will be hard to do without communication. Capitalizing on existing small groups where trust has already been formed, by providing them tools and allowing them to serve as the nuclei for the

creation of cross-cultural and cross-border NAFTA small businesses with other small groups, would stimulate the formation of trust and wealth.

The power in such an approach has precedents in modern Europe that have resulted in tremendous wealth creation and social capital formation. “As trust accumulates—in teams, corporations, communities, and nations—it creates a new form of wealth. In the Network Age, *social capital* is as potent a source of value as land, resources, skills, and technology.”³³

The extraordinary case study of the Emilia Romagna region of Italy is an example of how trust and cooperation can create social wealth and resources where limitations of capital and skills exist. As such, it provides a relevant benchmark to NAFTA. In the 1970s, the Italian government began an effort to decentralize and return power to the regions, a process similar to that which is taking place today in the U.S. and in Mexico. At that time, the state of Emilia Romagna ranked 18th of 21 in income among Italian regions.

The economy exploded as hundreds of thousands of small business in Emilia Romagna tied together into networks. It became the second wealthiest region in Italy, recording the greatest performance jump of any of the 80 European community regions by the mid 1980s. Unemployment plunged from 20 percent to almost zero. By the late 1980s, there were 325,000 companies in this region of 4 million—an incredible ratio of one firm to every 12 people, 90,000 of them in manufacturing. Emilia Romagna caught Denmark’s attention. By the end of the 1980s, that country of 5 million, about the size of Massachusetts, intentionally launched a similar effort. Denmark’s success proved that many of the Italian lessons are transferable. In these 2 countries, government stimulates thousands of networks, positively affecting the national bottom line.³⁴

What was it that allowed them to achieve this? The fact that indicators of good government correlate with places where people are joined in thick, overlapping networks, what the researchers termed “civic communities,” that in turn map uncannily closely with the most horizontally organized types of governments.³⁵

It is time to enter the era of *Co-opetition*, as described in the book of the same name by Adam Brandenburg and Barry Nalebuff. Sometimes a competitor is a partner, sometimes a customer, sometimes a supplier. The key is to have a clear goal, and sufficient organizational fluidity to be able to capitalize on opportunities quickly as windows of

opportunity open. This way of working is supported by one of the basic tenets of game theory.

The field of game theory calls “the dilemma of collective action” one of several logical puzzles that speak ill of cooperation. According to the numbers, cooperation is either folly or at best, rarely a rational choice. In closed transactions where games are played in isolation only once, the winning strategy is for players to get as much for themselves as possible and never cooperate. Selfishness is logical and rational. In isolated situations where there are no consequences in the future and relationships are top-down, people never cooperate, a predictable, suspicious, stable state. It’s safer and more rational to always defect, to be mistrustful and exploitative. However, when people play repeat games the logic changes dramatically. People become more cooperative when their behavior in one transaction carries forward into another. In infinitely repeated games, cooperation suddenly becomes rational and practical according to game theory. Game theory predicts and Putnam’s study demonstrates that society holds together at 2 quite different levels of efficiency and institutional performance. In one case, the informing principle is to always defect. In the other it is to reciprocate help. These self-reinforcing dynamics, reciprocity–trust and dependence–exploitation, reflect building up and tearing down forces, virtuous and vicious loops.³⁶

How then can trust be created under NAFTA, when there is little interaction and when such circumstances make cooperation seem irrational? When the sorting resulting in society from our rational decisions segregates us into communities of people similar to ourselves? If community results from relationships based on equality and trust, how, when there is increasing inequality and little trust, will we form community? How will the trust between Hispanic and Anglo in the United States be created, or Quebecois and Anglo in Canada, or the mistrust overcome? Without this trust, the political will for greater integration will remain fractured along cultural lines. And the realities of immigration will continue to persist.

Civic societies are lush with social networks and associations of all sorts, an observation Alexis de Tocqueville made regarding the about to boom U.S. in his 1840 study. With trust and relationships that are reciprocal, social capital accumulates. Without trust, it remains scattered and unformed. The more relationships you have, the greater potential for trust.³⁷

The secret in developing trust in North America, and the key to accelerating wealth generation, is to learn from and further empower

people who already trust one another across borders and across cultures. Families and small groups within organizations and government already have effective and culturally synergistic relationships that cross borders. Society itself is really composed of many small groups that have developed trust while interacting across a spectrum of common interests and objectives.

Providing groups, families, and small businesses the communication, collaboration, and networking tools and an institutional framework that provides opportunities for interaction will help to lower transaction cost and complexity and could stimulate the formation of small cross-border businesses and other forms of exchange. These tools are available now to most anyone who wants access. In the context of their own small groups, people understand that trust is necessary in long-term relationships. However, it may not be in relationships that are entered into for short-term gain.

Real human interactions that are sustained over time, and thus foster trust between cultures, are what is needed if NAFTA's potential is to be achieved. Conscious efforts to foment the creation of virtual teams, and learning from and empowering small groups already successful within NAFTA, should be sponsored at all levels of government. An overarching vision for NAFTA and North America that the public and the different cultures could understand and relate to would begin to build the common goals that are needed to make people in North America feel they are playing on the same team; a team that they have some personal stake in, as opposed to a broad and misunderstood concept called NAFTA.

Individual or local examples that could be highlighted and shared across communities and companies might include:

- A NAFTA Community Web site creating opportunity for dialogue at a grass-roots level
- Online e-auction/cross-border sourcing in marketplaces focused on IT development, consulting, etc., that allows professionals to bid on projects in any NAFTA country
- Small organic farming co-ops in Mexico linked directly to local distribution in the U.S. and Canada
- Resale in Mexico of refurbished equipment, such as ambulances, tractors, and machinery
- Import/export cooperatives between Mexican craftsmen and small and medium-sized retailers in the U.S. and Canada

- E-commerce companies, such as Mexicompras.com, that sell products online to Mexicans in the U.S. and arrange for delivery to their family members in Mexico
- Group projects between American, Canadian, and Mexican students facilitated by satellite and Web technologies

Without an overarching goal, and new methods of creating consensus around the NAFTA agenda, our governments will keep repeating the same mistakes of the past in their short-term-gain-focused approach to NAFTA, and we will keep throwing up the same outdated notions about why NAFTA and free trade should be mistrusted. New forms of leadership and governance that address the modus operandi of today's economy and society are needed. If it is premature to create consensus and build a broadly supported vision, at the least our leaders must establish and implement practical mechanisms that will guide the formation of both from the bottom up, and eventually guide us toward that end.

The forces at play today in the global economy are nothing short of revolutionary. They challenge all previous notions about community and human organization. They warrant the sustained dialogue that would characterize mature societies.

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Appendix

Guidelines for Trading Relationships Under NAFTA

Trade in Goods

Tariffs

All internal tariffs will be reduced to zero at the end of 15 years for trade between the United States, Canada, and Mexico. Based on the Canada–U.S. Free Trade Agreement (FTA), all tariffs on goods moving between those two countries were to end in 1998. As relates to trade with Mexico, those items that require a longer adjustment period, primarily agricultural goods; tariffs will remain in place for approximately 15 years.

Goods have been classified into four categories. First is the “A” category, in which tariffs were removed entirely as of January 1, 1994. These include computers, telecommunications, aerospace equipment, and medical products. In the “B” category, tariffs will diminish at the rate of 20% a year for five years, and in the “C” category in which they diminish by 10% a year for 10 years. It is believed that 65% of U.S. goods entering Mexico will be at zero tariff within five years. It should be noted that prior to the passage of NAFTA, the average U.S. tariff was 4% for goods being imported from Mexico, whereas the average Mexican tariff was 10%. There are provisions in the Agreement that

provide for the accelerated reduction of tariffs on a number of goods including flat glass. There were reservations or exceptions made by each of the three nations to protect sensitive sectors. Mexico would not negotiate regarding investment in petroleum and basic petrochemicals based on the constitutional provisions that declare petroleum as belonging to the state. Canada, concerned about protecting cultural identity, retained the right to ban materials/services that would infringe on Canadian identity, such as objectionable radio and television programs, movies, and print media. The United States protected farmers by demanding the right to maintain price supports.

Rules of Origin

There was considerable fear that the NAFTA would enable one or more of the member nations to be used as export platforms for goods that were from outside of the region. For example, if low-cost goods were to be brought into Mexico from an even lower cost nation and were then assembled, would these goods then be able to be imported into the United States duty free or at a significantly reduced duty? The negotiators worked hard at devising solutions to this problem. Nearly 200 pages were devoted to this topic alone. The result was to promote the sourcing of all components to be used in any goods in intra-NAFTA trade to be of NAFTA origin. When this is not possible, exceptions are made.

Certificates of origin are required by exporters and kept on file by importers if goods are declared to be subject to the preferential tariff provisions of NAFTA. If the goods are not subject to tariff, it is not necessary to get a certificate of origin. If the goods are totally sourced in a NAFTA country, such as an agricultural product or coal, there is no difficulty in proving its NAFTA eligibility. If the good is made up of a number of components, it is necessary to trace the origin of each of the components. This is a further clarification of the FTA rules, because of a conflict over Honda automobiles assembled in Canada, whose motor was “manufactured” in Ohio, and which were then imported to the United States. The U.S. Customs official valued each of the components and declared that the automobile was ineligible for FTA benefits. To prevent such confusion, the rules of origin of NAFTA have been spelled out, but they are very complicated nonetheless.

If a good imported into one of the member nations under one tariff classification of the Harmonized System of Tariffs is transformed through a degree of processing or manufacturing, then that good would be subject to a different classification number and would become

NAFTA eligible. If, however, there is not a “substantial transformation,” one then has to consider the “net cost” or “regional value” to make the determination. The net cost is determined by the total cost of producing the goods, deducting the costs of sales promotion, marketing, and after-sales services, packing, and shipping. In most cases, if 50% of the net cost or 60% of value of the good is of regional content, then the good would also be eligible for NAFTA treatment. If goods being traded among the three nations do not qualify for NAFTA treatment, they must be given the same preferential treatment accorded other nations under the “most favored nation” provisions of its Treaties of Friendship and Commerce.

Certain sectors—automotive, textile and apparel, energy and basic petrochemicals, and agriculture—were also given special treatment under the provisions of Part II: Trade in Goods. *Automobiles* were covered under the most stringent rules of origin requiring that 62.5% of the value must be of regional origin, and 60% of the value of automobile parts. Determination of value for automobiles included the “net cost” of all components, based on the Honda example and the FTA. Mexico will phase out 36% local content over ten years. Mexican tariffs on automobiles and light trucks were reduced by 50% as of January 1, 1994. Tariffs on automobiles will decrease at the 10% rate, while those for trucks will decrease at 20% annually. A significant increase in exports of U.S. manufactured cars and trucks is estimated, as a Mexican manufactured car costs \$600 more than its equivalent manufactured in Detroit.

The *textile and apparel* sector is one of the most protected internationally and it was a sensitive area for negotiators. Mexico agreed to decrease its tariff 50% immediately, with the remainder over five years, on imported textiles and fabrics. The United States placed textiles on a ten-year phase-in reduction for the quotas that were in place. Here, too, there was concern about the use of non-regional raw materials in textiles and apparel. As a result, for all types of fabric made of raw material available in the region, the fabric must be “fiber-forward”; whereas if the fabric does not exist, i.e., silk or flax, then the requirement will be “yarn forward” to be eligible for NAFTA benefits.

In *energy and petrochemicals*, Mexico retained protection of basic oil and natural gas exploration, exploitation, and selling. However, the United States persuaded Mexico to permit U.S. and Canadian oil field service companies to participate with PEMEX, the state-owned oil company. Their participation will not, however, permit them to have a percentage of ownership, which is frequently the case in these arrangements. Investment will be permitted in the majority of petrochemical

sectors. As regards natural gas, U.S. and Canadian marketers would negotiate supply agreements directly with the suppliers and end users in Mexico, but are still limited to using PEMEX's facilities. Electrical power may now be generated by independent companies and the surplus, or co-generation, is to be sold to the Mexican electric company, CFE, at prices to be determined by CFE. Canada did not protect the energy sector under the FTA and did not prevent U.S. investment. Also, Canada is committed to providing the U.S. with energy in the case of emergency, a provision that was not imposed on Mexico.

As for *agriculture*, there are three bilateral agreements, one between the U.S. and Canada negotiated under FTA and those between the U.S. and Mexico and between Mexico and Canada. The U.S. persuaded Mexico to engage in "tariffication" of Mexican non-tariff barriers, i.e., import licensing. Tariffs on agricultural goods, comprising 50% of southern border trade, will be eliminated immediately, and additional tariffs within five years. Sensitive products in Mexico (corn, dairy products, and edible beans), in the U.S. (orange juice concentrate, sugar, broccoli, asparagus, onions, and cauliflower), and in Canada (eggs, dairy, sugar, and poultry) all will have the 15-year phase-out.

Government Procurement

NAFTA does increase the types of government agencies that are subject to procurement bidding and also extends the coverage to trade in services, i.e., construction contracts. Federal government procurement is available in all three nations and U.S. and Canadian companies can bid on 50% of PEMEX and CFE goods and service contracts. This 50% will also be reduced over the same period, ten years. All nationals of the North American region are to be treated as if they were nationals of that particular government for procurement purposes. There are thresholds below which foreigners are not eligible to bid: \$50,000 for government entities for goods and/or services; and \$6.5 million for construction services, whereas for government enterprises the minimums are \$250,000 and \$8 million, respectively. Programs that are in place to promote "buying" national goods are to be phased out in all three nations.

Investment, Services, and Related Matters

Here again NAFTA moved beyond existing trade agreements, including the FTA, by providing that all future services would be automatically

included. It provides the protection of the FTA to guarantee providers of services with national treatment under any new laws and regulations: the right to invest in certain service sectors; the right to sell services across the border; the right of professionals to cross the border under simplified visa conditions; and the right to public access to information on any law or regulation impacting them. Maritime transportation, civil aviation, broadcasting, and basic telephone services are specifically excluded. In addition, financial services, telecommunications, and land transportation are specifically included. Descriptions of the treatment of each area follow:

- **Financial services.** For the first time in decades, Mexico has opened her financial sector to foreign investment. These include banking, insurance, securities, and other non-banking services. Each of the nations retains its own regulatory program and treats member nations as it would its own nationals. It will be 13 years before Mexican banking and securities are completely open, whereas it will be six years minimum for insurance and other non-banking services. Cross-border trade in services is also to be permitted; provisions for dispute resolution by financial experts, procedural transparency, and the right of establishment are all guaranteed.
- **Telecommunications.** All three nations reserve the right to exempt basic telephone service, but for what are referred to as “enhanced services,” each nation has promised to provide equal opportunity to companies of the other signatory nations to participate on a non-discriminatory basis. To enable this to become a reality, each nation has pledged to abide by agreed-upon technical standards and make all rules and regulations governing the provision of such services readily available.
- **Land transportation.** NAFTA eliminates the necessity of switching cargo to a Mexican truck or driver at the border. Trucks could carry international cargo into the border states as of January 1, 1995, and throughout Mexico by January 1, 2000. These provisions of course, are also available to Mexican carriers in the United States and Canada. Mexican trucks and truck drivers will have to meet U.S. safety standards. In addition, the requirements will be harmonized among the three nations within three years. U.S. and Canadian companies can invest in Mexican carriers who do international transport. For an indefinite period, Mexico has reserved domestic land transport solely for Mexican nationals. U.S. and Canadian investors will be able to build and own railroads and terminals but will be required to employ Mexican crews.

- **Investment.** NAFTA will guarantee the continuance of Mexico's present investment reforms. The U.S. and Mexico will treat all citizens and corporations, incorporated in each other's territory, as nationals regardless of who owns the corporation. Canada will consider who owns the corporation to determine whether it is eligible for NAFTA treatment. Screening of investments is permitted. Mexico can review any investment over \$25 million, the United States can continue to apply "Exon-Florio" tests if there is a question of national security, and the Canadians retain the FTA review process. National treatment for investors occurs unless there are circumstances in which "most favored nation" status would be more beneficial. Free convertibility of currency is also guaranteed, although some sectors may be restricted.
- **Temporary entry for businesspersons.** Before NAFTA, Mexicans were not eligible for certain U.S. non-immigrant visas such as treaty investor or treaty trade (the so-called "E" visas). Now, an additional 5000 Mexicans will be eligible to enter the United States as professionals for one year to work for U.S. companies. This provision had been included in the Canada-U.S. Free Trade Agreement without limitation as to numbers. The restriction is to be reviewed after several years.

Intellectual Property

This is the first trade agreement that includes intellectual property. Mexico has guaranteed to uphold the international conventions on intellectual property, and the protections accorded patents, trademarks, copyrights, and trade secrets under Mexican law are extended.

Dispute Mechanisms

NAFTA, along the lines of the Canada-U.S. Free Trade Agreement, established tri-national panels that would review disputes rather than the courts of each jurisdiction. It is a multi-step process beginning with consultation. The Agreement also recommends that commercial disputes between businesspeople be settled through arbitration and conciliation rather than through litigation.

In addition, and as a result of the side agreements negotiated by the Clinton administration, there are provisions for protection of labor and clearer provisions as to the protection of the environment. The scopes of these provisions are as follows:

- **Labor.** Because the side agreements did not provide for independent unions or collective bargaining, U.S. labor unions were dissatisfied with the extent to which labor was protected. This is the first trade agreement that has specifically addressed the work place.
- **Environmental protection.** Canada, Mexico, and the U.S. will uphold existing rules and regulations protecting the environment. Furthermore, all three nations will permit any tightening of regulations, provided they are not discriminatory. Strict environmental laws in states and cities, possibly stricter than those of federal governments, will not violate NAFTA. A trilateral commission will establish minimum standards for environmental matters and also be empowered to conduct investigations as to alleged violations. If violations are found to exist, again after a multi-tiered investigation and hearing process, the U.S. and Mexico agreed to be subject to sanctions; Canada insisted on having the matter enforced by Canadian courts.

Opportunities and Challenges

The North American Free Trade Agreement has presented and continues to present the three signatory nations with great opportunities for creating an integrated economic system in which the comparative advantages of each are given full opportunity to develop within a larger trading bloc than had previously existed. At the same time, these opportunities can create problems as adjustment is made to the new system.

The negotiators of the Agreement were cognizant of the potential downside of the Agreement. As a result, provisions were made to exclude certain sectors that were politically too sensitive, such as primary energy in Mexico and “cultural industries” in Canada. The staggered tariff reductions were also intended to provide sufficient time for businesses and sectors to make those changes necessary to maintain their viability in the new trade area.

In the United States, the Bush and Clinton administrations promised that there would be federal funds available for those dislocated as a result of changes. Whereas the Bush administration did not link such dislocation allowances and retraining directly to NAFTA losses, the Clinton proposal did incorporate federal funding for programs tied to NAFTA losses. There are also substantially fewer funds being made available to the program, which may be a direct result of the narrowing of the benefit. It remains to be seen what the position of the administration of George W. Bush will be on this issue.

Labor unions still fear that jobs will migrate from the north to Mexico, a fear shared by both Canadian and U.S. union leadership. The issue in the United States has been complicated by the increasing unemployment of the less well educated, which requires job retraining with or without NAFTA. Clearly, if the United States is to retain a competitive edge, it must have a work force that is sufficiently trained to be able to perform high-value-added skills to justify the higher wages paid. This job retraining is indeed a challenge.

In terms of opportunities, there are many. Whereas the United States is a mature economy, Mexico is one that is still growing. There are many sectors in both the commercial and consumer markets that will be expanding for decades to come—sectors that were previously closed, such as government procurement at the federal level. Infrastructure needs in Mexico have been recognized and the government is seeking to improve the roads, the telecommunications grid, the housing base, etc., to promote the well-being of the Mexican people. Investment opportunities have been created in sectors that were previously unavailable, such as in financial services, including banking, insurance, and brokerage. Here again, the Mexican market is underserved in terms of both the number of institutions and their product, creating enormous opportunities for those who can provide alternatives.

In turn, there are sectors in which the Mexican producer may well provide product that can create dislocations in the U.S. economy. The agricultural sector feared increased imports of sugar and citrus in amounts that would devastate existing growers, and as a result, special provisions were negotiated after the Agreement and after the Side Agreements had been negotiated to gain passage in the United States. The Mexicans are aware that the lack of modernity and efficiency will cause great dislocation in their agricultural sector, i.e., from the grain producers, but did not make such protection beyond the previously negotiated “snap-back” provisions and the negotiations for the Side Agreement on Import Surges part of their demands.

U.S. and Canadian companies that are willing to accept the challenge of entering the Mexican market will be rewarded if, and only if, they do their homework in advance. It is not sufficient to determine that there is a market niche and develop an understanding of the legal and regulatory climate if one is oblivious to the cultural and social requirements of Mexico.

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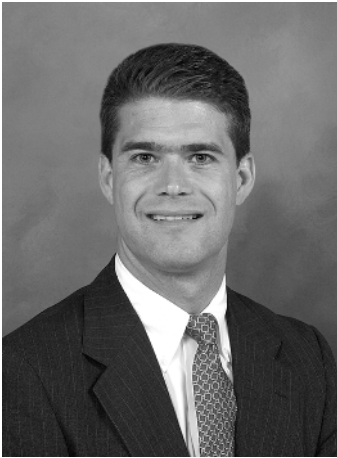
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