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- The impact of neoliberalism on popular culture, education and other ideologies.
- The various forms of opposition to neoliberalism.

Broadening our collective understanding of neoliberalism, this book will be of great interest to students and scholars of international political economy and globalization.

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Bernhard Walpen is Social Scientist and Economist at the Research Department of the Bethlehem Mission Immensee at the RomeroHaus, Luzern.

Gisela Neunhöffer is a coordinator for trade union networks in transnational companies in Eastern and Southeastern Europe for the International Union of Food and Allied Workers, Moscow.

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Socioeconomic integration or disintegration?

Enrique Dussel Peters

Introduction

The North American Free Trade Agreement between Canada, Mexico and the United States (NAFTA) has become an example to follow for many countries and for most multilateral agencies, such as the World Bank and the International Monetary Fund. The conceptual and policy 'charm' of NAFTA lies not only in the dimension of the treaty and the negotiations *per se*, but also in the relevance of a long-term agreement that goes far beyond trade issues between countries that are so different socioeconomically, as well as in culture, and which have even had a highly conflictive history over previous centuries.

The chapter aims to examine the impact of NAFTA on Mexico's economy and society. The main objective, however, will be to present the principal socioeconomic effects of NAFTA in Mexico on issues such as industrial organization, trade, employment, real wages and income distribution. In some cases it will be difficult, if not impossible, to distinguish between the specific impact of NAFTA and 'other' events such as the economic crisis of Mexico's economy in 1994–5, and the uprising of the Ejército Zapatista de Liberación Nacional (EZLN), which began on 1 January 1994, the same day NAFTA was implemented. However, and as discussed in the chapter, NAFTA, the crisis of 1994–5 and other socioeconomic events since 1988 have to be understood in the context of the new socioeconomic strategy that has been followed in Mexico since then, and, with a few changes, up to 2003.

From this perspective, the chapter will be divided into three sections. The first section analyzes the conceptual and theoretical pillars of the new development strategy followed in Mexico, as well as in most of Latin America and even at the periphery, since the 1980s. As discussed, export-oriented industrialization has theoretically, historically and even politically little to do with neoliberalism. This distinction is also relevant for discussing alternatives to the current development strategy in Mexico.[1] The second section presents the specific form of implementation of the export-oriented industrialization-liberalization strategy in Mexico since 1988, as well as the structural effects of NAFTA on Mexico's economy. The third and final section concludes on the prior chapters and discusses potential alternatives to the liberalization strategy in Mexico.

Neoliberalism and export-oriented industrialization

This chapter will distinguish between the theoretical and historical genesis of neoliberalism and export-oriented industrialization (EOI), and the political consequences of each school of thought. Based on an analysis of the latter, the final part will discuss the relevance of deepening the understanding of the development model presented for most of the periphery, including Mexico. *To be clear*, it is not a matter of being for or against neoliberalism, but of defining clearly the theoretical basis, goals and implications of the policies that have been implemented. Moreover, neither is it a matter of 'names', i.e. of calling the specific policies 'neoliberal', 'EOI' or 'xyz'; on the contrary it is a matter of *understanding the socioeconomic and territorial processes in time and space* that are actually evolving in the periphery. From this perspective, a critical consensus on 'neoliberalism' would not be sufficient or complete. Proposals for alternatives to 'neoliberalism' will be even more difficult without a clear conceptualization (compare a more exhaustive discussion in Dussel Peters 2000a).

Neoliberalism

Although there has been an apparent widespread consensus against 'neoliberalism' since the 1990s, both in periphery and in core countries, there has been little discussion and definition of the concept in the 1990s (see Babb 2001, for example).[2] What does 'neoliberalism' in the 1990s mean? Clearly, it is not sufficient to argue that 'it' is a movement/line of thought that favors market policies, as authors such as Adam Smith already argued several centuries ago. Moreover, the concept and its implementation already have, concretely in Latin America, a long tradition. Neoliberalism is not a new concept in the social sciences. At least since the 1960s this concept has been related to a school of thought, and in general to the theoretical work of the Chicago Boys and the application of their work in several nations via policy, particularly in South America during the 1960s and 1970s (Foxley 1988; Valdés 1995); i.e. neoliberalism already has a certain 'tradition' on the continent. Neoliberalism, as opposed to other schools of thought such as liberalism and conservatism, emerged since the 1930s strictly in opposition to the rising of Keynesianism in OECD nations, but also in reaction to Marxism, Leninism and later Stalinism in the former Soviet Union and other nations around the world.[3] It is in this historical context that authors such as Karl Popper and later Milton Friedman, but *particularly Friedrich August von Hayek*, highlight the core of neoliberal thought (compare Hinkelammert 1984, Gómez 1995 and Gutiérrez R. 1998), which, commencing in the US and Europe, had a deep impact on other schools of thought.

What are the basic concepts of neoliberalism?[4] The concept of *science* is of critical importance for neoliberal thought. Hayek differentiates between simple and complex phenomena. Social sciences, which in general deal with 'complex phenomena', should not analyze what is, but 'what is not: a construction of hypothetical models of possible worlds that could exist, if ... All scientific knowledge (*wissenschaftliche Erkenntnis*) is knowledge, not of specific facts, but of the hypotheses which have survived in the presence of systematic efforts to refute them.' (Hayek 1981, I: 33). According to Hayek, the main scientific discrepancies in social sciences are the result of two schools of thought: *critical rationalism* and *constructive rationalism*. Constructive rationalism, which searches for a specific and determined social construction, is a reflection of socialist thought and all those 'totalitarian doctrines' which are not erroneous 'because of their values, on which they are based, but on a wrong conception of the forces that allowed for the Great Society and civilization' (18). On the other hand, critical rationalism is based on the premise that information is limited, 'the necessary ignorance of the majority of details . . . is the central source of the problems of all social orders' (28). Thus, the attempt of any form of planification is irrational and non-scientific, since it attempts to determine and overcome individual and natural attitudes and behaviors. Furthermore, individuals that persist in attempting different forms of planification or construction are dangerous for Great Society and civilization, and in some cases there is an explicit reference to their elimination, since they become a threat to the existing social order.

From this perspective, social science should distance itself from history and historical experiences such as *social justice* and any form of economic and social planification (Hayek 1981, II: 188). Given the information constraint and the ignorance of reality, any pretension to plan or construct welfare state types of society are non-scientific, utopian, useless and a threat to human development.

Cultural evolution or Hayek's social Darwinism is based on the belief that 'all sustainable (*dauerhaft*) structures . . . are the result of processes of selective evolution and that they can only be explained in this framework' (Hayek 1981, III: 215). From this perspective, such a process of evolution determines the development and history of human beings: *selection* among human beings and the survival of the strongest and fittest. The final motive of this is competition, since 'our current order is in first line not a result of a project, but emerged out of a process of competition, in which the most efficient establishments (*Einrichtungen*) won through' (211). *Competition* is, from this perspective, also raised to the most successful methodological approach, as 'trial and error' or as a 'method of discovery' (Hayek 1975b). Historical processes thence are processes of the survival of the fittest and strongest individuals, i.e. a process of competition beginning historically with the most primitive societies.

Neoliberalism assumes that individuals and their respective *private properties*, which are assigned by competition, generate their respective societies. Thus, freedom, and particularly economic freedom, is the main mean and end for any society. Most neoliberal authors, but especially Friedman (Friedman 1962: 7ff.), stress that economic freedom is an indispensable condition for social development, while political freedom will result from economic freedom. Most important, freedom is understood as a utopian concept: 'the need for government in these respects arises because absolute freedom is impossible' (Friedman 1962: 25). Neoliberalism adopts from liberalism the concept of freedom, and 'new' (*neo*) is its open, legitimizing intention (Gutiérrez R. 1998). On the one hand, capitalism is a necessary condition for political freedom. On the other hand, authoritarianism does not limit economic freedom, and 'it is therefore clearly possible to have economic arrangements that are fundamentally capitalist and political arrangements that are not free' (Friedman 1962: 10).

The *market* is the main theoretical and historical social, economic and political institution of neoliberal thought, which is a 'system of communication, which we call market, and that has demonstrated itself to be a more efficient mechanism for the use of dispersing information than any other that human beings have consciously created' (Hayek 1975a: 20–1). The market is an institution in which 'the price system is a system of signals and allows human beings to participate and adapt to facts, of which they know nothing; that all our modern order, all our world market and welfare are based on the possibility of an adjustment of facts which we ignore . . .' (Hayek 1981, I: 66). But what are the functioning conditions for the market? It is impossible to know the specific properties regarding conditions and results of this 'spontaneous order'. From this perspective, the market constitutes an apparent autopoietic system, i.e. it self-reproduces its conditions and needs. The market, apparently, creates its own supply and demand. Where do prices – the last instance to which human beings can relate their needs and their relationship to the rest of the human beings – come from? Prices, as planification, are also utopian, and neoliberalism becomes an apparent theology: '. . . the *pretium mathematicum*, the mathematical price, depends on so many specific events, that it will be never known by any human being, but only by God' (Hayek 1975a).

Neoliberal thought does not only justify the status quo and does not consider time and space in the development of individuals and societies, but it also creates a polarized thought: the market or planned economies, capitalism or socialism, freedom of individuals or chaos, God or devil. This rather dogmatic and anti-utopian thought is extremely violent and a response to any attempt to plan societies and economies, from Keynesianism to Marxism and other socialist proposals formulated during the twentieth century and after World War II and, explicitly, against the 'social welfare state'. Thus, it proposes among other things a minimalist state, or even its abolishment, the installation of market mechanisms at all economic and social levels and, as a basic condition for development and evolution of modern and Great Societies, private property and free competition and trade, without any state interventions or any form of institutional barriers.

Neoliberal thought thus is a highly dogmatic and legitimizing theory of the capitalist market and *status quo*, and goes far beyond economic theory and policy. Its methodology is intolerant of different perspectives. These authors had a direct impact in the 1960s and 1970s in 'specimens' such as Pinochet and J. Kirkpatrick (Kirkpatrick 1979), who in many cases leant strongly to fascism, and have lost presence since the 1980s in Latin America, at least up to now and particularly in official circles. The dogmatic, aggressive and authoritarian form of neoliberalism, as experienced in several countries in South America during this period, has, with a few exceptions, not been seen in most of Latin America during the 1980s and 1990s.

Export-oriented industrialization and neoliberalism

The crises of ISI since the late 1960s, of Keynesianism, and of the welfare state, along with the debt crisis of the 1980s, gave a new impetus to a new version of neoclassical, industrial and trade literature. The crisis of the historic compromise that emerged as a result of the Depression of the 1930s and of World War II in most OECD nations not only weakened the respective states and its institutions, but also specifically labor (Glyn *et al.* 1989). The emergence of export-oriented industrialization (EOI) and of its particular applications varies according to the respective country. Nevertheless, it is remarkable that at least since the middle of the 1980s most of the Latin American countries have followed similar economic strategies based on stabilization and other market-friendly economic reforms to fight populism and reduce the role of the state in the name of economic efficiency. The specifics of the respective political systems, e.g. of authoritarian, federalist and/or democratic political systems among others, are significant, since they allow at least for a different pace of implementation of the new policies, as well as for modifications or even opposition to them, depending on the degree of negotiation between political sectors (Bresser Pereira *et al.* 1993).

This new school of thought focused on the need for an export-oriented industrialization and a radical departure from the ISI model of the relationship between the market and the state, i.e. EOI became a theoretical and political response and alternative to ISI. EOI also became a significant part of the so-called 'Washington Consensus' (Williamson 1992) since the 1980s.

However, EOI is not 'external' to developing countries. In addition to the crisis of ISI and of corporatist sociopolitical structures since the late 1960s, most developing nations have also undergone significant ideological changes and experienced a shift in power between capital and labor. Not only has EOI become mainstream economic theory in international trade and development theory, but also many, if not most, government officials in Latin America have been strongly influenced by this school of thought. Since the 1980s, most of the secretaries or ministers in Latin America, through undergraduate or graduate studies in top-ranking US schools of economics, have directly been inspired by EOI.

The argument in favor of EOI builds on the positive association between exports and economic growth or development. Contrary to ISI, EOI stresses that the world market, through exports, is the 'point of reference' for any economic unit (firm, region, nation, group of nations, etc.). Exports, in general, reflect efficiency; i.e. non-exporting economic units are not efficient from this perspective. EOI emphasizes neutral or export-oriented production by manufacturers to maximize the efficient allocation of factors of production and a specialization among nations according to their respective comparative cost-advantages (Balassa 1981). Moreover, it underlines the central role of manufacturing in the periphery's economies, even though the theoretical justification for doing so has not been sufficiently developed to date. Contrary to structural restrictions or 'bottlenecks' imposed by industrialization – as stressed by some ISI authors – this 'intuitive Darwinian rationale for free trade' (Bhagwati 1991: 17) argues that the degree and the structure of protection in the periphery under ISI had a significant negative impact in the allocation of resources, and subsequently on exports and overall economic structure.

Probably the strongest argument of EOI supporters against ISI's 'infant industry' protection and overall interventions is the 'rent-seeking behavior' it generates. As a result of market intervention (import licenses, tariffs, etc.) under ISI firms and countries generate perverse (or non-market-conforming) results in this environment: excess capacity to obtain rents provided by the state, over-utilization of ISI instruments for development, and, in general, an economic structure aimed at reaping the incentives provided by the state. In parallel, these mechanisms generate perverse social incentives and structures, since, in most of the cases, incentives are not taken by the initially expected groups (potential 'modern/industrial' groups), but rather by 'rent-seeking' and corrupt groups, which do not have an incentive to modernize/industrialize. The establishment of a rent-seeking bureaucracy is, from this perspective, one of the most significant obstacles for development (Krueger 1983, 1992 and 1997).

From the perspective of EOI, East Asian countries in particular provide empirical evidence to support the contention that export performance, especially of manufactured goods within a market-oriented production system, is positively associated with economic growth (Balassa 1981; Srinivasan 1985; Balassa and Williamson 1990).

Macroeconomic conditions for development – the generation of a 'market-friendly environment' – are at the center of economic policy. Free trade and complete openness of economies, the abolition of tariff and non-tariff barriers, anti-inflationary strategies, a minimalist state, and restrictive monetary and fiscal policies are the main macroeconomic goals of EOI. The private sector is conceived as the motor for future development and industrialization (Balassa 1988; Krueger 1978, 1983; World Bank 1991; cf. Dussel Peters 2000a).[5]

In the EOI view, industrial development is conceptualized as an outcome of perfect competition and the free development of market forces, i.e. macroeconomic conditions will result in changing microeconomic conditions. This is the main reason why discussions of industrial policies have 'typically been neglected' (Pack 1988: 344). Demanded are neutral policies since the industrial structure will adjust 'automatically' through comparative cost advantages according to the respective endowments. Thus, 'social profitability' (Balassa 1989: 303; World Bank 1991: 99) calls for neutral policies, which provide equal incentives to exports and to import substitution. EOI rejects the possibility of granting preferential treatment to sectors due to society's lack of information and ignorance of correctly calculating the social costs and of the potential of these sectors.

EOI accepts the case for little state intervention. Even where it is acknowledged, state interventions are 'second-best options'. These potential distortions are regarded as deviations from the general theorem and are marginal within a market-friendly environment. In spite of these considerations, the practical application of interventionist policies is beset with 'many difficulties and dangers

... and suggest strongly that common sense and wisdom should prevail in favor of free trade' (Bhagwati 1991: 33). It is essentially the economic performance of several export-oriented nations' manufacturing sectors that supports this argument (Bhagwati and Krueger 1985: 68–72; World Bank 1987, 1993).

With regard to trade policy, as with industrial policy and any other economic and social issue, macroeconomic stabilization plays a crucial role. Overall economic liberalization and export orientation should be strongly implemented on a continuous basis; the greater the reductions of market interventions and of bias toward export promotion, the higher the probability of economic success (Krueger 1978; World Bank 1991). Balassa and Williamson (1990) stress the importance of stability of policies, especially in the case of fiscal policies and real exchange rates. These measures not only create confidence and incentives within the export-oriented private sector, but are also a significant factor in stabilizing the balance of payments.

Despite the adjustment costs in the short term – balance of payment deterioration, decreasing output and subsequent unemployment – the benefits will always exceed these initial costs. Assuming that these reforms will not increase unemployment, the World Bank (1991) concludes that liberalization should not worsen the distribution of income and the conditions of the poor.

Finally, the employment issue within EOI is viewed as an exogenous variable and has been left aside in most of these studies. This is not surprising given that EOI is based on the full employment assumption of neoclassical economic theory. As a result, it is assumed that the elimination of overall market distortions and export-orientation will have a positive impact on employment.

The discussion on export-oriented industrialization versus neoliberalism is relevant from several perspectives. On the one hand, in Latin America and Mexico – as well as in most of the periphery – there are currently few authors and policy makers that would subscribe to neoliberalism. Without a doubt, this may simply reflect ignorance of the concept and/or the unwillingness to subscribe to a school of thought that has been highly criticized. In addition, however, there are historical, conceptual and political differences between neoliberalism and export-oriented industrialization. In the Mexican context, for example, a debate took place among political parties and social movements which dis-associated from neoliberalism, including President Zedillo (1994–2000), Partido Acción Nacional leader and winner of the 2000 elections, Vicent Fox (2000–6), and even former President Carlos Salinas de Gortari (Salinas de Gortari 2000; Salinas de Gortari and Mangabeira Unger 1999).

Who, then, are the neoliberals? It is too easy, but also superficial, to point at neoliberalism as the cause of all economic and social 'evils'. As discussed in this chapter, the widespread criticism of neoliberalism in Latin America is questionable since neoliberalism has not been the predominant conceptual and policy-making framework in the region since the 1980s. Even though it is possible to argue that EOI is a form of neoliberalism, this still has to be analyzed in detail, theoretically, historically, and empirically. The work of Plehwe and Walpen (Plehwe 2002; Plehwe and Walpen 1999; Walpen and Plehwe 2001) argues in this direction, but this analysis needs further historical and theoretical elaboration. While it is suggestive that the Mont Pèlerin Society (MPS) has had a global structure and diffusion, even in Latin America and in Mexico, these studies are so far not conclusive regarding the effects on other socioeconomic movements, in policy and socioeconomic strategies on EOI and specific strategies in periphery.

As analyzed, neoliberalism is far more aggressive, dogmatic and authoritarian than EOI. Since the 1980s, and particularly in the 1990s, no government would argue, at least explicitly, for authoritarian governments and against totalitarian doctrines, to impose 'economic freedom' at all social, economic and military costs. Neoliberal authors are also more 'coherent' and consistent in their arguments: free trade and markets are the solution to all problems, from commodities to capital flows, drugs and labor, among many others. In Latin America, however – from Color de Melo to Menem, Fujimori, Salinas de Gortari, Zedillo and Fox, among many others – the dictate of the world market, rather, seems to be the motto. These policymakers – backed by economists, who have in most of the cases studied in US Ivy League universities and have been strongly influenced by EOI (Babb 2001) – are not fighting wars against totalitarianism and for 'national security', and are not heavily supported by security institutions and the military as in most of Latin America during the 1960s and 1970s. The new 'EOI-rationale' dictates that all economic units have to be competitive and efficient in world markets through exports. Additionally, macroeconomic stability and overall horizontal/neutral policies, based on the notion of a 'lean' State, are of critical importance for EOI-policies.

If it is argued that Pinochet's and Salinas's policies, even economic policies, are undifferentiated, such a conceptual and historical/empirical view obscures more than it clarifies. Most significantly, such a simplistic perspective does not allow for a discussion on alternatives to EOI, since it makes it impossible to analyze the newly imposed development strategy in space and time.

The impact of NAFTA on Mexico's economy

This section examines the performance of Mexico's economy for 1988–2002 and distinguishes for the period before and after NAFTA, since January 1994. The first part will briefly present the particular implementation of export-oriented industrialization in Mexico, i.e. the liberalization strategy. The second part will present, in more depth, the main socioeconomic structures that have evolved in Mexico, in several cases as a result of NAFTA. However, and as discussed in the first part, NAFTA has to be understood as a necessary condition for, at least potentially, the success of the liberalization strategy.

The liberalization strategy and NAFTA

Mexico's crisis in 1982, which initially resulted from the private and public sectors' inability to service foreign debt, did not reflect a 'solvency' or 'liquidity' crisis, but the unsustainability of ISI. Trade surplus in agriculture since the 1940s (which turned into a deficit from the late 1960s), oil revenues and massive international credits since the late 1970s, were not sufficient to finance the crisis of ISI (Ros 1991). The specific international conditions, particularly of the US, did not allow for 'recycling' old international credits for new ones since 1982. Paradoxically, it was the demand of capital of the US economy in international markets that increased interest rates and changed capital flows to the US and other OECD nations, resulting in massive international inability to service external debt after 1982. Moreover, in 1979–80 a two-fold increase in oil-prices caused exaggerated future oil revenue estimations (Gurría Treviño 1993), while prices began to fall in 1981 and eventually collapsed in 1986.

It is from this perspective – considering that the period 1982–7 could be understood as a 'transition period' to manage the socialization of economic crisis of ISI, including the failure of a gradual approach to liberalization which ended in 1987 with an inflation rate of 159 per cent and a fiscal deficit of 16.1 per cent of GDP, as well as a drastic fall in GDP, of investments and overall economic activity and in the increasing pressure of foreign debt-servicing and of multilateral agencies – that December 1987 reflected the culmination of the crisis of ISI and the beginning of a new socioeconomic development strategy.

These specific circumstances added to the charm of EOI, while the contact of most Mexican policy-makers with US academic institutions and government officials, in which context export-oriented industrialization was the conceptual mainstream, permitted the implementation of the liberalization strategy. The Salinas administration became the starting point of the liberalization strategy in 1988.

Mexico's liberalization strategy was consolidated by means of a series of *Pactos Económicos* (Economic Pacts), the first one being agreed in December 1987. The respective Pacts – which included wage ceilings and allowed for an *ex post* indexing of wages – were negotiated jointly by union officials, the government, and the private sector. These pacts became the centerpiece of the new strategy under the Salinas administration, which Zedillo has continued with few changes since 1994.

It is in this international and national economic context that the major pillars and guidelines of this strategy of liberalization, in contrast to ISI, are as follows (Aspe Armella 1993; Zedillo 1994; Dussel Peters 2000a; Gurría Treviño 1993; Salinas de Gortari 2000):

1 Macroeconomic stabilization was to 'induce' the process of microeconomic and sectoral growth and development, i.e. all sectoral subsidies and specific policies were to be abolished in favor of neutral policies.
2 As an extension of point 1, the main priority of the government was to stabilize the macroeconomy. Since 1988, the government has viewed controlling inflation rates[6] (or relative prices) and the fiscal deficit, as well as attraction of foreign investments – as the main financing source of the new strategy, since oil revenues and massive foreign credits were not available and/or sufficient. The macroeconomic priorities of the liberalization strategy were backed up by restrictive money and credit policies of Banco de México.

3 The nominal and real exchange rates are a result of the control of the inflation rate (the nominal exchange rate as an anti-inflationary anchor), i.e. since the control of the inflation rate is the macroeconomic priority of the liberalization strategy, the government will not allow for devaluation, the latter resulting in increasing inflation rates because of imported inputs.
4 Supported by the reprivatization of the banking system beginning in the mid-1980s, and the massive privatization of state-owned industries (*paraestatales*), the Mexican private sector is to lead Mexico's economy out of the 'lost decade' of the 1980s through exports. The massive import liberalization process, initiated at the end of 1985, was supposed to support the private manufacturing sector in order to orient it toward exports, as a result of cheaper international imports.
5 Finally, government policies toward labor unions were of utmost significance. As reflected in the respective *pactos*, only a few (government-friendly) labor unions were deemed acceptable to negotiate inside firms and with the government, while the rest were declared illegal. This process, which has included violent disruptions of independent labor unions, has, since 1987, made national wage-negotiations in Mexico possible within the framework of the respective economic pacts.

Up to 2002 the Mexican government has continued, with a few exceptions, consistently with the liberalization strategy. Overall abolishment of subsidies regarding goods – culminating at the beginning of 1999 with the abolition of subsidies for *tortillas* and most commodities of the 'basic food basket' – services and credits reflect this process.

What is the rationality of the liberalization strategy, i.e. the specific implementation of EOI in Mexico? In general, as EOI, it assumes that an export-orientation of the private manufacturing sector will provide for the new growth and development basis for Mexico. Following this view, imports were substantially liberalized, and most of the state-owned firms were privatized. This new strategy assumes that macroeconomic stabilization, added to export-orientation, would allow for a 'trickle-down effect' in the rest of the socio-economic variables.[7] Thus, and contrary to import-substituting industrialization, any economic unit had to prove its efficiency through its export-orientation to the world market.

NAFTA is of fundamental relevance for the liberalization strategy. In the best of the cases, and allowing for a significant structural change toward exports in the Mexican economy, the economy required a guaranteed demand for these commodities. Otherwise, let us try to imagine a successful export-orientation without a market to sell these commodities.[8]

It is in this context that the Mexican and US governments began free trade negotiations since the beginning of the 1990s. Independently of the specific agreements, which in many cases are at the 10-digit level of the Harmonized Tariff System and include thousands of items, it is possible to establish that (Hufbauer and Schott 1993; Dussel Peters 2000b; López-Córdova 2001):

1 NAFTA goes far beyond tariff-reductions and the creation of a free-trade agreement region. On the one hand, Mexican free tariff imports from the US increased from 37.66 per cent in 1990 to more than 51.08 per cent in 1998 and levels above 90 per cent by 2003. However, NAFTA also includes relevant issues such as regional content and rules of origin, investments, intellectual property rights, labor and ecological topics some of which required constitutional changes in Mexico.

2 Until 2002 specific disputes among Canada, Mexico and the US, in the context of trade flows between Mexico and the US of above $330 billion in 2002, were relatively low.

3 In spite of 1, in general NAFTA has focused on tariff, trade and investment issues. Labor and ecological side agreements have, so far, received little attention. Moreover, the main institutions created by NAFTA, such as the NAFTA-Commission and Commission for Labor Cooperation, among others, have remained understaffed and with little decision-making power. Central issues in the US–Mexican relationship, such as migration, regional and national disparities, institutions to reduce poverty, among many others, have so far not been envisioned.

However, NAFTA became a requirement for the liberalization strategy since the end of the 1980s given that the US has been, throughout the twentieth century, Mexico's main trading partner. A legal framework that allowed for massive Mexican exports was fundamental.

Macroeconomic performance since 1988

It is important to acknowledge, and with some irony, that the liberalization strategy *has been relatively successful since 1988 in its own terms*. Inflation since 1988 has been reduced significantly from levels above 150 per cent in the 1980s to levels below 20 per cent until 2002, with the exception of the period 1995–6. Similarly, the fiscal deficit, as a percentage of GDP – also as a result of drastic cuts in social and investment spending – fell from levels above 15 per cent to levels below 3 per cent during the 1990s; in several years it even reached a surplus. Foreign direct investments (FDI) reached annually levels above $9.5 billion for 1994–2002, and doubled in terms of GDP of the 1980s; Mexican exports increased from $30.7 billion in 1988 to $160.7 billion in 2002, representing less than 15 per cent and more than 25 per cent of GDP, respectively. As a result, Mexico, during the 1990s, was one of the most successful cases internationally regarding FDI-attraction and export-orientation.[9]

In spite of these issues, it is relevant to highlight several other aspects and macroeconomic results. First, GDP and GDP per capita were well below results obtained during ISI.[10] Second, since 1988 investments as a percentage of GDP fell constantly until 1994–5, and have recovered since then, but at levels still below those of the beginning of the 1980s. Third, and this will be discussed more in detail in the next section, exports have increased, but so have imports. The latter, and as a result, a structural and increasing trade deficit, have been one of the main macroeconomic challenges of Mexico's economy: the increasing uncertainty regarding the trade and current account deficit. As we shall see in what follows, this reflects one of the main outcomes of EOI and the liberalization strategy since 1988, a process that has deepened through NAFTA.

Two other macroeconomic outcomes of the liberalization strategy are relevant. On the one hand, and strictly as a result of the liberalization strategy, the continuous overvaluation of the exchange rate, since the nominal exchange rate is used as an 'anchor' against inflation. In 2000, the exchange rate is estimated to be overvaluated by around 40 per cent, according to official estimations (see Figure 6.1); this process has deepened throughout 2001–2. As a result, exporters have lacked the incentive to continue with their activities, while imports have continued massively. Second, real interest rates in $US have been high since 1988, also to attract both portfolio and FDI. Additionally, the commercial banking sector has not been able to channel resources to the private sector: in 2002, in terms of GDP and normalized for 1994, it represented 20.13 per cent.[11]

Third, exports have specialized in relatively capital-intensive activities, if compared with the rest of the Mexican economy, in sectors such as automobiles, autoparts, and electronics, among others. As a result, the gap between the growth in the economically active population and the generation of employment has widened significantly during the 1990s and since NAFTA, and has become one of the main socioeconomic challenges in Mexico.

The outcomes of the liberalization strategy thus are mixed at best, and questionable. While it has been able to stabilize several macroeconomic variables, at best it has not been able to link these benefits at the meso- and micro-level. The strategy in fact has generated a profound process of socioeconomic polarization.

Manufacturing's performance since 1988

Since the beginning of the 1980s, manufacturing's GDP increased constantly its share over total GDP and reached 23 per cent in 1988. Since then, however, and also as a result of the penetration of imports, manufacturing's share decreased to

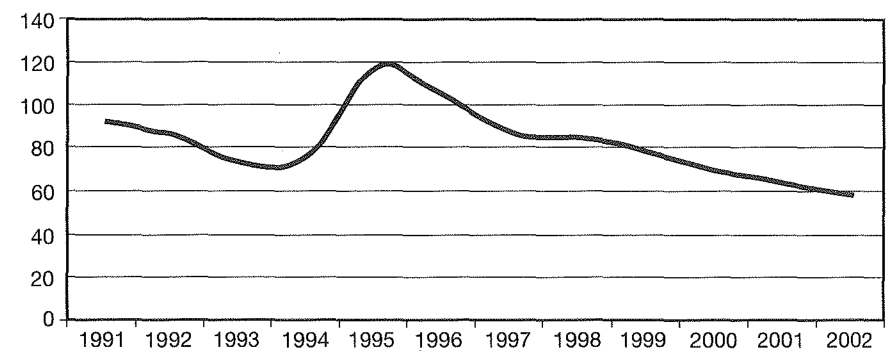

Figure 6.1 Real exchange rate (1990–2002) (1990 = 100)

levels below 17 per cent in 2002. Independent of this general trend, it is relevant to highlight the main structural changes of Mexico's manufacturing sector since 1988.

First, and considering that total economy's share of exports/GDP increased from less than 15 per cent to more than 25 per cent for 1988 and 2002, the same coefficient increased from 31.63 per cent in 1988 to levels above 65 per cent since 1995. Manufacturing as suggested by EOI has effectively become the motor of exports and growth of Mexico's economy. Only three out of 49 manufacturing branches (automobile, auto parts and electronics) generated 47.40 per cent of these exports in 2000. Figure 6.2 also reflects the increasing concentration of exports at the 2-digit level of the Harmonized Tariff System since only three sections represent more than 60 per cent of Mexican exports during the 1990s.

Second, the dynamics of manufacturing imports was no less impressive, and, as a percentage of GDP, increased from 47.04 per cent to 105.15 per cent for 1988 and 2000, respectively. As with exports, and at a branch level, only five branches (non-electrical machinery, electronics, autoparts, other manufacturing and electrical equipment) increased their share over total imports from 47.29 per cent to 51.79 per cent for the period. This net penetration of imports reflects one of the main characteristics of manufacturing since the liberalization strategy: its increasing dependency on imports, and, as a result, an increasing rupture of backward and forward linkages and value-added chains. These tendencies are also reflected in the trade balance/GDP coefficient (see Figure 6.3): since 1988 the coefficient fell significantly for total economy and manufacturing, and only recovered as a result of the crisis of 1994–5. From this perspective, manufacturing has been the main cause of this crisis, since its trade deficit/GDP, of less than 30 per cent in 1994, reflected a trade deficit of more than $30 billion. This, as we shall see, is one of the main outcomes of the liberalization strategy.

Third, it is important to analyze the processes – and in contrast to products – of transformation behind export growth of Mexican manufacturing since 1988:

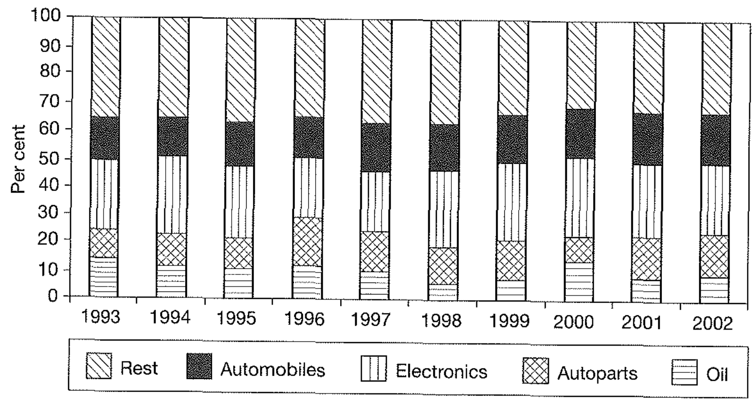

Figure 6.2 Mexico: export structure (1993–2002) (as a percentage of total exports)
Source: Own calculations based on Bancomext (SIC-M).

for 1993–2002 on average, temporary imports to be exported, including *maquiladoras*, have accounted for 78.78 per cent of total exports (more than 80 per cent since 1998). Considering that since the 1960s national inputs over total inputs have been less than 3.5 per cent of total inputs for *maquiladoras*, Mexican exports continue to be characterized by a minimal transformation process and display a high dependency on imports. More than 95 per cent of the processes involve the US. Neither tariffs nor value-added taxes or any other taxes are due. Thus, of total Mexican exports in 2002, only 18 per cent did not depend on programs for temporary imports, out of which 46.11 per cent were oil products. This product and trade specialization (more than 90 per cent of Mexican exports go to the US) has high economic and social costs for Mexican society and requires specific NAFTA compatible legal norms to secure temporary imports (Alvarez Galván and Dussel Peters 2001).

Fourth, the export growth has been concentrated in a small number of regions and firms since 1988. At the firm level, the main 300 exporting firms and around 3,500 *maquiladoras* accounted for 93.83 per cent of exports during 1993–2001, the rest of the 3.1 million firms thus accounting for less than 7 per cent. On the other hand, these exporting firms and *maquiladoras* only accounted for 5.70 per cent of Mexico's economically active population during 1993–2001. These tendencies are fundamental for understanding the export activities in Mexico. They display a high degree of intrafirm trade and capital intensity compared to the rest of the Mexican economy and have been unable to generate employment according to the requirements of Mexican society (see below).

Fifth, it is relevant to stress that intra-industry trade in Mexico has increased constantly throughout the 1990s to reach levels of 50 per cent of total trade (León González Pacheco and Dussel Peters 2001). Thus, almost half of total exports account for similar imports from similar items at the four-digit level of the Harmonized Tariff System. In many cases intra-industry trade seems to reflect intra-firm trade, although there are as yet no studies to underpin this affirmation. The share of intra-industry trade increased significantly after the implementation of NAFTA and the crisis of 1994–5.

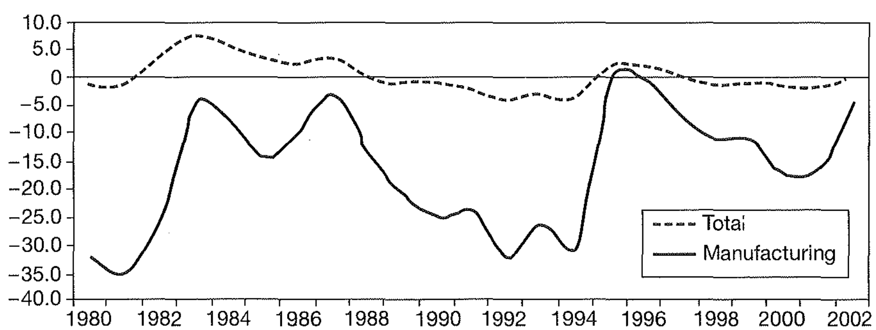

Figure 6.3 Trade balance/GDP (1980–2002) (percentage over GDP)
Source: Own elaboration based on INEGI (SCN).

Table 6.1 Mexico: general employment and unemployment tendencies (1990–2002) (thousands)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002 Preliminary
Total population	83.800	85.500	87.100	88.800	90.400	92.000	93.571	95.127	96.648	98.132	99.600	101.000	102.378
Economically active population	–	31.229	32.440	33.652	34.605	35.559	36.581	38.345	39.507	40.669	41.832	42.994	44.156
Officially employed population	–	30.270	31.427	32.585	33.082	33.578	35.006	37.043	38.363	38.939	38.785	39.421	–
Ensured employees Insured at Instituto Mexicano del Seguro Social (IMSS).	9.360	10.022	10.175	10.076	10.071	9.460	9.700	10.444	11.261	11.906	12.607	12.541	12.371
Official unemployment	–	817	880	1.075	1.224	2.082	1.925	1.371	1.228	973	853	946	–
Open unemployment rate	2.7	2.7	2.8	3.3	3.7	6.2	5.5	3.7	3.2	2.5	2.2	2.4	2.9
Insured employees/EAP	–	32.1	31.4	29.9	29.1	26.6	26.5	27.2	28.5	29.3	30.1	29.2	–

Source: Own calculations based on PEF (2002).

Employment, productivity, real wages and income distribution

Labor market and employment generation in Mexico are historically determined by the increase of the economically active population (EAP). EAP in Mexico increased during 1991–2001 at an average annual growth rate of 3.3 per cent, which reflects on average an annual growth of 1.2 million persons that have integrated into the labor market for the period. Table 6.1 reflects that, according to official sources, the open unemployment rate[12] in Mexico has not been above 7 per cent for 1991–2002. This, however, is strictly a result of the definition of the open unemployment rate and makes sense mainly for OECD countries. In Mexico and most of Latin America, however, this definition is useless, since there is no public social network and no unemployment insurance that allows for 'unemployment' under these terms. Thus, it is even surprising that unemployment is above 0 per cent!

Since official estimates of unemployment are very limited, the main trends to understand the challenge of employment in Mexico are related to EAP and the generation of employment. The EAP increased by 9.2 million during 1991–2001 whereas the economy generated 2.5 million jobs insured under Instituto Mexicano del Seguro Social (IMSS) only. The gap explains migration to the US and the search for a job in Mexico's informal labor market among other subsistence strategies. These tendencies express the profound and severe socioeconomic challenges not reflected in the one-digit open unemployment rate.

In addition to the lack of sufficient employment generation it is of the utmost importance to consider that real wages in Mexico in 2001 accounted for less than 30 per cent and 80 per cent of 1980 for minimum and manufacturing wages, respectively (see Figure 6.4). Thus, real wages have been far below the levels of two decades ago, and they have not recovered since the implementation of NAFTA in 1994.

What have been some of the main characteristics of the employment-generating branches since 1988 and 1994? In general, manufacturing has not created proportionally more employment than other economic sectors; the average annual growth rate (AAGR) for 1988–2000 has been 2.5 per cent, 2.4 per cent for the total

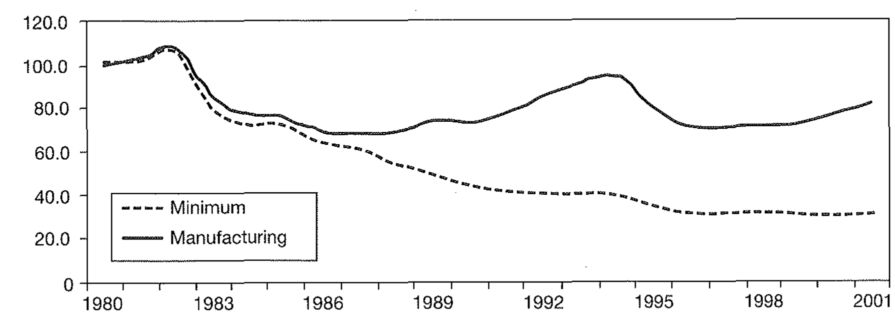

Figure 6.4 Real minimum wages and in manufacturing (1980–2001) (1980=100)
Sources: Own calculations based on CEPAL (2002).

economy, and both well below the 3.3 per cent of the EAP. Several issues stand out for the most dynamic branches of Mexico's economy in terms of employment:

1 Within manufacturing, *maquiladoras* generated 86.53 per cent of total manufacturing employment, although they only represented 1.62 per cent and 4.07 per cent of total Mexican employment in 1988 and 2000.
2 Out of 73 branches of Mexico's economy, five stand out in 1988–2000 for their average annual growth rate in employment of above 6 per cent: electronics, other manufacturing industries, autoparts, electronic appliances and construction.
3 Out of these five dynamic branches, construction alone generated 24.69 per cent of the employment of Mexico's economy and 77.06 per cent of the employment generated by these five branches for 1988–2000 (Dussel Peters 2003).

These trends are substantial for understanding the quality of the new employment generated since 1988, but also since 1994 through NAFTA: during 1988–2000 labor productivity decreased by 11.81 per cent for these five branches, the trade balance/GDP coefficient increased from 28.75 per cent in 1988 to 52.57 per cent in 2000 and real wages fell by 4.0 per cent for the period. As a result, the difference between real wages and labor productivity was positive for this group of branches, however, under the worst conditions: labor productivity fell more than did real wages, both under negative signs.

As a result of these socioeconomic trends in GDP, trade, labor productivity and real wages, income distribution has also polarized substantially. Since 1989 the poorest decile (or decile one) lost more than 0.58 per cent of total monetary income; for the period, the first seven deciles lost their share in monetary income. On the other hand, deciles eight, nine and ten increased their share. In the case of decile ten, it increased its share since 1984 by more than 7 per cent (see Figure 6.5).

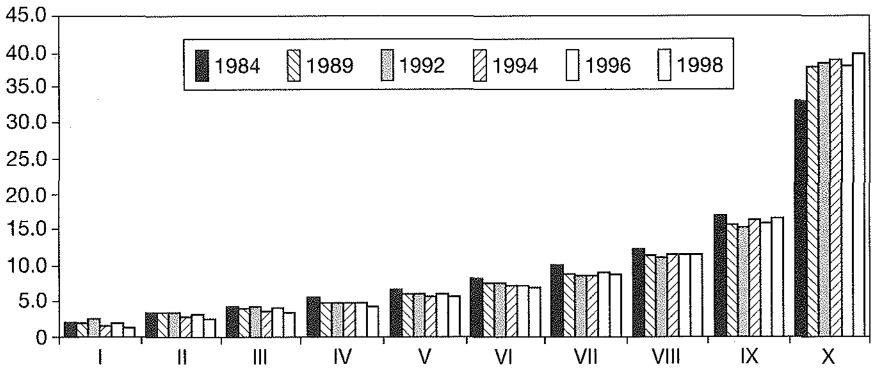

Figure 6.5 Income distribution by deciles (1984–98)
Source: Own calculations based on Dussel Peters (2000a).

Conclusions

The main arguments of this chapter were presented in two parts. The first distinguishes between neoliberalism and export-oriented industrialization (EOI). The second discusses the effects of the specific form of EOI in Mexico, the liberalization strategy, and NAFTA.

In the first part I argued that the conceptual, historical and political differences between neoliberalism and EOI are substantial. This is of particular relevance if we are to search for alternatives to the policies that are being implemented in Mexico, Latin America and most of the periphery. Moreover, more in-depth historical analysis is required in order to obtain a better understanding of the linkages between, for example, the Mont Pèlerin Society, neoliberalism, and export-oriented industrialization.

In the second part I have argued that NAFTA is functional and necessary for the EOI development strategy imposed in Mexico since 1988. Mexico's subsequent economic development *has been extremely successful in terms of EOI reasoning*. EOI, however, does have several serious flaws, including the dramatic and increasing socioeconomic and territorial polarization since the end of the 1980s. Both the liberalization strategy and NAFTA have been significant in creating a small and highly dynamic export-oriented private manufacturing sector, which is mainly integrated to the US economy, but has failed to generate a sustainable growth and development model for Mexico as a whole.

What could be an alternative to EOI and the liberalization strategy? Although this is not the place to discuss theoretical and policy alternatives (compare Dussel Peters 2000a), a few guidelines might be relevant.[13] Theoretically, and against EOI, the concept of '*territorial endogenous growth*' might be significant. One of the main challenges for countries such as Mexico in the context of NAFTA and globalization is to integrate local production in value-added chains that do allow for an increase in wages, employment, technological development and socioeconomic wealth, among other variables. Endogenous growth within a meaningful sense with regard to the social geography of the domestic territory is fundamentally different from the pattern of socioeconomic polarization. A few 'successful' households, firms, branches and regions are integrated into the world market, but they develop or maintain few linkages with the rest of the territory. This assessment should open the debate to oppose a false and simplistic causal linking of exports and development. Two discussions arise in this respect: one regarding the potential of territories to develop in a global capitalist system, and the other related to the specific regional and sectoral opportunities to link to global commodity chains. Neither of them, so far, presents definitive and 'universal' answers. However, ahistorical proposals without consideration of specific spatial and territorial context (like EOI) are neither particularly helpful to improve the understanding of the complex reality of the (semi)periphery as a whole nor do they provide a sufficient knowledge base to develop sound and comprehensive policy solutions in the concrete case of Mexico.

Notes

1 The topic will be discussed in length, also as a result of its importance for the Conference.
2 An excellent example of the absence of definition of the concept, although it is widely used, is Babb (2001).
3 Hinkelammert (1984) makes an excellent distinction between liberalism, conservatism and neoliberalism, both historically and theoretically.
4 For a historical and conceptual discussion of neoliberalism, see Hinkelammert (1984).
5 There is not sufficient space, and it is not the objective of the chapter, to develop the treatment of EOI here in depth, particularly regarding the association between exports, productivity, economic growth and overall development.
6 Aspe Armella (1993) stressed lowering the inflation rate as the crucial targeted variable since high inflation rates (caused in general by domestic demand and particularly by inertial tendencies of real wages) did not allow the reduction of the fiscal deficit during 1982–7.
7 The view of 'macroeconomy' is a further primitivization of EOI since every textbook in economics includes macroeconomic issues far beyond relative prices, fiscal deficit and foreign investment. Topics such as employment, wages, consumption and income distribution, etc., were not considered in the liberalization strategy.
8 At the end of the 1980s, this was not merely a hypothetical possibility. Politicians such as Perot and Buchanan as well as voices in the European Union presented strong criticisms of imports. Stepped up protectionism would have acted against an export orientation in Mexico and EOI in general.
9 The United States has played a substantial role in its increasing presence in FDI and trade with Mexico. More than two-thirds of FDI comes from the US, whereas 90 per cent of Mexican exports go to the US (Dussel Peters *et al.* 2003).
10 GDP and GDP per capita grew between 1940 and 1981 at an annual rate of 6.1 per cent and 3.3 per cent, respectively. Annual growth rates during the 1990s were less than half of those achieved during the 1940–81 period.
11 The main financing sources of Mexican firms are suppliers (BANXICO 2003); i.e. firms simply pay later than stipulated in contracts (or not at all).
12 The open unemployment rate refers to the percentage of persons of the EAP above 12 years that have worked for less than an hour a week and have been actively looking for a job the two previous months of the survey (PEF 2000: 43).
13 For a full discussion, see Dussel Peters (2000a).

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Part III

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Dissemination, diffu… and adaptation