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This book grew out of a desire to examine the potential for state intervention in a global economy. My interest in this issue was heightened by the implementation of the Canada–U.S. Free Trade Agreement (FTA) in 1989 and the initiation of free trade talks with Mexico in 1991. As states willingly relinquished their control over policy tools such as tariffs and performance requirements, the potential for effective state intervention seemed greatly diminished. Despite the willingness of neo-liberal governments in all three countries to give more play to market forces, however, I found that political forces played a greater role than ever in continental trade and investment relations. Curiously, the harder states tried to extract themselves from continental market interactions, the more politicized trade and investment issues became. The signing of the FTA seemed only to fuel trade disputes between the United States and Canada in areas such as beer, autos, carpets, pork, and softwood lumber, and the proposal to expand the agreement to Mexico led to an explosion of political opposition in both of Mexico's northern neighbors.

The reason is that meticulously negotiated trade rules devised by governments do little to abate the fears, insecurities, or grievances felt by such political actors as business and labor. Indeed, exposing them more broadly to market forces often exacerbates their perceived grievances and encourages unprotected interests to battle out their differences even more furiously. Paradoxically, therefore, one

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of the best ways to promote a freer trade and investment environment is for the state to protect these interests—not in the traditional sense of offering quotas or tariff barriers but by enhancing available adjustment measures. These measures would involve the implementation of state-led programs to train and retrain workers, coordinate R&D, provide sufficient unemployment insurance, and help firms adapt to global competition. Yet as these three countries reduced their trade barriers, they simultaneously cut many of the programs that might provide their citizens with greater adjustment security. I conclude that despite the current emphasis on market forces and globalization, the need for effective national and subnational state policies is greater than ever.

The announcement of a North American Free Trade Agreement (NAFTA) in August 1992 came as this book was in its late stages of production. Nonetheless, it was written in anticipation of such a pact, and its conclusions are relevant in the context of the political debates sure to ensue in all three countries as the agreement passes through their legislatures. Comprehensive investment strategies addressing the concerns of both workers and firms will encourage greater continental cooperation while avoiding a downward spiral to the lowest common denominator.

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*The Paradox of
Continental Production*