Emerging World Trade Blocs: The North American Free Trade Area and the European Union Compared

OLGA M. LAZIN

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As the world moves into large trade blocs, the two most important to date are the North American Free Trade Area (NAFTA) and the European Union (EU), formerly known as the European Community. To begin, this study compares the key legal and policy aspects of the two blocs and outlines the salient features of each. The remainder of the essay presents quantitative data on NAFTA and the EU as well as additional relevant data on Japan, Eastern Europe, and other world trade units. The analysis focuses first on population, GNP, GNP/C, and exports, as measured by export share of GNP. The EU and NAFTA are then compared with respect to economic strength, geographic coverage, and competitive potential.

In 1994 twelve countries belonged to the EU: Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, and the United Kingdom. Joining January 1, 1995, were Austria, Finland, and Sweden. In a nationwide vote Norway's population rejected its government's late 1994 bid to become the sixteenth member.

NAFTA comprises the United States, Mexico, and Canada. Argentina, Costa Rica, Chile, Colombia, Venezuela, and other Western Hemisphere countries are seeking membership.

Free Trade "Fever"

With the process of "globalization" in which national trade and finance seek to form mutually beneficial alliances, free trade agreements among nations are reaching a fever pitch. The magnets and models for free trade are NAFTA and the EU.

Countries either seek to join NAFTA and the EU or follow these models in forming their own free trade agreement (FTA) leading to a free trade area (FTA, depending on the context). In the Western Hemisphere most countries want to join NAFTA, except Brazil, which is leading a movement of its partners in the misnamed Mercado Común del Sur (MERCOSUR). As of January 1, 1995, MERCOSUR became almost a full customs union, and seeks by the year 2005 to create an FTA such as NAFTA. MERCOSUR does not expect to become a common market such as the EU until the first or second decade of the twenty-first century. In the meantime, it might better be called the "Mercado del Sur," omitting the concept of "Común."

A common market is much more ambitious than an FTA. It goes beyond free trade and investment flows to require all member countries to live under the same laws and regulations. The EU has been successful in providing for educational and labor mobility among its members. Yet the EU includes aspects that have yet to be achieved: a common currency, foreign policy, military command, and police activities (see Figure B:1).

Although there is much discussion of FTAs, comparative analysis of the provisions that govern them is almost nonexistent. Furthermore, there is little consistently comparable data on the size of FTAs in terms of their population, wealth, per capita wealth, and trade flows among partner countries and with other FTAs. This study presents baseline data essential for understanding how the EU and NAFTA models differ in purpose and size.

The provisions of the EU and NAFTA are summarized in Figure B:1. The NAFTA model mainly involves freeing trade and investment flows, although it also provides, in a limited way, for the movement of professionals among its three countries. Meanwhile, the EU, knowing that it is losing markets in the member countries of the North American Free

OLGA MAGDALENA LAZIN is PROFMEX director for Eastern European affairs. A Romanian citizen, she has lived in Bordeaux, where she conducted research on the European Union, and in Mexico City, where she conducted research on NAFTA and free trade in the Americas. In 1993 she opened the PROFMEX office in Moscow, and she is currently involved in extending the U.S.–Mexican model for the development of the nonprofit sector to Eastern Europe. Currently, she lives in Los Angeles where she is enrolled in the Latin American Studies master's program at UCLA.

Trade Area, now seeks to recover access to these markets by signing free trade agreements. In February 1995 the EU authorized negotiation with Mexico to create an EU-Mexico FTA. (For details, see the preceding chapter in this volume, "Mexico as Linchpin for Free Trade in the Americas.")

Tables B1, B2, and B3 present data on population, GNP, GNP/C, and export share in GNP for the EU, Eastern Europe, and NAFTA. Table B4 shows population, GDP, and GDP/C for major world trade blocs. Table B5 indicates the relative importance of the major trade blocs, using the United States as a reference point. Table B6 profiles the economies of the United States, Japan, Germany, the United Kingdom, Canada, and Mexico, according to selected indicators.

Of the members of the EU, reunited Germany has the largest population (81 million inhabitants). Italy and the United Kingdom follow, virtually tied at 58 million. Germany's population is 207 times that of Luxembourg, the smallest European country, with a population of 389,000. And Germany's GNP is 134 times that of Luxembourg (Table B1).

Given such disparities in population size, is it "fair" that voting rights in the EU give undue weight to small countries? (For shares of voting rights, see Appendix A.) Despite its small population, Luxembourg has the highest GNP/C in the EU

Figure B:1

SUMMARY OF PROVISIONS OF THE NORTH AMERICAN FREE TRADE AGREEMENT (NAFTA) AND THE EUROPEAN UNION (EU)

Category	NAFTA	EU
Goals	One market for trade of goods.	Transnational criteria to create, step-by-step, a common political, economic, and population union.
Policy-making	Each member establishes its own trade policy subject to treaty negotiations.	The Council of Ministers (the principal decision-making body with representation from each country) makes decisions applicable to all members.
Currency	Each member has its own currency.	Members have established a common currency unit (the ECU), but each country still maintains its own currency. Under the Maastrich Treaty, the ECU is scheduled to become the only unit of currency by 1999.
Customs	Each country retains its own customs regulations.	Members joined into a single market as of January 1, 1993. Capital, goods, and services move among EU states. There is a pledge to abolish internal migration controls, but some countries have postponed compliance.
Transportation	Authorizes trucks and common carriers to move between the countries. (Truck traffic to cross the Mexican border freely by 1999.)	A common policy for a frontierless bloc and total opening of transportation routes is established, except truck traffic to be banned in the Swiss and Austrian Alps.
Employment	Workers are not included.	Workers may move freely among member states.
Migration and citizenship	Only professionals, business persons, and investors have the right to transfer for work in member states.	Citizens of EU countries are guaranteed freedom of movement and residence. Citizens vote for the European Parliament in their place of residence regardless of citizenship. Burgundy-colored passports are being introduced throughout the EU.
Trade agreements with other non-member countries	Not covered.	Trade agreements are signed by the Union, not by individual countries.
Foreign policy	Not covered.	Members are pledged to a common foreign policy, but few states are actually seeking full compliance.
Inflation and macroeconomic management	Not included.	Member states must adhere to maximum limits.
Competition and quality	Not covered.	Members agree to establish common strategies to make all countries equally competitive. Provides minimal quality regulations.
Consumer protection	Not covered.	Members adhere to standard regulations which are being established.
Social policy	Not covered.	Standard criteria apply to all countries (for example, social security).
Tax legislation	Covers only the Double Taxation Treaty.	Establishes standard guidelines for all members. Special privileges are granted to phase in economically depressed areas such as Spain and Portugal. Finland and Austria will benefit upon becoming members.
Environment	The parties are establishing common standards in side agreements.	Members have established a common policy for standards and measures.
Health	Not covered.	Members have established a common program.
Education	Although NAFTA is an economic union, a side agreement has emerged but not at the same level as ERASMUS program.	Establishes exchange programs for higher students and university professors. The ERASMUS program provides for students to study up to a full year in another EU country.
Defense	Not covered.	Members seek to develop a common security policy. A common military system has been established, but each country retains its own military.

(US $35,260) and the highest export share of GNP (94 percent). Spain, in contrast, has a larger population (39 million) but the EU's lowest export share of GNP (17 percent). Clearly, weighted voting rights are not as arbitrary as first glance might have us believe. In any case, countries with the largest populations together constitute a "qualified" (decisive) majority. In 1994 it took 23 "minority" votes to block the majority. It now takes 26 votes to constitute a blocking minority.[1]

Six countries in Eastern Europe seek to join the EU: Bulgaria, the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic.[2] Among these, Poland has the highest GNP (US$75 billion), much higher than EU member Ireland (US$42 billion). Poland, however, is weak in exports, which amount to only 19 percent of its GNP. Hungary's GNP/C is 54 percent higher than that of Poland, owing to its previous leadership position among the former Communist countries in carrying out economic reforms (Table B2).

The relationship between Poland and "smaller" countries is interesting. Although Poland has four times the population of Bulgaria (9 million), it has the lowest export share of GNP (19 percent). Bulgaria has the second largest export share of GNP (45 percent), after the Czech Republic, which leads both Poland and Bulgaria in export share of GNP (58 percent) and also in GNP/C (US $2,440) compared with the rest of the Eastern European countries.

With regard to Romania and the Slovak Republic, the two poorest countries seeking to join the EU, the lackluster economic performance of Romania is particularly noteworthy. Romania's GNP (US $24.9 billion) is more than double that of the Slovak Republic (US$10 billion), yet the two countries export the same percentage of GNP (28 percent). Romania's trade with Eastern Europe collapsed in 1991 along with the Council of Economic Assistance for Eastern Europe (COMECON) trading organization. Subsequent growth in trade with the West has been slow, and current-account deficits of more than US$1.2 billion have been recorded each year from 1991 through 1994. Romania's population is four times larger than that of the Slovak Republic (5.3 million). The legacy of high inflation and modest growth accounts for the Romanian currency's minimal purchasing power. It is unlikely that Romania will become a full member of the EU within the next ten years.[3]

How can the Slovak Republic, with its small population and weak economy, hope to compete in an expanded EU? Although its population is only 5 million and its GNP is only US$10 billion, the Slovak Republic has the same high level of exports relative to GNP as Romania.

The Five Constituencies of the European Union

Given the disparities in population, GNP, GNP/C, and export share of GNP, the countries of the EU form five "constituencies" (see Figure B:2).[4]

1. The "Core": France and Germany. Belgium, the Netherlands, and Luxembourg, too close geographically and too small economically to avoid being drawn into the orbit of power, are appendages of the Core. (In 1951 France and Germany founded the European Coal and Steel Community, the precursor of the EU, to rebuild war-torn Western Europe.)
2. The "Free Traders": Great Britain and Denmark (members of the EU since the early 1970s). Britain is leading the way toward establishing a common market for goods, ser-

[1]Currently 62 votes out of a total of 87 are needed for a "qualified" (decisive) majority. The U.K.'s concern is that even if it were joined by Germany and the Netherlands to form a "liberal group," they still would not constitute a blocking minority although together they have 29 percent of the vote. See Appendix A and "The European Union Survey," *The Economist,* October 22, 1994, p. 20.

[2]Desmond Dinan, *Ever Closer Union? An Introduction to the European Community* (Boulder, Colo.: Lynne Rienner Publishers, 1994), p. 479.

[3]The process of admitting new member countries requires EU approval of an invitation to negotiate with the applicant, successful negotiation to bring the applicant into accord with the regulations and provisions of the EU, and affirmative vote by the applying country. The vote may be by the Congress or by the voting-age population. The EU held its first formal summit meeting with the six former Eastern Bloc (Warsaw Pact) countries on December 10, 1994, where they discussed strategies for uniting East and West, but established no timetable. They did take up such issues as immediately easing restrictions on exports east to west in Europe, however, as well as foreign and security concerns of Russia. For a report on these matters, see Mark M. Nelson and Charles Goldsmith, "Summit Between EU, East Bloc Adopts Strategy for Integration," *Wall Street Journal,* December 12, 1994.

[4]"The European Union: Back to the Drawing Board," *The Economist,* September 10, 1994, pp. 21-23.

Table B1

EUROPEAN UNION[1] POPULATION, GNP, GNP/C, AND EXPORT SHARE OF GNP

(1992)

Country	Population (T)	GNP (M US)	GNP/C (US)	Export Share of GNP (%)
Austria	7,906	174,767	22,110	41
Belgium	10,039	209,594	20,880	73
Denmark	5,166	133,941	25,930	37
Finland	5,062	116,309	22,980	22
France	57,338	1,278,652	22,300	23
Germany[2]	80,553	1,846,064	23,030	24
Greece	10,454	75,106	7,180	23
Ireland	3,536	42,798	12,100	62
Italy	57,844	1,186,568	20,510	20
Luxembourg	389	13,716	35,260	94
Netherlands	15,167	312,340	20,590	54
Portugal	9,843	73,336	7,450	35
Spain	39,077	547,947	14,020	17
Sweden	8,707	233,209	26,780	28
United Kingdom	57,701	1,024,769	17,760	24
15 Countries	368,782	7,269,116	19,658[a]	27[a]
12 Countries[b]	347,107	6,978,040	20,103[a]	25[a]

1. Includes the three countries that joined the EU in 1995 (Austria, Finland, and Sweden).
2. West and East Germany.

a. Weighted.
b. Excludes Austria, Finland, and Sweden.

SOURCE: Calculated from data in World Bank, *Atlas 1994,* pp. 8–9, 18–19.

Table B2

EASTERN EUROPE POPULATION, GNP, GNP/C, AND EXPORT SHARE OF GNP

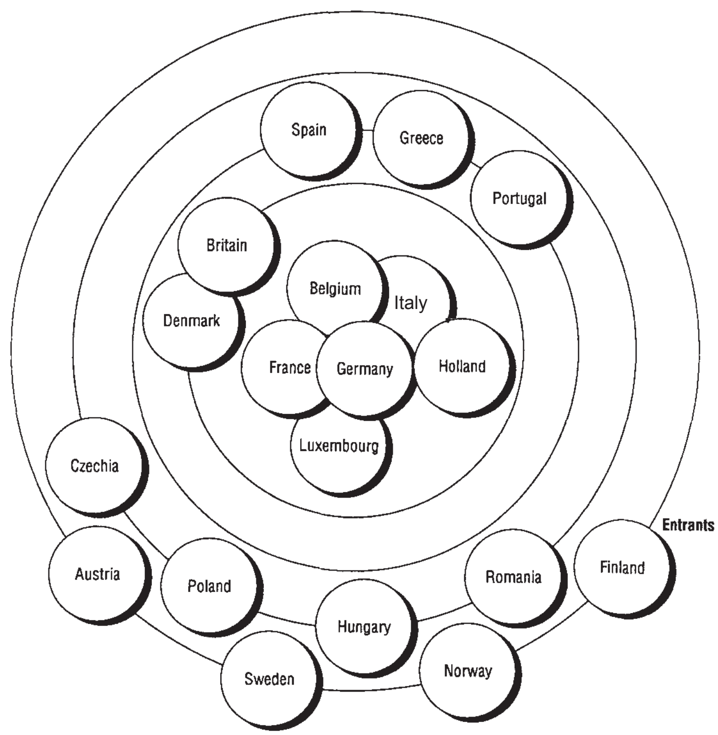
(1992)

Country	Population (T)	GNP (M US)	GNP/C (US)	Export Share of GNP (%)
Bulgaria	8,952	11,906	1,330	45
Czech Republic	10,383	25,313	2,440	58
Hungary	10,202	30,671	3,010	33
Poland	38,365	75,268	1,960	19
Romania	22,865	24,865	1,090	28
Slovak Republic	5,346	10,249	1,920	28
Total	96,113	178,272	1,854[a]	30[a]

a. Weighted.

SOURCE: Calculated from data in World Bank, *Atlas 1994,* pp. 8–9, 18–19.

Figure B:2
THE EUROPEAN UNION'S FIVE "CONSTITUENCIES"



SOURCE: Drawing based upon "The European Union: Back to the Drawing Board," *The Economist,* September 10, 1994.

vices, capital, and people while trying to prevent the rise in Europe of any singularly powerful country.

3. Greece, Portugal, and Spain: These poorer, newly democratic members seek to modernize their economies to protect against a resurgence of authoritarian rule. The admission of these countries into the EU in the 1980s widened the gap between rich and poor countries, the latter including Ireland and to some extent Italy.
4. Eastern Europe: the Czech Republic, Hungary, Poland, and Romania. The countries of Eastern Europe freed themselves from Russian rule after 1989 and view admission to the EU, proposed for 2000 by Germany, as insurance against the resurgence of Russian authority in the region.
5. European Free Trade Association (Austria, Finland, Norway, and Sweden): These countries, except Norway, have realized that they can not afford to be left out of an expanding EU. Austria may even become part of the Core constituency. For at least the next decade Norway has petroleum and fish for export to non-EU countries, giving the country a feeling of confidence that it does not need its neighbors as much as they need it. Furthermore, the fact that Norwegians defeated by slightly more than 50 percent the government initiative to join the EU can be traced to the votes of the relatively large agricultural and fishing populations, both fearful of submitting to common market policy that would limit food production subsidies and open Norwegian fishing beds to the EU. The urban sector, some of which also voted against joining the EU for fear of losing social benefits, has been disadvantaged by Norway's failure to join the EU, and some large Norwegian manufacturing companies are relocating their main offices to the EU, thus weakening the drive to modernize the economy.[5]

[5] "Norway's No," *The Economist,* December 3, 1994, p. 20.

In view of the diversity of the five groups, disunity in the Union comes as no surprise. Two coping models have emerged to manage the divergent interests: (1) the British model seeks to give more or less equal weight to the concentric circles depicted in Figure B:2, encouraging cooperation among the diverse constituencies; (2) the German-French model favors moving forward with monetary union and a unified foreign policy focused on the center circle in Figure B:2, the Core. The notion that Britain may resist France and Germany and refuse to join the EU monetary union prompted this comment in *The Economist:*

If Britain stays out, only to change its mind later [as it did about the EU], its leaders may seem as silly as Churchill now seems, for this comment on the founding of the European Coal and Steel Community 43 years ago: "I love France and Belgium but we must not allow ourselves to be pulled down to that level."[6]

Comparison of the EU and NAFTA

Population totals (Tables B3 and B4) for NAFTA and the EU are now about the same: NAFTA, 363.3 million; EU (15 countries), 368.8 million (1992 data). Within the EU, Germany's economy is the strongest, followed by those of France and Italy. Among all countries in the two trade blocs, the United States has the highest GNP and the highest GNP/C within NAFTA. Overall, Luxembourg has the highest GNP/C.

With respect to export share of GNP, Mexico ranks lowest in NAFTA (14 percent) and Greece places last in the EU, with 23 percent. Even Romania and the Slovak Republic rank above Mexico, with 28 percent each.

The index calculated in Table B5 shows the relative economic strength of major trading units. For example, Mexico has one-third of the population of the United States, but Mexico's export share of GNP is only 5 percent of the U.S. export share of GNP. The table also shows why Japan, a single country that has established a web of trade dependency worldwide, is often seen as the economic "enemy" of both NAFTA and the EU. Japan's GNP/C is 21 percent higher than that of the United States. Many countries have formed implicit trade blocs to compete with Japan and its accumulation of world trade capital. NAFTA gives the United States, Canada, and Mexico the opportunity to expand international trade at Japan's expense.

In the Western Hemisphere, the GNP of the United States far exceeds that of other countries of the hemisphere, with the exception of Canada, whose GNP is 84.3 percent of the U.S. total (Table B5). Although the population of the EU is 48 percent larger than the U.S. population, its GNP/C is only 89 percent of the U.S. figure.

Mexico has established itself as the linchpin for free trade in the Americas[7] despite the fact that its population is only one-third that of the United States, its GNP is 5 percent of the U.S. amount, and its GNP/C 15.3 percent of the U.S. figure. The NAFTA framework, along with the "defeat" of the Chiapas rebels in the August 1994 national elections, has increased the attractiveness of Mexico for U.S. investment.

The index of population and economic strength in Table B5 shows that in relation to the GNP/C of the United States, Mexico ranks higher than MERCOSUR by 3.5 percent, while Germany, with a population about equal to that of Mexico, has 95.7 percent of the U.S. GNP/C, raising the average for the EU to 80 percent of the U.S. GNP/C. This analysis is carried a step further in Table B6, adapted from a comparison published regularly by the *New York Times* of NAFTA (Canada, Mexico, and the United States), the EU (represented by Britain and Germany), and global competitors (represented by Japan).

The bottom line for global competition is shown in the manufacturing wage gap (Table B7). The Western European countries with the highest average hourly wage in manufacturing (1993 data) are forced to compete under the burden of a wage of US$21. In Japan and the United States the figure is $16. The Asian "tigers" (Taiwan, Singapore, South Korea, and Hong Kong), however, average about US$5 per hour. These data illustrate Mexico's status as an attractive locale for the establishment of manufacturing plants, with its US$2.41 hourly manufacturing wage. Likewise, Eastern Europe, where the hourly manufacturing wage is US$.90, is Mexico's future counterpart for the EU. Germany has already

[6]"The European Union," p. 23.

[7]See James W. Wilkie and Olga M. Lazin, "Mexico as Linchpin for Free Trade in the Americas," *Statistical Abstract of Latin America*, vol. 31, herein.

Table B3

NORTH AMERICAN FREE TRADE AREA POPULATION, GNP, GNP/C, AND EXPORT SHARE OF GNP

(1992)

Country	Population (M)	GNP (B US)	GNP/C (US)	Export Share of GNP (%)
Canada	27,844	565,787	20,320	25
Mexico	84,967	294,831	3,470	14
United States	255,414	5,904,822	23,120	11
Total	368,225	6,765,440	18,374[a]	12[a]

a. Weighted.

SOURCE: Calculated from data in World Bank, *Atlas 1994*, pp. 8–9, 18–19.

Table B4

MAJOR WORLD TRADE BLOCS AND SAMPLE COUNTRIES[1]

(About 1993)

PART I. BLOCS

Trade Bloc	Number of Members	Population (M)	GDP (B US)	GDP/C[2] (US)
NAFTA	3	363.3	6,404.2	17,622
SICA	6	29.5	36.0	1,222
ACS	25	198.7	474.0	2,386
G3	3	137.8	377.7	2,740
Andean Pact	5	93.8	160.1	1,707
MERCOSUR[3]	4	191.6	544.1	2,840
European Union[4]	15	368.8	7,269.1	19,658
European Union	12	345.0	6,144.0	17,809
APEC	13	1,961.0	11,135.1	5,678

PART II. SAMPLE COUNTRIES[5]

Trade Bloc	Number of Members	Population (M)	GDP (B US)	GDP/C[2] (US)
NAFTA				
Mexico		83.3	282.5	3,391
United States		252.7	5,610.8	22,203
Canada		27.3	510.8	18,711
SICA				
Costa Rica		3.1	5.6	1,796
ACS				
Cuba		10.7	26.9	2,500
G3				
Colombia		33.6	41.7	1,241
Andean Pact				
Venezuela		20.2	53.4	2,644
MERCOSUR				
Brazil		151.4	414.1	2,735
Chile[6]		13.4	31.3	2,336
European Union				
Germany		79.6	1,692.0	21,256
APEC				
Japan		124.0	3,337.0	26,911

1. Mexico included in NAFTA, SICA, ACS, and G3; Colombia and Venezuela included in ACS, G3, and Andean Pact.
2. Revises source data.
3. Mercado Común del Sur.
4. Includes the three countries that joined the EU in 1995 (Austria, Finland, and Sweden). Data are for 1992 (see Table B1, above).
5. Except NAFTA includes all three member countries.
6. Nonmember.

SOURCE: Adapted from James W. Wilkie and Olga M. Lazin, "Mexico as Linchpin for Free Trade in the Americas," *Statistical Abstract of Latin America*, vol. 31, table A3, herein.

Table B5

INDEX OF POPULATION AND ECONOMIC POWER OF MAJOR WORLD TRADING UNITS

(About 1993; U.S. = 100.0)

Area	Population	GNP	GNP/C
Mexico	33.0	5.0	15.3
Canada	10.8	9.1	84.3
MERCOSUR	75.8	9.7	12.8
Germany	31.5	30.2	95.7
EU	147.6	131.5	89.1
Japan	49.0	59.5	121.2

SOURCE: Calculated from table B4, above.

Table B6

ECONOMIC INDICATORS, SELECTED COUNTRIES

(Mid-1994)

Category	United States	Japan	Germany	Britain	Canada	Mexico
Industrial Production (PC/Month)	+.2	−1.7	+2.3	.0	+.8	+3.1
Real GDP (PC/ Quarter, annualized)	+3.8	+3.9	+4.0	+3.8	+6.4	+3.8
Current Account (B)	−31.9	+11.7	−.1	−.7	−7.5	−2.5
Inflation (PC/Month)	+.3	+.4	+.1	−.5	+.4	+.4
10-Year Government Bond (Weekly %)	7.43	4.44	7.45	8.51	8.96	13.4
Exchange rate (Weekly per US $)	~	99.18	1.538	.644	1.367	3.422

SOURCE: Adapted from "[Table on] World Economies," *New York Times*, September 12, 1994, p. C2.

moved important manufacturing funds into Romania, for example, but the EU has yet to establish a formal relationship with Eastern Europe comparable to Mexico's position in NAFTA. In general, Eastern Europe (except the Czech Republic) awaits the opening of its economies, which remain largely nonmarket (see Appendix B).

NAFTA is more equitably positioned in terms of internal wage gap between countries than is the EU. For NAFTA, the U.S. manufacturing wage rate is 6.8 times higher than the Mexican rate. For the EU, the present gap between the highest wage (Western Germany) and the lowest one (Portugal) is 5.4 percent, but the potential gap, once the EU expands into Eastern Europe, is 36.6—an amount equal to the difference between Western Germany and Bulgarian wages. Equity is not the only issue, however; in this case, inequity may help Eastern Europe attract capital in the competition for ever cheaper manufacturing sites in an era of globalization.

Under the NAFTA model, the process of opening markets to free trade will occur over 15 years (Appendix C). Eastern Europe, in contrast, faces a much more difficult mission of nearly immediate integration into the EU. In keeping with the gradual removal of trade barriers, Mexico has eliminated duties on all U.S. and Canadian products not made in Mexico, that is, on 43 percent of its purchases from Canada and the United States. Although the data suggest that Mexico purchases most of its

Table B7

AVERAGE HOURLY WAGE IN MANUFACTURING, SELECTED COUNTRIES

(1993)

Country	Wage (US)
Former West Germany	24.87
Switzerland	21.90
Belgium	21.00
Netherlands	19.83
Austria	19.26
Denmark	19.21
Sweden	18.30
Japan	16.91
United States	16.40
France	16.26
Italy	14.82
United Kingdom	12.37
Ireland	11.88
Spain	11.73
Taiwan	5.46
Singapore	5.12
South Korea	4.93
Portugal	4.63
Hong Kong	4.21
Mexico	2.41
Hungary	1.82
Poland	1.10
Czech Republic	1.14
Thailand	.71
Romania	.68
Philippines	.68
Bulgaria	.63
China	.54
Russia	.54
Yugo/Serbia	.40

SOURCE: Terence Roth, "The Gordian Knot," *Wall Street Journal*, September 30, 1994, p. R-25.

goods from the United States (63.4 percent in 1992) and very little from Canada (1.0 percent), the reality is that much of the Canada-Mexico trade is "lost" statistically when it passes through the United States, where the transactions become incorporated into U.S. trade data. (See the preceding chapter in this volume.)

Under NAFTA the United States immediately eliminated duties on nearly 50 percent of Mexican imports and Canada did away with tariffs on 19 percent of its imports from Mexico, including a complete opening to Mexican textiles (thread, cloth, and clothing), which in 1992 reached about US$17 million in value. (Mexican textile exports to the United States were 56 times greater.)

Conclusion

When NAFTA and the EU are compared with respect to their framework and policies, geographic scope, and leadership, three significant points emerge.

1. Unlike NAFTA, the EU allows individuals, both workers and students, to move about freely among the member countries. In addition, a goal of the EU is eventual unification under one currency, a common foreign policy, and military coordination.
2. NAFTA has the potential to expand beyond Mexico into Latin America. The United States and Mexico have extensive trade experience in the region, in comparison with the EU's lack thereof in Europe. Also, Mexico has entered into several multilateral and bilateral agreements that make expanded trade possible. Canada has far to go, however, in establishing trade relations beyond those with the United States. And both the United States and Canada face formidable competition from Japan. Under Mexico's leadership in bringing about the integration of the Americas, however, NAFTA is well positioned to compete with the EU, as it takes its first serious steps to develop relations with MERCOSUR.
3. One country, the United States, functions as the "core" for NAFTA, whereas France and Germany comprise the EU core. However, French president François Mitterand's term is coming to an end and Jacques Delors, retiring head of the European Commission, has decided not to be a presidential candidate in France's May 1995 elections. Can Germany count on France as its traditional ally in promoting ever greater EU unity or will a new dynamic emerge?

Meanwhile, expansion of the EU into Eastern Europe is delayed not only by the slow process of creating market economies with modern laws and credit systems but also by Russia's argument that inclusion of former Warsaw Pact countries in NATO could signal a new Cold War.

Appendix A

EUROPEAN UNION POPULATION AND VOTES IN EUROPEAN COUNCIL
(15 Countries as of January 1, 1995)

Country	Population (M)	Council Votes[1]
Germany	81.6	10
United Kingdom	58.2	10
Italy	58.1	10
France	58.0	10
Spain	39.2	8
Netherlands	15.4	5
Greece	10.5	5
Belgium	10.1	5
Portugal	9.4	5
Sweden	8.8	4
Austria	8.0	4
Denmark	5.2	3
Finland	5.1	3
Ireland	3.6	3
Luxembourg	.4	2
Total		87

1. As of January 2, 1995, the "qualified majority" is 62 votes out of the total of 87. The 12-country majority was 54 votes of the total 76.

SOURCE: "The European Union Survey," *The Economist*, October 22, 1994, p. 20.

Appendix B

EASTERN EUROPE, RUSSIA, AND UKRAINE MARKET REFORMS, 1994
(4 = Market Economy; 1 = Little Progress)

Country	Private Sector Share of GDP (%)	Privatization		Reorganize Companies	Prices, Competition	Trade, Foreign Exchange	Banking and Credit
		Large	Small				
Bulgaria	40	2	2	2	3	4	2
Czech Republic	65	4	4	3	3	4	3
Hungary	55	3	4	3	3	4	3
Poland	55	3	4	3	3	4	3
Romania	35	2	3	2	3	4	2
Slovak Republic	55	3	4	3	3	4	3
Russia	50	3	3	2	3	3	2
Ukraine	30	1	2	1	2	1	1

SOURCE: Adapted from "Norway's No," *The Economist*, December 3, 1994, p. 27, quoting from a report by the European Bank for Reconstruction and Development.

Appendix C

NAFTA SCHEDULE FOR ZERO-TARIFF TRADE, BY COUNTRY AND ITEM, 1994–2009

PART I. U.S. OPENS TO MEXICO

January 1, 1994	5 Years (by 1-1-99)	10 Years (by 1-1-04)	15 Years (by 1-1-09)
		Agricultural Products[1]	
Live beef cattle	Oranges	Frozen strawberries	Dried garlic
Nuts	Mangoes	Tomatoes	Onions
All flowers except roses	Roses	Limes	Onion powder
Tequila	Olives	Avocados	Peanuts
Strawberries	Pineapple juice	Tobacco leaves	Orange juice and oranges without peel
Garlic	Canned vegetables	Tobacco	
Molasses	Canned fruits	Salsas	
Millet	Blackberries	Bell peppers	
Fish and seafood	Raspberries	Chocolate	
Soybeans	Carrots	Spices	
Wheat			
		Goods	
Automobiles	Beer	Laminated steel tubes	
Refrigerators	Trucks	Leather shoes and boots	
Televisions	Cotton pants	Ceramic toilet bowls	
Radios/Cassette recorders	Electric motors	Water heaters	
Computers	Car seats	Penicillin	
Windshields	Cotton textiles		
Gas stoves			
Electric irons			
Ceramic washbasins			
Glass containers			
Gas motors			
Textiles			

PART II. MEXICO OPENS TO U.S.[2]

January 1, 1994	5 Years (by 1-1-99)	10 Years (by 1-1-04)	15 Years (by 1-1-09)	25 Years (1-1-19)
		Agricultural Products		
Sorghum for grain	Pears	Soy oil residuals	Corn	
Nonalcoholic drinks	Soup preparations	Animal fats	Powdered milk	
Fruits, dried or unpeeled	Broths and stewed vegetables	Turkey meat	Tuna	
Christmas trees	Malt beer	Stuffed chocolates	Orange juice	
Prunes	Bread dough	Starch residuals	Beans, non-seed	
Garlic	Plums	Ham		
Jelly, marmalade, purées	Alcoholic spirits, liquors	Chicken meat		
Tomato juice	Vegetable and fruit juices	Sausages		
Peas				
		Goods		
Diesel locomotives	Computers	New autos		Used autos
Photocopiers	Tires	Refrigerators		
Videocassette recorders	Televisions	Washing machines		
Airplanes	Portable radios			
Bulldozers	Cotton pants			
Cellular phones				
Machinery				
Electronic equipment				
Non-auto transport				
Precision instruments				

Appendix C (Continued)

NAFTA SCHEDULE FOR ZERO-TARIFF TRADE, BY COUNTRY AND ITEM, 1994–2009

PART III. CANADA OPENS TO MEXICO

January 1, 1994	5 Years (by 1-1-99)	10 Years (by 1-1-04)	15 Years (by 1-1-09)
		Agricultural Products[3]	
Coffee	Pumpkins	Strawberries	
Cabbages	Onions	Broccoli	
Grapefruit juice	Garlic	Tomatoes	
Vegetables and nuts	Chocolate	Cucumbers	
	Radishes	Squash	
	Frozen vegetables	Flowers	
	White beans		
	Mayonnaise		
		Goods	
Beer	Televisions	Toys	
Computer equipment	Glass containers	Electric coffeepots	
Television parts	Heaters	Electric juicers	
Windshields	Light trucks	Cotton pants	
Ceramic bowls	Glassware	Footwear	
Marble	Ceramic tiles		
Textiles	Auto batteries		

PART IV. MEXICO OPENS TO CANADA

January 1, 1994	5 Years (by 1-1-99)	10 Years (by 1-1-04)	15 Years (by 1-1-09)
		Agricultural Products	
Lentils	Substitute milk for calves	Wheat	
Hake	Food mixes from flour, starch, and groats	Pastry mixes	
Peas	Malt beer	Pork, frozen or refrigerated	
Dried peppers	Pears	Pork, salted and pickled	
Lacquers	Vegetable juices	Ham	
Christmas trees	Animal meat	Barley grain	
Pistachios	Birdseed	Wheat gluten	
Vegetables	Bran		
Race and jumping horses			
		Goods	
Telecommunication equipment	Electrical appliances[4]	Truck-trailers	
	Computers	Shampoos	
	Industrial ovens	Diapers	
	Paper		

1. Seasonal sales are permitted duty free for the following Mexican products: tomatoes, chiles, eggplants, pumpkins, watermelons, and onions.
2. Mexico is protected by an emergency clause under which imports can be suspended to protect against severe economic disruption. Mexican forests are protected until January 1, 2004; used autos are dutiable until January 1, 2019.
3. Seasonal sales are permitted duty free for the following Mexican products: Brussels sprouts, pimentos, sweet corn, and small squash.
4. Includes 2,500 products for which Mexico is required to eliminate duties on 18 percent of its purchases from Canada by January 1, 1999.

SOURCE: Adapted from Noé Cruz Serrano, "¿Cómo, cuándo, dónde y en qué operará el TLC?," *Epoca*, November 22, 1993, pp. 16–17; Daniel Dombey, "Post Devaluation Outlook Unclear for U.S. Agricultural Products, *El Financiero Internacional*, January 2–8, 1995.

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