Ca' Foscari
University
of Venice

Master's Degree programme

In

Comparative International Relations

Second Cycle (D.M. 270/2004)

Final Thesis

The North American Free Trade Agreement (NAFTA) between Past and Future

Supervisor
Ch. Prof. Duccio Basosi

Assistant supervisor
Ch. Prof. Stefano Soriani

Graduand
Agnese Cantarelli
Matriculation Number 841276

Academic Year
2016/2017

ABSTRACT

Proposito di questa tesi è ripercorrere la storia dell'Accordo di Libero Commercio del Nord-America (*North American Free Trade Agreement*, NAFTA) fra Stati Uniti, Canada e Messico, entrato in vigore dal 1994, per cercare di comprendere, da un lato, le motivazioni che, oggi, inducono i primi – da soli, rispetto agli altri due firmatari dell'Accordo – a chiederne una profonda revisione e, dall'altro, che tipo di svolta essi pretendano di imprimere allo stesso.

Ancora in campagna elettorale, nel 2016, l'allora candidato repubblicano alla Presidenza degli Stati Uniti, Donald John Trump non aveva fatto mistero di voler obiettare a vari accordi commerciali negoziati dagli Stati Uniti di recente e rimettere in discussione le fondamenta del commercio mondiale costruite negli ultimi decenni, arrivando ad ipotizzare una rinegoziazione degli accordi in seno all'Organizzazione Mondiale per il Commercio.

In questo senso, una volta insediatosi alla Casa Bianca, il Presidente Trump ha dapprima ritirato l'adesione degli Stati Uniti all'Accordo di Partenariato che aveva istituito un'area di libero commercio fra vari Paesi che si affacciano sull'Oceano Pacifico – Australia, Brunei, Canada, Cile, Giappone, Malesia, Messico, Nuova Zelanda, Perù, Singapore e Vietnam; e per questo denominato *Trans-Pacific Partnership* (TPP) –, siglato nel 2016 dal Presidente Obama poco prima della scadenza del suo mandato.

Al tempo stesso, il Presidente Trump ha congelato, di fatto, il negoziato sul trattato "gemello" del TPP, vale a dire l'Accordo di Partenariato Transatlantico sul Commercio e gli Investimenti (*Transatlantic Trade and Investment Partnership*, TTIP), fra Stati Uniti e Unione Europea, in discussione da anni.

Mentre per quanto riguarda il NAFTA, in più occasioni il Presidente Trump ha minacciato la sua cancellazione qualora non vengano accolte le richieste avanzate da Washington.

Nel giro di poco tempo, si è così assistito ad un radicale quanto paradossale rovesciamento di prospettive: il Paese che storicamente aveva fatto del "libero commercio" la sua bandiera ideologica, oggi sembra farsi paladino di politiche protezionistiche per "correggere" quelli che considera "squilibri" del commercio mondiale.

In questo quadro, l'introduzione della tesi è dedicata all'approfondimento delle caratteristiche del NAFTA, sottolineando il suo carattere innovativo – un'area di libero commercio, non un semplice (si fa per dire) mercato comune – rispetto agli accordi commerciali siglati in precedenza dagli Stati Uniti ed evidenziando, inoltre, come il NAFTA abbia messo in relazione due paesi sviluppati e ad alto reddito – Stati Uniti e Canada – con uno – il Messico – in via di sviluppo e a basso reddito.

Quindi, nel primo capitolo, viene approfondito il contesto in cui l'Accordo è maturato nei primi anni '90, quando gli Stati Uniti si sono proposti la creazione di un'area di libero commercio nelle Americhe che andasse dall'Alaska alla Patagonia, di cui il NAFTA avrebbe dovuto essere solo il primo passo.

Al fine di inquadrare storicamente la problematica, vengono, inoltre, rivisitati i principali nodi del dibattito sviluppatosi fra la metà degli anni '70 e i primi anni '90 – grosso modo, a partire dalla fine della guerra in Vietnam alla dissoluzione dell'impero sovietico –, all'interno degli Stati Uniti, alle prese con il dilemma tra le tendenze al declino della propria superpotenza e i tentativi di ristabilire la propria egemonia nel mondo. Ciò, visto sia nella prospettiva dello scontro Est/Ovest, che in quella dei rapporti, non meno conflittuali, tra Stati Uniti e America Latina.

Nel secondo capitolo della tesi, quindi, si propone un confronto tra le aspettative, ma anche i timori, che l'Accordo ha suscitato in vari settori della società statunitense, in qualche caso già nella sua fase negoziale, e i *facts*, ovvero i dati reali registrati nello scambio commerciale tra i tre Paesi, dal 1994 ad oggi.

Si affrontano, in questo senso, una serie di problematiche emerse nel corso degli anni nei tre Paesi firmatari; tra le altre: il deficit commerciale; le tendenze salariali ed occupazionali; le crescenti disuguaglianze sociali; la sicurezza alimentare; gli investimenti esteri e i relativi arbitrati sovranazionali nei casi di dispute fra Stati e imprese. Il tutto, alla luce dei dati statistici disponibili grazie all'abbondante letteratura sul NAFTA prodotta in questi anni.

Ne emerge un quadro articolato e, per certi versi, contraddittorio. Certamente, le mirabolanti promesse dei suoi fautori fatte alla vigilia della sua entrata in vigore, secondo le quali l'Accordo avrebbe portato *solo* grandi benefici per tutti, non si sono tradotte in realtà. Al contrario, alcune delle previsioni più fosche sulle sue conseguenze si sono avverate, soprattutto per quanto riguarda i livelli occupazionali in alcune aree geografiche e settori economici – agricoltura e industria, fra gli altri – degli Stati Uniti e del Messico.

Tuttavia, la lettura dei dati statistici del NAFTA appare più complessa e richiede più cautela nei giudizi, come cerca di evidenziare la tesi. Sono molteplici, infatti, i fattori – politici, sociali, economici, culturali – che vanno tenuti presenti e che possono contribuire a spiegare determinati processi nel contesto dell'Accordo, evitando talune letture semplificatorie della sua attuazione.

In tal senso, dopo aver analizzato nel terzo capitolo la *performance* del NAFTA in ciascuno dei Paesi aderenti, nel quarto capitolo si esamina la stessa suddividendola in due macro-periodi: il primo, che va dalla sua entrata in vigore al 2001, quando la Cina fa il suo ingresso nell'Organizzazione Mondiale del Commercio; il secondo, che va da allora ai giorni nostri, in cui si assiste, tra l'altro, alla progressiva erosione di notevoli quote di import/export fra Messico, USA e Canada da parte del gigante asiatico, finendo per rappresentare – secondo alcuni – una vera e propria "minaccia" concorrenziale allo sviluppo commerciale tra i Paesi del NAFTA e, in particolare, tra Stati Uniti e Messico.

Quindi, nel quinto capitolo vengono esaminati i principali punti di vista sul futuro dell'Accordo emersi nel corso degli anni negli Stati Uniti, anche in settori politicamente ed ideologicamente opposti. Ciò, per comprendere, da un lato, perché, secondo il principale dei suoi contraenti – gli Stati Uniti –, il NAFTA non risponda più agli obiettivi per cui era stato creato e, dall'altro, quali siano i nodi da sciogliere nell'iter di rinegoziazione avviato, il cui calendario, peraltro, ha già subito vari rinvii, a testimonianza delle difficoltà esistenti.

In questo senso, a conclusione della tesi si avanzano tre ipotesi sul futuro dell'Accordo.

Nella prima, il NAFTA potrebbe rimanere in vigore così com'è, senza quei presunti "miglioramenti" richiesti a gran voce dall'Amministrazione Trump, ma anche senza quei ritocchi, possibili e, forse, necessari, dopo 23 anni di attuazione. Al momento, tale ipotesi appare la meno probabile, stante la dichiarata volontà del Presidente di cancellare l'Accordo qualora non venissero accolte le richieste statunitensi.

Nella seconda ipotesi si assisterebbe, piuttosto, ad un sostanziale accoglimento da parte di Canada e Messico delle modifiche proposte dagli Stati Uniti, secondo le linee guida pubblicate dall'Amministrazione Trump nel 2017 e presentate nella tesi. Da un lato, ciò comporterebbe una subordinazione, di fatto, degli interessi canadesi e messicani a quelli statunitensi. Dall'altro, la Casa Bianca si vedrebbe incentivata a riproporre, nella forma e nella sostanza, la sua politica commerciale anche in altri contesti negoziali, ad esempio nei confronti dell'Unione Europea.

In questo scenario, tuttavia, hanno un peso particolare le prospettive politico-elettorali tanto negli Stati Uniti – dove le elezioni di *midterm,* previste nel novembre 2018, rinnoveranno per intero la Camera dei Rappresentanti e per circa un terzo il Senato –, come in Messico – dove si andrà al voto nel luglio 2018 per eleggere il nuovo Presidente della Repubblica e i nuovi 128 senatori e 500 congressisti –.

La terza ipotesi vedrebbe, invece, il sostanziale fallimento del tentativo rinegoziale, con il conseguente abbandono dell'Accordo da parte degli Stati Uniti, oppure di uno o di entrambi gli altri *partners*, anche se al momento quest'ultima appare una possibilità più remota. Difficile calcolare, ora, le ricadute geopolitiche e geoeconomiche di tale eventualità: sarebbero, in ogni caso, enormi.

Come si diceva, sono, tuttavia, molti i fattori, anche congiunturali, che possono influenzare il processo di rinegoziazione nei prossimi mesi e, pertanto, il suo esito.

Scopo della tesi è contribuire ad una maggiore comprensione di tali dinamiche.

Vicenza, 13 febbraio 2018.

To Marco and Monica,
for being my role model.

CONTENTS

INTRODUCTION

During his US presidential campaign in 2016, the republican candidate, Donald John Trump manifested his determination to re-examine the foundations of world trade, built throughout the last decades, and ended up hinting at a renegotiation of the agreements within the World Trade Organization (WTO)[1].

Hence, once elected in the White House, Trump has firstly withdrawn US participation in the Trans-Pacific Partnership (TPP), a treaty among several nations bordering the Pacific Ocean and signed in 2016 by former President Obama shortly before the ending of his term[2]. At the same time, President Trump has indeed suspended the negotiations of the Transatlantic Trade and Investment Partnership (TTIP) between the United States and the European Union, which is substantially similar to the TPP[3]. Finally, Trump has threatened multiple times the cancellation of the North American Free Trade Agreement (NAFTA), which was signed in 1994 between the United States, Canada and Mexico, in case it is not renegotiated under Washington's conditions[4].

In this sense, in just a few months, there has been a radical, as much as paradoxical inversion of perspective: the country that historically had turned Free Trade into a global ideology[5], today, on the contrary, is introducing itself as the defender of

---

[1] "Trump affila le armi sul commercio e si prepara ad agire fuori dalla WTO", *Il Sole 24 Ore*, 27/02/2017. At http://www.ilsole24ore.com/art/mondo/2017-02-27/trump-affila-armi-commercio-e-si-prepara-ad-agire-fuori-wto152618.shtml?uuid=AEslgNe (cited on 15 November 2017). See also: "Trump va alla guerra commerciale con dazi e addio al WTO", *Business Insider*, 15/02/2017. At https://it.businessinsider.com/dazi-e-addio-al-wto-trump-va-alla-guerra-commerciale-globale/ (cited on 15 November 2017). According to observers, US positions would have (only) been tempered during the G7 Summit in Taormina, in May 2017: "G7: tregua sul protezionismo, Trump non cede sul clima", *Il Sole 24 ore*, 27/05/2017. At http://www.ilsole24ore.com/art/notizie/2017-05-27/commercio-accordo-extremis-225259.shtml?uuid=AEh3tQUB (cited on 15 November 2017). However, in October 2017, Cecilia Malmström, the EU's trade commissioner, commenting on the US position, had warned about the risks of "killing the WTO from inside": "EU's top trade official warns on Trump impact on WTO", *Financial Times*, 16/10/2017. At https://www.ft.com/content/f6a7768c-b029-11e7-aab9-abaa44b1e130 (cited on 15 November 2017).

[2] "Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal", *The New York Times*, 23/01/2017. At https://www.nytimes.com/2017/01/23/us/politics/tpp-trump-trade-nafta.html (cited on 15 November 2017). The accord was signed between the United States, Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam.

[3] "EU attacks Donald Trump for 'playing games' with controversial TTIP trade deal", *Express*, 21/03/2017. At https://www.express.co.uk/news/world/782189/donald-trump-eu-ttip-trade-deal-playing-games-canada-ceta (cited on 15 November 2017).

[4] "Trump warns it's 'possible' the US will drop out of Nafta", *The Guardian*, 12/10/2017. At https://www.theguardian.com/world/2017/oct/12/trump-warns-its-possible-the-us-will-drop-out-of-nafta (cited on 15 November 2017).

[5] Although this ideology has often been preached – towards the rest of the world – and less put in practice – at home. As a matter of fact, US economic policy has been of protectionist nature in several phases of its own history and, even, under governments of opposite orientations. For instance, after the fall of Wall Street in 1929, the New Deal policies created by the democratic President Franklin Delano Roosevelt made use of large state interventions in the economy. These, not only have changed the "game" of the domestic free market – by the way in an international context anything but in favor of free trade – but they were also decisive to bring the country out of crisis. In the current globalized market context, what appears to be emblematically new, is the trend that has taken over the United States to match the protectionist practice with its respective theory. Among the colossal literature on these issues, I will limit myself to quote several texts studied during my Master's degree: Keynes, J. M. *The end of laissez-faire*; *The Economic Consequences of the Peace.* London, 1926; Arrighi, G. *Il Lungo XX Secolo: Denaro, Potere e Le Origini Del Nostro Tempo.* Milano: Il Saggiatore, 2014; Gowan, P. *The Global Gamble: Washington's Faustian Bid for World Dominance*. Verso London, 1999; Maier, C. S. *Among Empires: American Ascendancy and Its Predecessors*. Harvard University Press, 2007; Hayek, A. F. *The Constitution of Liberty*. University of Chicago Press, 1997; Friedman, M. *Capitalism and Freedom*. University of Chicago Press, 2012; Harvey, D. *A Brief History of Neoliberalism*. Oxford University Press, 2011.

protectionist policies in order to adjust what it considers "unfair imbalances" of world trade.

With this in mind, the purpose of this thesis is to walk through the history of NAFTA, trying to understand the reasons currently giving grounds to the United States – alone, compared to Canada and Mexico – for demanding a deep revision of the agreement.

Firstly, in the Introduction, I will explore the characteristics of the treaty.

Then, in Chapter One, I will analyze the context in which the negotiation process took place, starting from the beginning of the 1990s, when the United States proposed the creation of a free trade area extended from Alaska to Patagonia, of which NAFTA was supposed to be only the first step, debating about the US dilemma between the trends towards a decline of its superpower status and the attempts to restore its hegemony in the world.

In Chapter Two and Three, I will proceed with the comparison between the expectations – or the concerns, as expressed from an "anti-neoliberal"[6] perspective both in right-wing sectors and in labor unions and civil society organizations – that the accord had raised, with the "facts" of its performance, that is the data on trade among the three countries from 1994 to the present.

In this context, in Chapter Four I will analyze how the performance of NAFTA can be divided in two major periods: the first one that goes from its entry into force to 2001, when China entered the WTO; and the second one that goes from 2001 to today, period in which China has gained substantial shares in both the US and Mexican import market quotas, thus becoming a *«competitive threat to United States-Mexico trade and NAFTA as a trade bloc»*[7].

In Chapter Five, I will discuss the standpoints on the future of this agreement from the American perspective in the context of the renegotiation. That means trying to understand why, according to the government of its main contractor party – the

[6] The terms "neoliberal" and its opposite "anti-neoliberal" relate to rather complicated political-economic doctrines, which, within the common lexicon, acquire different if not contradictory meanings. For instance, in the preface of the book by Giovanni Arrighi, *Il lungo XX secolo*, Mario Pianta notes how the meaning of neoliberism is an issue that would require to be explored more deeply. He observes that Arrighi uses these terms only in his more recent tests; for him, neoliberalism it is not a new stage of capitalism, which is marked by the sequence of accumulation and hegemony cycles. Although admitting the stronger power of markets in respect of States and the impoverishment of the working class in countries of the centre as a result of production delocalization in semi peripheral countries, Arrighi, according to Pianta, seems to overlook the political rupture represented, during the 1980s, by the rise to power of Margaret Thatcher and Ronald Reagan and their agenda of market liberalization and reduction of the role of the State and politics. On the other hand, Pianta concludes, Arrighi grasps the reflection of neoliberalism at international level when highlights the attempt by the United States to respond with a relaunching of its own financial and military power to the hegemonic decline. For this reason, it is preferred to incorporate those terms between quotations marks.

[7] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 2. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

United States –, NAFTA no longer satisfies the objectives for which it was originally created.

In this context, the Conclusion presents an unclear outlook of the renegotiation process, formulating three hypotheses about the future of the agreement.

The innovative nature of NAFTA

NAFTA was signed on December 17, 1992 by the United States, Canada and Mexico and entered into force on January 1, 1994. The agreement was initialled by the US President Bill Clinton, the Mexican President Carlos Salinas de Gortari and the Canadian President Brian Mulroney. It created a free trade area that surpassed the European Union – then composed by twelve countries – in terms of population and Gross Domestic Product (GDP).

The original objectives of the agreement, elaborated more specifically through its principles and rules, including national treatment, most-favoured-nation treatment and transparency, were the following: *«eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services (...); promote conditions of fair competition in the free trade area; increase substantially investment opportunities (...); provide adequate and effective protection and enforcement of intellectual property rights (...); create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and establish a framework for further trilateral, regional and multilateral cooperation»*[8].

The aim of NAFTA was to foster trade within the North American territory, ensuring that regional producers were the major beneficiaries of all preferential tariffs. As a matter of fact, the treaty included important obligations regarding trade liberalization and investments.

From the very beginning, in the context of the early 1990s, NAFTA proposed itself as "new kind" of free trade agreement. I will develop this aspect later. As underlined by the US Commissioner of Customs Raymond Kelly, in August 1998, the aim of NAFTA was to create *«a free trade area, not a common market»*[9]: thus, customs administrations would still exist, and cargos entering the United States,

[8] NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#102 (cited on 19 November).

[9] Kelly R. (Commissioner of Customs), *NAFTA, a guide*. August 1998. P. 6. www.arcli.com/docs/guideline%20for%20 nafta.doc.

Canada or Mexico still had to comply with the respective laws and regulations of each States[10].

The tariff issue

General provisions of the treaty involved the phasing-out of tariffs on most commodities originating in the United States, Canada and Mexico over a maximum fifteen-years period of transition[11]. As far as the United States-Mexico and Canada-Mexico trade was concerned, NAFTA guaranteed the elimination of custom duties either in five or ten years[12]. However, for certain products, such as grains, oilseeds and rice, the accord ensured the removal of tariffs over fifteen years[13].

Conversely, for other types of goods, the three member countries agreed to a faster elimination of tariffs[14].

Furthermore, it should be considered that the aim to eliminate tariff barriers had already been set out in the United States-Canada Free Trade Agreement (US-Canada FTA) of 1988, which provided that, within 1998, trade between the United States and Canada would have been completely duty-free[15].

In this sense, according to NAFTA's most favorable tariff rights, any good that did not come from the United States, Canada or Mexico had to be considerably transformed or processed in one of the three countries to be then accepted for export to any of the other two countries[16].

NAFTA included the commitment to phase out barriers to agricultural, manufacturing, and service trade, to eliminate investment restrictions and to protect intellectual property rights. Regarding tariff elimination, Bognanno and Ready have highlighted that in a memorandum released in 1992 by the Office of the Press Secretary of the White House it was estimated that around 65% of US agricultural and industrial exports towards Mexico were suitable for the exemption from duties immediately or within five-years period. At that time,

---

[10] Regarding the economic integration degrees – free trade area, common market, economic union, etc. – I refer to the theoretical contributions of Adam Smith, David Ricardo, Eli Hecksher and Bertil Ohlin, Paul Samuelson, and the abovementioned Friedrich von Hayek e Milton Friedman.

[11] For a detailed products categorization with the respective years of implementation and articles of the Agreement, see from page 13 to 20 of the present document.

[12] *Ibidem*.

[13] *Ibidem*.

[14] *Ibidem*.

[15] Kelly R. (Commissioner of Customs), *NAFTA, a guide*. August 1998. P. 5. www.arcli.com/docs/guideline%20for%20 nafta.doc

[16] Lewis, E.D. *The Hemispheric dynamics of integration*. Revista Pensamiento Propio/CRIES. (8) October-December 1998, Nicaragua. P. 42.

Mexico's tariffs accounted on average 10%, which was two-and-a-half as much as the average US tariff[17].

Concerning the effort to increase investments, NAFTA provided for the elimination of Mexican domestic rules, thus allowing for other sources of US inputs and allowing, for the first time, US firms that operated in Mexico to receive equal treatment as Mexican businesses.[18]

Moreover, Mexico also pledged to abandon requirements for export performance, which were forcing firms to export as a necessary requirement for being allowed to invest[19].

Finally, as far as the protection of intellectual property rights, which consist in *«copyright and related rights, trademark rights, patent rights, rights in layout designs of semiconductor integrated circuits, trade secret rights, plant breeders' rights, rights in geographical indications and industrial design rights»*[20], NAFTA aimed at offering a stronger protection compared to any other bi-or-multilateral agreement.

As a matter of fact, these rights are essential for many US sectors: high technology, pharmaceuticals, computer software and biotechnology, to name just a few.

In this sense, those who were supposed to gain much from this were producers that counted on protections for their copyrights, patents and trademarks. Moreover, NAFTA limited also compulsory licensing, which solved a deep concern with Canada[21].

Intellectual property rights are defined in article 1701 of the NAFTA text, establishing that: *«each Party shall provide in its territory to the nationals of another Party adequate and effective protection and enforcement of intellectual property rights, while ensuring that measures to enforce intellectual property rights do not themselves become barriers to legitimate trade»*[22]. To this end, *«to provide adequate and effective protection and enforcement of intellectual property rights, each Party shall, at a minimum, give effect to this Chapter and to the substantive provisions»*[23] of a series of international accords such as: the 1971 Geneva Convention for the

[17] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 29.
[18] *Ibidem*.
[19] *Ibidem*.
[20] US Customs and Border Protection, at https://www.cbp.gov/trade/nafta (cited on 15 November 2017).
[21] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 29.
[22] NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#102 (cited on 19 November 2017).
[23] *Ibidem*.

Protection of Producers of Phonograms Against Unauthorized Duplication of their Phonograms; the 1971 Berne Convention for the Protection of Literary and Artistic Works; the 1967 Paris Convention for the Protection of Industrial Property; the 1978 and 1991 International Convention for the Protection of New Varieties of Plants. Establishing in this regard that *«if a Party has not acceded to the specified text of any such Conventions on or before the date of entry into force of this Agreement, it shall make every effort to accede»*[24].

Indeed, during the period of transition, customs duties could vary according to which NAFTA country produced the goods. As explained by the Commissioner of Customs Raymond Kelly, *«for most goods imported into Canada, there will be three NAFTA rates; the rate depends on whether the goods are of US origin, Mexican origin or produced jointly with US and Mexican inputs. To know which rate of duty applies, traders must first establish that the goods meet the NAFTA rules of origin and then use the tariff rules found in Annex 302.2 of the NAFTA»*[25]. In other words, as explained in the Annex 302.2 of the NAFTA text[26], during that period, a Mexican good entering the United States may be granted a different NAFTA tariff than the same good would if entering the United States from Canada.

Rules of origin provisions

In order to understand which rate to apply, traders must firstly assess that the products meet NAFTA's rules of origin to determine whether a certain good has actually been produced within a member country or not and, in case it does, to qualify it for preferential treatment.

Rules of origins are described in Article 401 of the agreement, which defines the requirements goods must meet to be classified as "originating"[27] goods: *«the good is wholly obtained or produced entirely in the territory of one or more of the Parties, as defined in Article 415»*[28]. Nonetheless, *«each of the non-originating materials used in the production of the good undergoes an applicable change in tariff classification set out in Annex 401 as a result of production occurring entirely in the*

[24] *Ibidem*.
[25] Kelly R. (Commissioner of Customs), *NAFTA, a guide*. August 1998. P. 5. www.arcli.com/docs/guideline%20for%20 nafta.doc
[26] NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#An302.2 (cited on 19 November 2017).
[27] Kelly R. (Commissioner of Customs), *NAFTA, a guide*. August 1998. P. 6. www.arcli.com/docs/guideline%20for%20 nafta.doc.
[28] NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A401 (cited on 19 November 2017).

territory of one or more of the Parties, or the good otherwise satisfies the applicable requirements of that Annex where no change in tariff classification is required, and the good satisfies all other applicable requirements of this Chapter»[29]. Moreover, it is required that: *«the good is produced entirely in the territory of one or more of the Parties exclusively from originating materials»*[30], or when *«except for a good provided for in Chapters 61 through 63 of the Harmonized System, the good is produced entirely in the territory of one or more of the Parties but one or more of the non-originating materials provided for as parts under the Harmonized System that are used in the production of the good does not undergo a change in tariff classification»*[31], as long as *«the regional value content of the good, determined in accordance with Article 402, is not less than 60 percent where the transaction value method is used, or is not less than 50 percent where the net cost method is used, and that the good satisfies all other applicable requirements of this Chapter»*[32].

In this sense, this Article prevents goods from other non-member countries from obtaining preferential treatments merely by passing through the United States, Canada and Mexico. Furthermore, it also establishes that it is not sufficient for goods to be made in one of the three member countries to qualify for NAFTA benefits. Thus, traders should not take for granted to be entitled to NAFTA benefits just because their products were made in a NAFTA country. Notwithstanding, NAFTA also ensured a reduced tariff on certain kinds of goods from the United States, Canada and Mexico which do not originate there, but that meet specified characteristics and conditions: for instance, NAFTA's rule of origins concerning agricultural goods aimed to prevent Mexico from becoming a platform for exporting products elaborated with subsidized inputs coming from countries not members of NAFTA[33].

Nonetheless, NAFTA provides also safeguard provisions that allow only a given quantity of products to have access to the free trade area with NAFTA's low or preferential tariffs, including the implementation of higher customs fees in case imports exceeded the specified quantity. The United States has applied it to onions, tomatoes, eggplants, chili peppers, squash and watermelons' imports. Mexico,

[29] *Ibidem*.
[30] *Ibidem*.
[31] *Ibidem*.
[32] *Ibidem*.
[33] Article 705: Export subsidies. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/ North-American-Free-Trade-Agreement?mvid=2#A401 (cited on 19 November 2017).

instead, has applied it to three products' categories: live pigs and almost all pork byproducts, apples and potatoes[34]. Its effective implementation was conceived from the beginning, as pointed by the US Custom and Border Protection: *«safeguard provisions were included in the NAFTA to protect against import surges of certain sensitive goods while their tariffs are being phased out. A NAFTA country may invoke this safeguard mechanism in the form of a tariff-rate quota for agricultural goods specified in Annex 703.3 of the agreement»*[35]. In other words, *«a designated quantity of imports will be allowed to enter at the NAFTA preferential tariff rate. Once the trigger level is met, the importing country may apply an over-quota rate which is to be the lesser of the most-favored-nation (MFN) rate in effect as of July 1, 1991, or the prevailing MFN rate. Tariffs on the in-quota volume will be phased out over a ten-year period. However, there will be no phaseout period for the over-quota tariff, until the tenth year of the agreement, at which time the in-quota and the over-quota tariffs will be eliminated»*[36]. These safeguard provisions apply bilaterally for trade between the United States and Mexico and between Canada and Mexico. Furthermore, NAFTA established a trilateral advisory committee, composed by representatives of private sector as well as governmental authorities, in charge to give advice and offer recommendations to the governments of the three partners to help them fix private trade disputes that may surge in agricultural transactions. The aim of the creation of this Committee – which met for the first time in February 1997 – is to act quickly as well as efficiently to resolve such controversies, with a special attention to perishable goods. As specified in Article 707 of the agreement, *«the Committee shall establish an Advisory Committee on Private Commercial Disputes regarding Agricultural Goods, comprising persons with expertise or experience in the resolution of private commercial disputes in agricultural trade,* [which] *shall report and provide recommendations to the Committee for the development of systems in the territory of each Party to achieve the prompt and effective resolution of such disputes, taking into account any special circumstance, including the perishability of certain agricultural goods»*[37].

---

[34] Lewis, E.D. *The Hemispheric dynamics of integration*. Revista Pensamiento Propio/CRIES. (8) October-December 1998, Nicaragua. P. 43.

[35] US Customs and Border Protection, Agricultural Products, at https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/agricultural-products (cited on 15 November 2017).

[36] *Ibidem*.

[37] Article 707: Advisory Committee on Private Commercial Disputes regarding Agricultural Goods. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A401 (cited on 20 November).

On a different plane, considering the terms and conditions agreed by the Free Trade Commission – which operates by consensus – and according to the national procedures for approval of each country, NAFTA allows any country or group of countries that wants to apply for membership.

The agreement provided also for the extension of the dispute settlement procedure of the FTA to Mexico, in return for what Hufbauer and Schott have called *«a substantial revamping of Mexican trade laws that injects more transparency into the administrative process and brings Mexican antidumping and other procedures closer to those of the United States and Canada»*[38].

Three major sectors

What was the reference framework for trade among the three countries at the beginning of the 1990s?

As emphasized by Hufbauer and Schott, all three countries had huge account deficits, large foreign debts and thus needed to undertake an export-led strategy. In this sense, they defined the *«need to improve the efficiency and productivity of their labor forces and industries to compete more effectively against foreign suppliers in markets at home and abroad»*[39] as the most important purpose of the agreement.

Following the analytical model adopted by Bognanno and Ready we can observe how NAFTA's measures were expected to affect, firstly, the industrial sector, secondly, the services sector and, lastly, the investment sector.

1. *Industrial sector*

As far as automotive trade is concerned, it represented a key economic sector for the three member countries.

In this sense, in 1991, automotive exports from the United States to Canada and Mexico equaled $28.5 billion and $5.7 billion in autos and parts only to Mexico (total exports accounted for $33 billion in the same year)[40]. Similarly, also automobiles and automotive parts represented the largest factor of manufactured trade between the United States and Mexico. Moreover, even in Canada the auto industry constituted a highly relevant sector, with the 31.4% registered of bilateral

[38] Hufbauer, G. C. and Schott, J.J. *NAFTA An Assessment*. Washington, DC: Institute for International Economics. 1993. P. 2.
[39] Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994. P. 4.
[40] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 30.

trade with the United States in manufactures[41]. In this context, NAFTA included the reduction of Mexican tariffs on automobiles from 20% to 10% with immediate effect, and then to zero in ten years. As far as most of the auto parts, tariffs were predicted to lower at zero level within five years[42].

Before NAFTA's implementation, the United States had settled the following tariffs on imports from Mexico: 2.5% on automobiles, 25% on light-duty trucks, and a trade-weighted average of 3.1% for automotive parts. Moreover, Mexican tariffs on US and Canadian automotive goods were: 20% on automobiles and light trucks, and 10 to 20% on auto parts[43].

The agreement also contained strict rules of origin, according to which vehicles must have a North American content of at least 62.5% in order to qualify for the preferential tariff treatment. Considering that in the U.S-Canada FTA the requirement was fixed at 50%, this percentage is significantly higher[44].

Furthermore, NAFTA involved a tracing requirement system, in such a way that individual parts can be identified to assess the North American origins of the content of major components. These severe rules are fundamental to ensure that only North American producers are the beneficiaries[45].

In addition, the accord phased out, within a ten-years period, those provisions that required Mexican automakers supplying the Mexican market to produce cars in Mexico and buy Mexican parts. The objective of these measures was to foster Mexican demand for US automotive and auto parts markets[46].

The textiles and apparel sector is of great interest in the context of free trade. In fact, NAFTA provided for the immediate removal of trade barriers between the abovementioned countries on over 20% of exports in textile and apparel branch – including key items like denim, thread, underwear, and several household furnishings – as well as barriers to other $700 million US textile exports[47]. Before the agreement, the 65% of US apparel imports from Mexico entered duty-free and

---

[41] As quoted by Bognanno, F.M. and Ready, J.K., in Schott, J. and Hufbauer, G. *The Realities of An Economic Alliance.* Washington, D.C.: Institute for International Economics, 1990.

[42] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 30.

[43] Villarreal, M.A. and Fergusson, F.A. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 7. https://fas.org/sgp/crs/row/R42965.pdf.

[44] US Customs and Border Protection, Automotive Products, at https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/automotive-products (cited on 15 November 2017). For reference, see also Annex 403.1 and Annex 403.2 of the NAFTA text at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A401.

[45] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 30.

[46] US Customs and Border Protection, Automotive Products, at https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/automotive-products (cited on 15 November 2017).

[47] Annex 401 origin criteria and Appendix 2.1 to Annex 300-B. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A401 (cited on 20 November).

quota-free, and the remaining 35% had an average tariff rate of 17.9%, whereas Mexico's average tariff on US textiles and apparel products amounted at 16%, with duties reaching at 20% on some products[48].

Also in this sector rules of origins are very strict. In order to qualify for the duty-free status, the garment must be made in North America from the stage of yarn-spinning on. In this sense, Hufbauer and Schott defined that what NAFTA offered was a *«schizophrenic result»*[49] in this sector, since they underlined that this was the *«first time in this heavily protected sector that imports from an important developing-country supplier have been significantly liberalized by the United States and Canada»*[50]. On the other hand, the rules of origin fixed to qualify for duty-free treatment are indeed highly rigid. Thus, if not accompanied by potential GATT reforms, the overall outcome could be a heavily deflection of trade.

As a matter of fact, what the authors have pointed out is that *«free trade areas are by nature discriminatory: lower tariff and nontariff barriers are enjoyed only by the partner countries»*[51].

As far as agricultural sector is concerned, NAFTA involved the immediate elimination of Mexican import licenses, as well as the residual Mexican tariffs within ten to fifteen years. All the other remaining tariffs were supposed to be eliminated in fifteen years' time. Prior to NAFTA, most of the tariffs, on average, in agricultural trade between the United States and Mexico were relatively low, even though some US exports to Mexico faced tariffs reaching 12%. On the other hand, around one-fourth of US agricultural exports by value to the southern partner were submitted to restrictive licensing requirements on imports[52].

Moreover, all the provisions regarding the agricultural sector would have been implemented no later than 2008. According to Hufbauer and Schott, this was an *«impressive achievement considering the dismal track record of other trade talks in reducing long-standing farm trade barriers»*[53]. These measures, indeed, aimed at boosting US farms exports. As quoted by Lewis in 1998, Canada and Mexico were, respectively, *«the third and fourth largest export markets for US agricultural*

---

[48] Villarreal, M.A. and Fergusson, F.A. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 6. https://fas.org/sgp/crs/row/R42965.pdf.

[49] Hufbauer, G. C. and Schott, J.J. *NAFTA An Assessment*. Washington, DC: Institute for International Economics. 1993. P. 3.

[50] *Ibidem.*

[51] Hufbauer, G. C. and Schott, J.J. *North American Free Trade.* Washington, DC: Institute for International Economics. 1994. P. 155.

[52] Villarreal, M.A. and Fergusson, F.A. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 7. https://fas.org/sgp/crs/row/R42965.pdf.

[53] Hufbauer, G. C. and Schott, J.J. *NAFTA An Assessment*. Washington, DC: Institute for International Economics. 1993. P. 2.

products, only surpassed by Japan and the European Union»[54]. Exports to the two markets combined were *«greater than those to all 15 member states of the European Union. During the 1996 fiscal year (October to September), almost one of every five dollars generated from US agricultural exports were earned in North America»*[55].

In sectors like grains, dairy and poultry, the agreement planned the elimination of Mexico's licensing requirements, on the one hand, for wheat and corn from its the entry into force, allowing unlimited access for these products and even others, like other grains, oilseeds and rice in ten to fifteen years; on the other, for poultry, cheeses, eggs and non-fat dry milk immediately, plus removing the remaining trade barriers within ten to fifteen years[56].

As far as livestock, NAFTA ensured US custom exemption to Mexican markets of cattle and beef, thus phasing-out all the other Mexican tariffs on US livestock and poultry export markets within ten years[57]. Nonetheless, the accord also provided protective measures for certain kinds of products to safeguard US farmers in case the amount of imports increases too quickly during the transition[58].

With respect to the electronic sector, the straight elimination of most of the Mexican tariffs on telecommunications and electronic components was foreseen, whereas most other tariffs would be removed in five years[59].

As far as pharmaceuticals are concerned, provisions were to eliminate immediately Mexico's import licensing, as well as compulsory licensing on pharmaceuticals, and to prolong the patent protection's term to minimum twenty years (Canada had ten years). In other words, Mexico agreed to open its state procurement market for pharmaceuticals[60].

In this context, it is surprising how NAFTA has to deal also with the entertainment sector, to the extent that it opened Mexico's television market to investments from the United States and Canada, since it provided the United States the right to

---

[54] Lewis, E.D. *The Hemispheric dynamics of integration*. Revista Pensamiento Propio/CRIES. (8) October-December 1998, Nicaragua. P.42.

[55] *Ibidem*.

[56] Annex 703.2, Section A. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A401 (cited on 20 November). See also https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/agricultural-products

[57] Section B of Annex 703.2, see: https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/agricultural-products.

[58] Annex 703.3, see: https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/agricultural-products

[59] US Customs and Border Protection, Electronic Products, at https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/electronic-products (cited on 15 November 2017).

[60] Annex 1001.2a. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#An1001.2a (cited on 20 November).

broadcast across Mexican borders, hence removing Mexican import limitations on US filming[61].

As far as energy and petrochemicals sectors are concerned, NAFTA ensured US businesses the access to Mexico's energy services, electricity, petrochemicals, gas and product markets. Moreover, it provided great opportunities to sell to the state-owned PEMEX and the *Comisión Federal de Electricidad* (CFE – the State Electricity Commission) under competitive regulations. In this sense, NAFTA absolved trade and investment limitations on most petrochemicals, the lifting investment limitation on fourteen out of nineteen prior restricted petrochemicals, and on sixty-six secondary ones. Finally, it allowed US businesses to directly negotiate with Mexican buyers of electricity and natural gas, and to finalize trade contracts with the buyers together with PEMEX and CFE[62].

2. *Service sector*

As far as financial service[63] is concerned, the accord represented a significant precedent for future regional and multilateral negotiations throughout the opening of financial service markets in Mexico to the United States and Canada within 2000 and the elimination of major restrictions to land transportation and telecommunication services. Indeed, as explained by Bognanno and Ready, through the phasing-put of transitional limitations Mexico's power to set restrictions on foreign-owned firms was limited[64]. Moreover, its closed financial service market was opened, allowing US banks and security companies to to develop wholly owned subsidiaries and commit themselves in the same kind of operations as Mexican firms. In this regard, Mexican and Canadian citizens were ensured the right to acquire financial services directly from businesses in the United States.

Regarding insurance sector, NAFTA eliminated limitations on US possess and provision of services in the $3.5 billion Mexican insurance market of the early 1990s[65]. By 1996, US and Canadian firms owning joint ventures were permitted to obtain 100% ownership. Now, US insurance firms may sell insurance programs at

---

[61] Article 305. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A305 (cited on 20 November).

[62] Article 606 and Annex 1001.2a. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#A606 (cited on 20 November).

[63] Chapter Fourteen. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#827a9405-deb8-4285-bf07-790c6550c6f5 (cited on 20 November).

[64] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 33.

[65] *Ivi.* P. 29.

transnational level to Mexico, as well as health, life and travel insurance to Mexican residents who moved to the United States[66].

As far as land transportations, the agreement opened *«Mexico's market for international truck, bus and rail transport, and lock US access to Canada's already open transportation market. Over 90 percent of US trade with Mexico»*[67] was *«shipped by land»*[68] at the beginning of the 1990s. Hence, NAFTA permitted US transport companies to carry international merchandize to the United States by 1995, as well as to benefit from cross-border access of Mexico by the end of 1999. Not only this, but it also opens Mexican market permanently for Canadian and US railroads, allowing them to market their services directly to customers.

For what concerns telecommunications trade[69], NAFTA eliminated *«discriminatory provisions on US and Canadian sales to and investments in the $6 billion Mexican market for telecommunications equipment and services; (…) investment restrictions in most enhanced services immediately and all investments and other restrictions on packet-switched services in 1995; (…) product standards as barriers to telecommunications trade by providing for mutual recognition of test data from all competent test facilities in NAFTA countries»*[70]. Its aim was to improve possibilities for US and Canadian exports of enhanced services to Mexico.

Moreover, the three NAFTA partners agreed to exclude the provision of basic telecommunications services, however not their use. NAFTA also ensured *«a "bill of rights" for the providers and users of telecommunications services, including access to public telecommunications services; connection to private lines that reflect economic costs and available on a flat-rate pricing basis; and the right to choose, purchase, or lease terminal equipment best suited to their needs»*[71]. Nonetheless, the agreement did not demand partners to authorize a person of another NAFTA party to provide or operate telecommunications transport networks or services.

Furthermore, it did not prohibit a partner country to maintain monopoly supplier of public networks or services, such as Mexico's main telecommunications

---

[66] Chapter Eleven. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#539c50ef-51c1-489b-808b-9e20c9872d25 (cited on 20 November).

[67] Annex 1212. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#An1212 (cited on 20 November).

[68] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 33.

[69] Chapter Thirteen. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#22c91fe3-6496-4a05-8d9c-8820a00b6f7c (cited on 20 November).

[70] Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994. P. 34.

[71] Villarreal, M.A. and Fergusson, F.A. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 7. https://fas.org/sgp/crs/row/R42965.pdf.

company, *TELMEX*[72]. Notwithstanding, some reservations and exclusions have been admitted by each country, such as the maritime shipping of the United States, film and publishing sector of Canada, and oil and gas drilling of Mexico[73].

3. *Investment sector*

Regarding this sector, NAFTA provided several facilitations for investors. Indeed, it ensured non-discrimination towards US firms operating in Mexico or Canada (and vice versa), guaranteeing national treatment to NAFTA investors, as Article 1102 of the agreement's text declares:

> *«1. Each Party shall accord to investors of another Party treatment no less favorable than that it accords, in like circumstances, to its own investors with respect to the establishment, acquisition, expansion, management, conduct, operation, and sale or other disposition of investments»*[74].

Moreover, it established the elimination of most of the performance requirements on investment in the region and, also, the opening of new opportunities for investments in crucial Mexican sectors, such as petrochemical products[75].

NAFTA also cancelled export activities as a precondition to invest, as well as incentives which discriminate against imports[76].

Other provisions

As far as Dispute Settlement Procedures, NAFTA's arrangements to prevent and resolve disputes were established according to the dispositions of the US-Canada FTA. In this sense, NAFTA gave birth to an arbitration system to settle disputes including initial consultations, either carrying the issue to NAFTA's Trade Commission or passing through arbitration panel proceedings. Moreover, the accord involved separate dispute settlement measures to address disputes over antidumping and countervailing duty determinations[77].

---

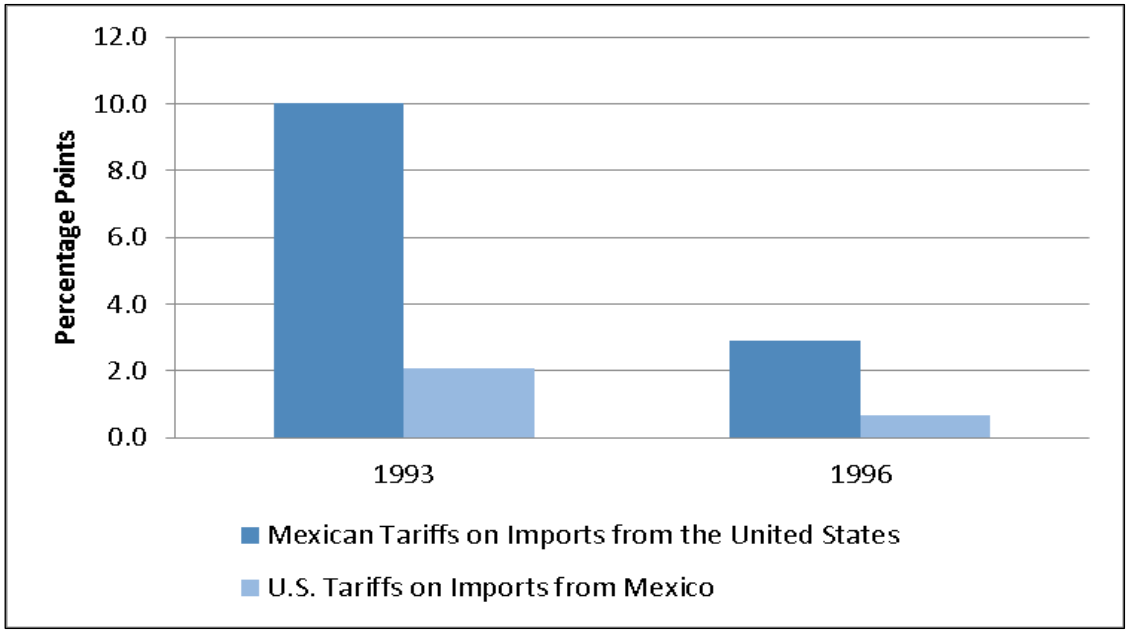
[72] *Ivi*. P. 8.
[73] *Ivi*. P. 7.
[74] Article 1102. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#22c91fe3-6496-4a05-8d9c-8820a00b6f7c (cited on 20 November).
[75] Article 1106. NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#22c91fe3-6496-4a05-8d9c-8820a00b6f7c (cited on 20 November).
[76] *Ibidem*.
[77] Villarreal, M.A. and Fergusson, F.A. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 8. https://fas.org/sgp/crs/row/R42965.pdf. See also: Chapter Eleven: Section B - Settlement of Disputes between a Party and an Investor of Another Party; Chapter Nineteen: Review and Dispute Settlement in Antidumping/Countervailing Duty

Tariffs and quotas in brief

When NAFTA entered into force, the US-Canada FTA had already been implemented and US tariffs on most Mexican goods were low, while Mexico had the highest protective barriers to trade. With NAFTA, the United States and Canada reached better access to the Mexican market, which was the fastest growing main export market for US goods and services at the time.

Moreover, *«most of the market opening measures from NAFTA resulted in the removal of tariffs and quotas applied by Mexico on imports from the United States and Canada»*[78], as shows **Table 1**[79].

Table 1. Average applied tariff levels in Mexico and the US (in 1993 and 1996).



Source: Executive Office of the President. *Study on the Operation and Effects of the North American Free Trade Agreement.* July 1997, p. 7.

Since Mexican tariffs were significantly higher than those of the United States, the agreement was expected to foster a more rapid expansion of US exports to rather than imports from Mexico. In 1993, the average applied US tariff for all imports from Mexico was 2.07%[80]. Moreover, many Mexican products entered the United States duty-free under the US Generalized System of Preferences (GSP). As a

Matters; Chapter Twenty: Section B - Dispute Settlement. NAFTA, text of the agreement: https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#ed3bd8c9-2d73-45fb-9241-d66364f8037a (cited on 22 November 2017).

[78] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 5. https://fas.org/sgp/crs/row/R42965.pdf.

[79] *Ivi*. P. 6.

[80] *Ibidem*.

matter of fact, in 1993, over 50% of US imports from Mexico entered the United States duty-free. On the contrary, the United States had significantly higher tariffs, in addition to substantial non-tariff barriers, on exports to Mexico. In the same year, Mexico's average duty on all imports from the United States was 10% – Canada's was 0.37%. In the agricultural sector, trade-weighted tariff of Mexico on US merchandizes averaged about 11%. Factors affecting trade between the United States and Mexico were both countries' sanitary and phytosanitary (SPS) rules, Mexican import licensing requirements, and US marketing orders. Furthermore, sector like textiles, apparel, automotive, and agricultural were those which experienced some of the most relevant changes[81].

[81] *Ivi.* P. 6.

CHAPTER ONE

THE DEBATE ABOUT US "DECLINISM" AND RESTORED HEGEMONY AT THE ORIGINS OF NAFTA

In which context have the NAFTA negotiations developed? In the following pages I will try to discuss this issue from two different perspectives: firstly, the one concerning the competition between "East" and "West", which at the beginning of the 1990s ended with the disappearance of one of the two contenders – the Soviet bloc –, leaving the United States with the new position of single world superpower; secondly, I will briefly get through the main events that occurred in the same period in the Latin American continent, where the historical hegemony of the United States was also experiencing a crisis.

The East/West context

According to historian David Calleo, *«in the 1970s and even in Ronald Reagan's jingoish 1980s, American analysts seemed more alive to the long-term weaknesses of the United States than to those of the Soviet Union. The United States was thought to be losing ground geopolitically, with Europeans increasingly inclined toward "Eurocommunism" and "Finlandization." Military strategists were greatly concerned about America's own "window of vulnerability" to Soviet nuclear attacks. Foreign-policy intellectuals were embroiled in a debate over "declinism"»*[82]. According to many observers in the 1980s, the American superpower was inexorably destined to decay under its heavy military and financial burdens.

Indeed, as sociologist Giovanni Arrighi put it, *«the 1970s began with the collapse of the gold–dollar exchange standard and the defeat of the United States in Vietnam – two events that jointly precipitated a ten-year-long crisis of US hegemony»*[83], but by contrast, the 1980s, *«ended with the terminal crisis of the Soviet system of centrally planned economies, US "victory"*[84] *in the Cold War, and a resurgence of US wealth and power to seemingly unprecedented heights. The key turning point in this reversal*

[82] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 8.

[83] Arrighi, G. *The world economy and the Cold War, 1970–1990*. P. 23. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[84] The meaning of the quotation marks in the word "victory" is explained by Arrighi himself at page 40 of the same opera, and it is here debated from page 32 to 34.

of fortunes was the neoliberal (counter)revolution of the early 1980s orchestrated by President Ronald Reagan and Prime Minister Margaret Thatcher»[85].

The republican Ronald Wilson Reagan came into the presidency of the United States in 1981, introducing himself as the champion of the restoration of the US primacy in world – after the defeats suffered in Vietnam (1975), Iran (1978/1979) and Nicaragua (1979) –, in opposition to the policy of the previous democratic administration of James Earl (*Jimmy*) Carter Jr. (1977/1981). The latter, in fact, was accused by the republican right-wing of having been weak and defeatist, always on the defensive side and too willing to compromise in the various regional crises that marked his presidency[86], ending up undermining the hegemonic role of the United States in the world, especially in the American continent, in the name of the promotion policy and "respect for human rights", and of the recognition of an occurred multipolarity in the international policy[87].

In reality, as Arrighi notes, after the Vietnam War had proven that the most technologically advanced and destructive military apparatus of the world was incapable of bending the will of one of the poorest countries in the world, the US government temporarily lost most, if not all, of its credibility as policeman of the "free world". The consequence was a power vacuum that local forces, in open or tacit collusion with the Soviet Union and its allies, promptly exploited in several ways: to complete the national liberation process of the last European colonies in Africa; to go to war against each other in the attempt of reorganize the political space of their surrounding regions in East Africa, South Africa and Indochina; and to overthrow satellite governments of the Unites States such as in Nicaragua and Iran.

In this context, dominant groups of the Soviet Union – taking advantage of this tide of unrest not created by them and that were not so able to control, even though from which they were gaining prestige and power as designated antagonist in the

---

[85] Arrighi, G. *The world economy and the Cold War, 1970–1990.* P. 23. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[86] The reference is mostly addressed to the Soviet invasion of Afghanistan, to the emergence of the Islamist revolution in Iran and the consequent "hostage crisis" of the US Embassy in Tehran, to the fall of Somoza in Nicaragua, to the treaties of the Panama Channel that enshrined its following passage into Panamanian hands. See: Maier, S.C. *Among Empires: American Ascendancy and Its Predecessors*. Harvard University Press, 2007; Nocera, R. and Trento, A. *America Latina, un secolo di storia*. Carocci. Roma, 2013.

[87] Significantly, Carter was a member of the Trilateral Commission funded by David Rockfeller in 1973, whose objective was the promotion of a closer cooperation among Europe, Asia, Oceania and North America, according to the belief of an increasing interdependence of States around the world. For critics on the position of the Trilateral Commission of the Carter's era, see: Chomsky, N. *The Carter Administration: Myth and Reality*. https://chomsky.info/priorities01/; and Assman H. (Ed.) *Carter y la lógica del imperialismo*, Editorial Universitaria Centroamericana (EDUCA), 1978. See also: Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005. P. 83.

order of the Cold War – sent their military forces in Afghanistan, to do what the most powerful US army had not been able to do in Vietnam[88].

Nau's standpoint about Reagan's vision

In order to explain Reagan's vision, the political scientist and Reagan advisor Henry Nau[89] focuses more on political, ideological and even religious aspects, rather than on military and diplomatic ones. In fact, while still running for President, Reagan made it clear that he would not follow the "realist" approach to East/West issues adopted by his republican predecessors Richard Nixon and Henry Kissinger[90], since he considered that their doctrine of peaceful coexistence mitigated the existing ideological divergences between the United States and the Soviet Union. Meanwhile, Reagan refused also the liberal internationalist dispositions of Jimmy Carter – détente, disarmament, and multilateralism –, thus being neither a realist nor a liberal internationalist.

In Nau's words, *«Reagan was in fact the quintessential conservative internationalist. His strategy reflected the three principal features of conservative internationalism. He ardently advocated the expansion of freedom, not just coexistence with the Soviet Union, and denied moral equivalence to countries like the Soviet Union, which were not yet free»*[91]. For this reason, *«he pursued the buildup of economic and military power to accompany and leverage his diplomacy* [preferring] *to work through ad hoc and informal negotiating mechanisms that preserved national sovereignty rather than formal arms control treaties and universal organizations such as the United*

---

[88] Arrighi, G. *Il Lungo XX Secolo: Denaro, Potere e Le Origini Del Nostro Tempo.* Milano: Il Saggiatore, 2014. PP. 1059-1060. However, was the Carter administration that condescending towards the USSR? As a matter of fact, to the Soviet invasion, Carter had reacted by announcing, during a speech to the Congress in January 23, 1980, that, if needed, the United States would have used its own military force to defend national interests in the Persian Gulf: *«let our position be absolutely clear: an attempt by any outside force to gain control of the Persian Gulf region will be regarded as an assault on the vital interests of the United States of America, and such an assault will be repelled by any means necessary, including military force»*. See: Carter, J.: *"The State of the Union Address Delivered Before a Joint Session of the Congress"*. January 23, 1980. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=33079 (cited on 15 November 2017). The doctrine that took his name had been conceived by the then National Security Advisor Zbigniew Brzezinski – along the lines of the Truman Doctrine – to launch a clear message of containment of what the United States considered the Soviet expansionist policy. See: Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 176-177.

[89] Henry R. Nau was a senior staff member of the National Security Council, from January 1981 to July 1983 during Reagan's administration.

[90] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 171. Richard Milhous Nixon was the 37th President of the United States. He won presidential elections in 1968 and 1972, remaining in office from January 1969 to August 1974, when he resigned from office after the well-known Watergate scandal. Henry Kissinger was the National Security Advisor (1969/1975) and Secretary of State of the United States during the presidencies of Richard Nixon and Gerald Ford (1974/1977).

[91] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 171.

Nations that replaced it»[92]. But, Nau adds: *«the Reagan's view of government was also conservative* [since] *he championed limited government and trusted in civil society, especially families, churches, and markets»*[93]. Therefore, when Reagan *«was claiming liberalism for conservatism, as in "all Americans are conservative," just as liberals claim conservatism for liberalism, as in "all Americans are liberal"»*[94], he meant that *«American conservatives are liberal democrats (small d) who believe in individual freedom and the capability of individuals to govern their own lives through the institutions of civil society (…) American liberals, on the other hand, are social democrats who see the community and state as the protector of individuals and the provider of political order and moral authority. Much less content with civil society (…) Relatively, conservative internationalism privileges ideas as causal factors, while liberal internationalism privileges institutions, and nationalism and realism privilege power»*[95]. Reagan deliberately defined the USSR the *«evil empire»*[96]; in this regard, Nau underlines how *«the decisive shifts that ended the Cold War were ideological, not material or institutional»*[97].

In this sense, *«a conservative internationalist perspective therefore offers the most complete and compelling explanation for the end of the Cold War»*[98], in which the *«détente provided the medium, not the message. Reagan rejected the message of détente long before he came into office and made clear that an arms race was integral to successful arms negotiations. His message was competition, not détente, even though his medium was negotiations. He integrated force and diplomacy; he did not separate them»*[99].

Reagan challenged the Soviet Union to an arms race: he committed in hard-line policies towards the Soviet Union when there was Brezhnev and his successors Andropov and Chernenko. However, he refused the advice of his hard-line

---

[92] *Ibidem*.
[93] *Ibidem*.
[94] *Ivi*. P. 196.
[95] *Ibidem*.
[96] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 173. In his speech in March 8, 1983, he declared: *«So, I urge you to speak out against those who would place the United States in a position of military and moral inferiority. You know, I've always believed that old Screwtape reserved his best efforts for those of you in the church. So, in your discussions of the nuclear freeze proposals, I urge you to beware the temptation of pride—the temptation of blithely declaring yourselves above it all and label both sides equally at fault, to ignore the facts of history and the aggressive impulses of an evil empire, to simply call the arms race a giant misunderstanding and thereby remove yourself from the struggle between right and wrong and good and evil».* Reagan, R.: "Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida" March 8, 1983. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=41023 (cited on 15 November 2017).
[97] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 223.
[98] *Ibidem*.
[99] *Ibidem*.

members in the NSC[100], to do likewise after Gorbachev and reformers took office[101]. This, because *«once the costs of a Soviet hard-line response became clear, reformers like Gorbachev came to power and were in a stronger position to argue for disarmament»*[102]. In other words, according to Nau, Reagan's objectives were to offer *«soft-line Soviet officials some way out of the box created by an arms race. He did not want just to run over them because even then diplomacy has to follow victory. The key for Reagan was not to win by force without negotiations but to win by negotiations from strength. He opposed détente in the 1970s when the United States was weak; he supported negotiations once the United States had refurbished its military and economic capabilities»*[103].

Therefore, there is no doubt, in Nau's opinion, that Reagan *«intensified the Cold War but, as the evidence now abundantly corroborates, he did so not to defeat the Soviet Union in some conventional military showdown but to close off military options favored by hawks in both Moscow and Washington and to empower diplomatic solutions favorable to the West»*[104].

Moreover, also the proposal in the 1980s for the creation of a "missile shield" *«to produce an unbreachable missile defense covering the whole United States»*[105], called Strategic Defense Initiative *«could have radically changed America's strategic situation»*[106]. Although this proposal never came real, Nau offers a "pacifist" vision of it, almost to rebut his opponents, who, in a Hollywood style, had renamed it Star Wars[107]: according to this vision, the SDI would have rendered nuclear weapons "useless". This vision was supported by the then Reagan's Secretary of Defense, Caspar Weinberger, for whom the SDI was *«an alternative to the mutual assured destruction (MAD) doctrine that both the United States and the Soviet Union had*

---

[100] National Security Council.

[101] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 233.

[102] *Ibidem*. An interesting discussion on the role of the Reagan and H.W. Bush administrations in the conclusion of the Cold War is given by Fischer B.A. *US foreign policy under Reagan and Bush*. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010. According to the Author, three are the distinct schools of thought on this matter: the first, of the so called "triumphalists", focuses *«primarily on the Reagan years and contend that the administration brought about the end of the Cold War by hastening (even causing) the collapse of the Soviet Union»*. In the second point of view, *«the Reagan administration's hard-line policies were an impediment to ending the Cold War. The president's virulent anti-Communism, his belligerent rhetoric, SDI, and the military buildup combined to make it more difficult for Gorbachev to pursue improved relations with the West»*. The third vision *«takes a broader approach: in this view, President Reagan and President Bush were both largely irrelevant to the ending of the Cold War. From this perspective, Gorbachev terminated the Cold War practically singlehandedly»*.

[103] *Ibidem*.

[104] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 223.

[105] Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 73.

[106] *Ibidem*.

[107] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 195.

accepted since the 1960s»[108]. Nonetheless, Nau himself reports how, beyond financial, technical and other problems[109] – that made it impracticable –, and oppositions to the project that aroused, Reagan *«never made clear how deterrence was possible after the elimination of nuclear weapons»*[110].

Anyway, Nau adds that *«Reagan's strategy allowed for mutually beneficial outcomes, including a nuclear-free world protected by shared missile defenses and an integrated prosperous world economy open to Soviet participation. The objective was to find common ground not primarily by détente (institutions) or competition (power) but by engineering a convergence of identities (ideas) closer to Western ideals of liberty and markets than communist ideals of police states and command economies»*[111]*.* In this, according to him *«Reagan, like Gorbachev, was a visionary»*[112]*.*

As a matter of fact, the resistance to the Soviet occupation by the Afghan *Mujahideen* – supported by thousands of international volunteers[113], financed and armed, among others, by the United States – thus contributed to the massive bleeding of the Soviet Union and made the attempt by the new General Secretary of the CPSU, Gorbachev, to resolve his country through the *perestrojka*[114] even more difficult.

The decade of the 1980s ended with the fall of the Berlin wall (1989), prelude of the dissolution of the European "Eastern bloc" and the USSR itself (1991).

Other points of view on Reagan's policy

In that context, according to Calleo, *«the Soviet economy's demise was read as a definitive validation of American capitalism, whose own traditional problems were temporarily forgotten»*[115]. Not only this, but also *«Europe's communitarian*

---

[108] Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 85.
[109] *Ibidem*.
[110] Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015. P. 217.
[111] *Ivi.* P. 223.
[112] *Ibidem*.
[113] Among the "Freedom fighters" of that war there was also the Saudi Osama Bin Laden. See: "Anti-Soviet warrior puts his army on the road to peace: The Saudi businessman who recruited mujahedin now uses them for large-scale building projects in Sudan. Robert Fisk met him in Almatig", *The Indipendent*, 6/12/1993. http://www.independent.co.uk/news/world/anti-soviet-warrior-puts-his-army-on-the-road-to-peace-the-saudi-businessman-who-recruited-mujahedin-1465715.html (cited on 15 November 2017).
[114] Literally, it means "reconstruction". See: Gorbaciov, M. *Perestrojka. Il Nuovo pensiero per il nostro paese e per il mondo*. Mondadori, 1987; Agambegjan, A. *La perestrojka nella economia*. Rizzoli, 1988; Various Authors. *La politica estera della perestrojka*. Editori Riuniti, 1988; Zubok, M. V. *Soviet foreign policy from détente to Gorbachev, 1975–1985*. Cambridge University Press, 2010.
[115] Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 9.

capitalism and social democracy were bundled with Soviet communism – all seen as tainted ideals in decline»"[116]. In fact, suggests Calleo, in a world used to see itself as bipolar, in that particular historical moment it appeared *«natural to see the new world order as unipolar. Previously, two superpowers had divided the world between themselves. The collapse of one was seen as the triumph of the other. Now that only one superpower remained, the struggle for world predominance was over»*[117].

However, according to Arrighi, *«the defeat of the Soviet Union had not eliminated the deeper causes of the crisis of US hegemony of the 1970s»*[118], since *«the armaments race with the USSR, transformed the United States into the greatest debtor nation in world history, increasingly dependent on cheap East Asian credit, labor, and commodities for the reproduction of its wealth and power»*[119].

As a matter of fact, the debate between slow economic development and high spending for the defense is *«highly controversial»*, affirms Kennedy[120]. *«A low investment in armaments may, for a globally overstretched Power like the United States, leave it feeling vulnerable everywhere; but a very heavy investment in armaments, while bringing greater security in the short term, may so erode the commercial competitiveness of the America economy that the nation will be* less[121] *secure in long term»*[122].

According to Kennedy, *«the historical precedents are not encouraging* [since] *it has been a common dilemma facing previous "number-one" countries* [in which, notwithstanding] *their relative economic strength is ebbing, the growing foreign challenges to their positions have compelled them to allocate more and more of their resources into the military sector, which in turn squeezes out productive investment and, over time, leads to the downward spiral of slower growth, heavier taxes, deepening domestic splits over spending priorities, and a weakening capacity to bear the burdens of defense»*[123].

Military spending of the United States, which in 1980 was at 5.1% of the GDP, increased to 6.7% in 1985, to then averaging 5.7% in 1990. Only from 1995 to

---

[116] *Ibidem.*
[117] *Ibidem.*
[118] Arrighi, G. *The world economy and the Cold War, 1970–1990*, P. 41. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.
[119] *Ibidem*.
[120] Kennedy, P. M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana, 1990. P. 531.
[121] In italics in the original text.
[122] Kennedy, P. M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana, 1990. PP. 532-533.
[123] *Ibidem*.

2000 it suffered a reduction, going from 3,8% al 3,0%[124]. The fact is, adds Kennedy, that the growth in military spending, had already began during the last phase of the Carter administration but then accelerated under the Reagan one[125], accompanied by a substance tax reduction that led to *«the top marginal rate down from 70 to 50 percent immediately, then to 38 percent a few years later»*[126], to the advantage of the wealthiest, without a sharp cut of federal spending, which caused a sudden increase in deficit and, consequently, also domestic debt. As **Table 2**[127] shows.

Table 2. US Federal Deficit, Debt, and Interest, 1980–1985 (in USD billions).

Year	*Deficit*	*Debt*	*Interest on debt*
1980	59.6	914.3	52.5
1983	195.4	1,381.9	87.8
1985	202.8	1,823.1	129.0

This is an argument on which also Calleo insists: *«America's disorderly finances in the Reagan years made the declinist syndrome seem uncomfortably relevant»*[128]. A similar position is expressed by Falke, when he reminds how, together with the "successes" gained by Reagan in foreign policy – indeed gained thanks to a strong state intervention in the economy, mostly in the military industries –, the overvaluation of the dollar during the 1980s had resulted in a sharp increase of imports, also for luxury consumption, thus not in investments; hence, between 1980 and 1986, US trade deficits skyrocketed from $24 billion to $160 billion[129]. Finally, the same point is made by economist Jeffry Frieden, when he underlines that the *«drastic tax cuts, increased military spending, and higher interest rates made deficits inevitable»*, led the United States to accumulate the *«greatest peacetime accumulation of government debt in history»*[130], going from a surplus of the federal budget registered from 1978 to 1981, to a deficit that *«averaged nearly two hundred billion dollars a year»*[131], that is to say *«over 3 percent of GDP»*[132],

[124] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 18. Table A.1.
[125] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File.
[126] *Ibidem*.
[127] Kennedy, P. M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana, 1990. Table 49. P. 527.
[128] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P.8.
[129] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. P. 274.
[130] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. Kindle's position 7204.
[131] *Ivi*. Kindle's position 7207.
[132] *Ibidem*.

during both Reagan's presidential terms and also the term of his successor George H. W. Bush[133].

How can be all these things explained? The program enacted by Reagan, also known as *Reaganomics*[134], *«began with a drastic contraction in money supply and an equally drastic increase in interest rates, followed by major reductions in corporate taxation and the elimination of controls on capital. The immediate result was a deep recession in the United States and in the world at large and a simultaneous escalation of interstate competition for capital worldwide»*[135].

Thus, high rates of the dollar, financial deregulation and Reagan's pro-business rhetoric *«drain capital from every corner of the world»*[136]. So much so that, *«by the middle 1980s a hundred billion dollars a year were flowing into the United States from abroad, largely in loans to the US government»*[137]. However, this caused an increase in exports to the United States, *«Washington's foreign accounts deficit seemed to grow out of control. In five years, the United States turned from the world's largest creditor into the world's largest debtor»*[138]. Nonetheless, Frieden argues that *«the United States' reliance on foreign funds also had some negative domestic effects. Money that came into the country from overseas increased demand for the US currency; foreigners lent to the US government by buying Treasury securities, which meant buying dollars. This drove the value of the dollar up by more than 50 percent in just five years. The strong dollar of 1981– 1986 allowed Americans to buy foreign goods cheaply. But it devastated American manufacturers and farmers, who faced competition from dramatically cheaper foreign goods»*[139].

Frieden remembers that in 1980 American industries exported 26% of their production, while 20% of the manufactured goods consumed by Americans was imported, corresponding to a manufactured trade surplus of 6% of GDP. But, five years later, American manufactured exports went down to 18% of production, while imports grew to 32% of consumption, meaning a deficit of 14% of GDP. In

---

[133] *Ibidem*.

[134] "Reaganomics: Making it Work", *Time*, 21/09/1981. http://content.time.com/time/subscriber/article/0,33009,953082-1,00.html (cited on 15 November 2017).

[135] Arrighi, G. *The world economy and the Cold War, 1970–1990*. PP. 31-32. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[136] Basosi, D. *The European Community and International Reaganomics, 1981–85*. P. 138. In K. Patel & K. Weisbrode (Eds.) *European Integration and the Atlantic Community in the 1980s*. Cambridge University Press, 2013. It must also be considered that high interest rates provoked a worsening of the debt service, calculate in dollars, of under-developed countries as well as countries of the Soviet Block. See also: Arrighi, G. *The world economy and the Cold War, 1970–1990*. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[137] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. Kindle's position 7248-7252.

[138] Basosi, D. *The European Community and International Reaganomics, 1981–85*. P. 138. In K. Patel & K. Weisbrode (Eds.) *European Integration and the Atlantic Community in the 1980s*. Cambridge University Press, 2013.

[139] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. (Kindle's position 7255-7268).

other words, in five years the import quotas of a vast range of goods consumed by Americans doubled.

However, Frieden adds, while employment rose 10%, the number of manufacturing jobs fell 5%. And also *«formal requests for trade protection doubled, as American industrialists and farmers complained that they could not compete so long as the dollar was so high. Foreign governments expressed concern that the dollar's rise destabilized financial markets. The effects of the strong dollar helped convince the US government of the need to cooperate with other financial powers to bring the dollar down and of the desirability of coming to grips with the American budget deficits»*[140].

In real fact, also Arrighi argues that the passage from a *«highly permissive to highly restrictive monetary policies»*[141] had already begun during the last year of the administration of Jimmy Carter by decision of the then president of the FED, Volcker[142].

In 1979, according to Calleo, *«renewed oil and currency shocks sent the dollar into a new tailspin and abruptly constrained the Federal Reserve to embrace a much stricter monetary policy»*[143]. This represented *«the harbinger of the abandonment under Reagan of the ideology and practice of the New Deal, nationally and internationally»*[144].

Even Arrighi defines as *«regressive Keynesianism»*[145] or even *«Reaganite Keynesianism»*[146] Reagan's economic policy, on account of state intervention to support industrial production, mostly the one linked to the defense and consumption – even the luxury one for the wealthiest classes –, adding: «*the Reagan administration declared all variants of social Keynesianism obsolete and proceeded to liquidate them through a revival of early twentieth-century beliefs in the "magic" of allegedly self-regulating markets»*[147]; making the Margaret Thatcher's slogan *"There Is No Alternative"* (TINA) his own.

---

[140] *Ibidem*.

[141] Arrighi, G. *The world economy and the Cold War, 1970–1990.* P. 31. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[142] According to Frieden, *«The high-interest-rate, low-inflation policy was often linked to a rightward political turn. The new Conservative government of Margaret Thatcher in Britain, which took office a few months before Volcker, embraced the new policies. A year and a half after Carter had appointed Volcker, in the midst of a recession caused by the Fed, Ronald Reagan swept into office with a conservative agenda similar to Thatcher's».* Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. (Kindle's position: 7100-7104)

[143] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 96.

[144] Arrighi, G. *The world economy and the Cold War, 1970–1990.* P. 31. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[145] *Ivi*. P. 33.

[146] *Ibidem*.

[147] *Ivi*. P. 31.

This was how, having abandoned the vision of "development" that had characterized the previous decades, the formulation of the neoliberal agenda of the so-called Washington Consensus[148] was achieved.

Consequently, directly or through multilateral institutions, such as the International Monetary Fund and the World Bank, the United States *«withdrew its support from the "statist" and "inward-looking" strategies (such as import-substitution industrialization) that most theories of national development had advocated in the 1950s and 1960s and began instead to promote capital-friendly and outward-looking strategies, most notably macrostability, privatization, and the liberalization of foreign trade and capital movements»*[149].

The 1980s have thus been dominated by what Calleo defines *«unorthodox economic policies of the Reagan administration»*[150]. While the Federal Reserve *«continued its restrictive monetary policy to prevent inflation and support the dollar»*[151], the result was a *«severe credit crunch, with record interest rates attracting foreign capital and generating a spectacularly high exchange rate for the dollar. The high dollar was a great disadvantage for American products and soon the record fiscal deficit had a "twin" – a very big external or "current account" deficit that regularly needed massive financing from the rest of the world»*[152].

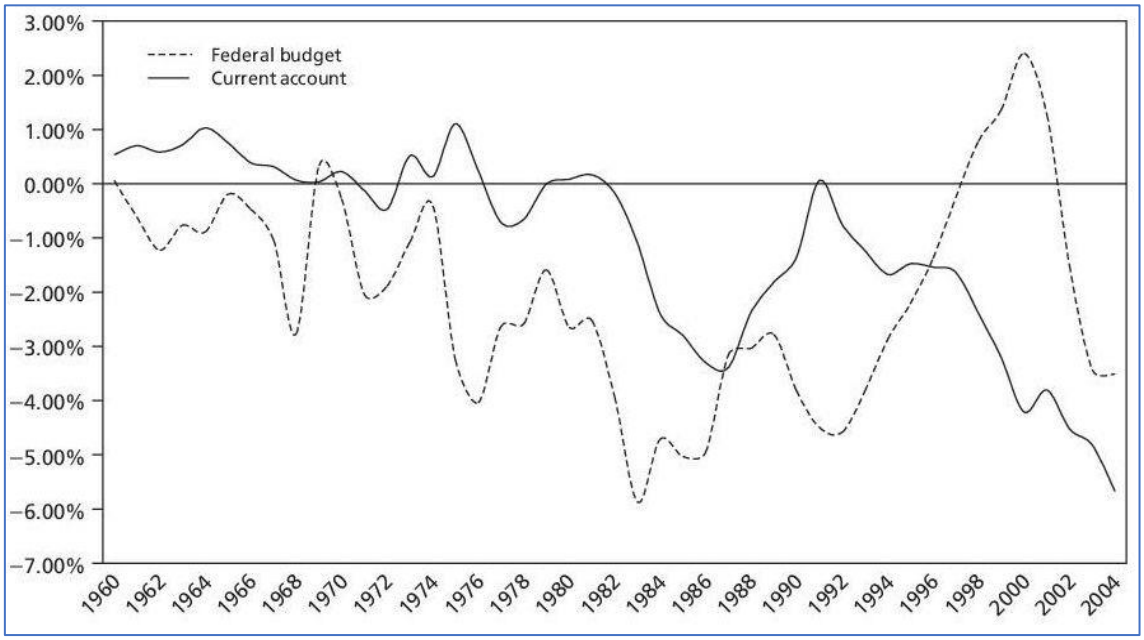
In that context, *«the Federal Reserve was periodically forced to loosen credit to avoid major financial bankruptcies. The result was a febrile alternation of bubbles and crashes – the most severe of which was the stock market crash of October 1987. In this overheated atmosphere, fear that the big twin deficits would "overstretch" the economy and lead to "decline" became a major popular concern»*[153]. And, *«when rampant inflation finally forced an end to the cheap dollar, and the Fed sharply tightened domestic credit, the US administration found it easy enough to finance its deficits by borrowing abroad»*[154]. In other words, if *«under Nixon and Carter the US exported dollars. Under Reagan it borrowed them back»*[155].

Maier offers a framework of the twin deficits trend (**Table 3**)[156].

---

[148] *Ivi*. P. 32.
[149] *Ibidem*.
[150] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 96.
[151] *Ibidem*.
[152] *Ibidem*.
[153] *Ibidem*.
[154] Calleo, P.D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 96.
[155] *Ibidem*.
[156] Maier, C. S. *Among Empires: American Ascendancy and Its Predecessors*. Harvard University Press, 2007. P. 256.

Table 3. The twin deficits, 1960-2004 (as % of GDP).



Sources: www.bea.gov/bea/di1.htm; www.whitehouse.gov/omb/budget/fy2004/hist.html. Bureau of Economic Analysis, Office of Management and Budget.

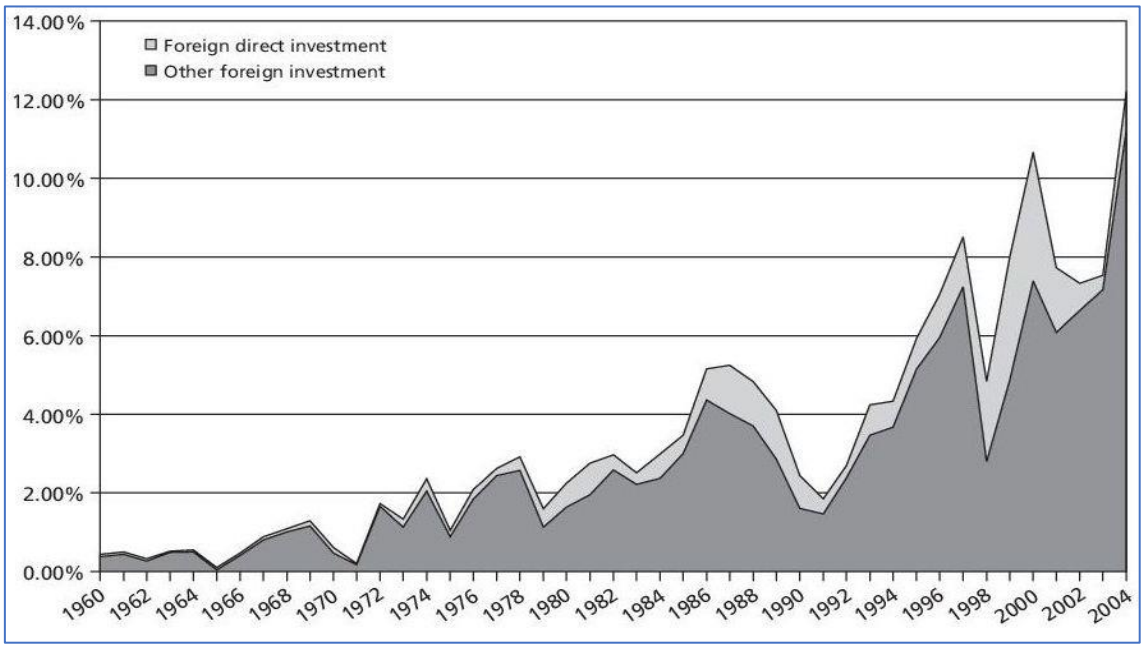
Inter alia, Arrighi highlights that *«this massive redirection of capital flows toward the United States had devastating effects on the Third and Second World countries (…) When the United States reversed its monetary policies and started to compete aggressively in world financial markets, the "flood" of capital of the 1970s turned into the "drought" of the 1980s»*[157]. Meanwhile, this triggered the fall of the prices of gold, oil and other raw materials, that had become the major trade source of the USSR[158].

As **Table 4** points out, *«foreign capital imports into the United States rose from less than 1 percent of American gross domestic product (GDP) - that is, the value of goods and services produced within the country - during the 1960s to about 2 percent by 1980, then doubled during the Reagan era, after a brief reduction under Carter, then rose irregularly to about 12 percent during the Bush, Clinton, and Bush II administrations»*[159]. The consequences of these macroeconomic imbalances on trade policies are considered *«disastrous»*[160] by Andreas Falke, who observes how they triggered a demand of protectionist measures from US businesses that were more negatively affected by a strong dollar, thus, less competitive: actually, *«Congress and interest groups attributed the high trade deficit to unfair foreign*

[157] Arrighi, G. *The world economy and the Cold War, 1970–1990.* P. 34. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.
[158] *Ivi*. P. 40.
[159] Maier, C. S. *Among Empires: American Ascendancy and Its Predecessors*. Harvard University Press, 2007. P. 258.
[160] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. P. 274.

trade practices. The interconnection between the "twin deficits" was not evident to these critics»[161].

Table 4. Foreign capital imports to United States (1960/2004, as % of GDP).



Source: Bureau of Economic Analysis, www.bea.gov/bea/di1.htm.

However, according to Falke, the cause of these deficits is not to be found in alleged *«unfair policies of America's major trading partners»*[162], but in what Falke himself defines *«a failure of the macroeconomic management of national economic policies»*[163], especially in the *«inadequate coordination of fiscal and monetary policies between the Federal Reserve Board and the Reagan administration»*[164].

Paradoxical though it may appear, what Falke marks as "failure"[165], maybe on the contrary can be considered a "success" by the advocates of *Reaganomics*; in fact, they suggested to do what the Reagan administration exactly did: Arrighi notes that with the Reagan's era, capital "financialisation", which in the 19070s had been one of the characteristics of the economic world crisis, became its number one feature[166]. With it, moreover, took place the most colossal transfer of wealth in the hands of the few, that had never been registered before in human history[167].

---

[161] *Ibidem.*
[162] *Ibidem*.
[163] *Ibidem*.
[164] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. P. 274.
[165] Endorsing this point, according to Stiglitz, the deregulation brought to the collapse of savings banks, which costed to US taxpayers almost $200 billion. For a long time, in fact, the Reagan administration refused to face this issue, thus, when it was too late to ignore the crisis, made the cost for US taxpayers much more expensive than the necessary. Stiglitz, J.E. *La globalizzazione e i suoi oppositori.* Einaudi, 2002. PP. 178-179.
[166] Arrighi, G. *Il Lungo XX Secolo: Denaro, Potere e Le Origini Del Nostro Tempo.* Milano: Il Saggiatore, 2014. P. 35.
[167] Oxfam Italia, https://www.oxfamitalia.org/tag/davos-2017/ (cited on 15 November 2017).

The Latin American context

On the other hand, as far as the Western Hemisphere is concerned, the Reagan administration showed the willingness to prevent, at any cost, the happening of "another Cuba" in what the United States considered its own "backyard"[168]. As can be read from the Santa Fe document of 1980[169], drafted by a group of advisors of the future Reagan's presidency[170], *«the Americas are under attack. Latin America, the traditional alliance partner of the United Stated, is being penetrated by Soviet power. The Caribbean rim and basin are spotted with Soviet surrogates and ringed with socialist states»*[171]. With these premises, the United States financed and armed the resistance of the so-called *contras* in Nicaragua, which then led the Sandinistas electoral defeat in 1990; supported, through several ways, the *counter-insurgency* policies in El Salvador[172], Guatemala[173] and Honduras; invaded, in 1983, the small Grenada Caribbean Island, where a fratricidal *coup d'etat* had overthrown the progressive Maurice Bishop[174]; militarily intervened in Panama, in 1989, to overthrow the regime of Manuel Noriega, previously an informer of the US intelligence, then accused of drug trafficking[175].

On the contrary, as far as relations with South America, in contrast with the doctrine based on human rights carried out by Carter, the Reagan administration, already in 1981, *«promoted Chile, Argentina, Uruguay and Paraguay as "non violators of human rights" and facilitated the approval of the World Bank loans to them for a total $484 million (an economically small, but politically significant, sum)»*[176].

---

[168] In reference to the Monroe Doctrine. See: Cox, M. and Stokes, D. *US Foreign Policy*. 2nd ed. Oxford University Press, 2012. P. 282. And see also Di Nolfo, E. *Storia delle relazioni internazionali. Dal 1918 ai giorni nostri*. Laterza, 2008.

[169] See *A new Inter-American Policy for the Eighties*, better known as the document of Santa Fe Committee (Lewis Tambs, editor; May 1980), in Larkin, B. D. *Vital Interests. The Soviet Issue in US Central American Policy*, Lynne Rienne Publishers – Boulder/London.

[170] Members of the Committee of Santa Fe were: L. Francis Bouchey, Roger Fontaine, David C. Jordan, Lt. General Gordon Sumner, Jr (USA-Ret.) and Lewis Tambs (editor). Ronald F. Docksay, president of the Council for Interamerican Security, which published the report, wrote the foreword. An editorial note to the second printing (1981) states that the authors *«are now in a position to make their proposals become policy. Dr. Roger Fontaine, for example, serves as the National Security Council's Latin America specialist. Lt General Gordon Sumner, Jr., is Special Advisor to the Assistant Secretary of State for Inter-American Affairs»*. See Editor note in above cited *A new Inter-American Policy for the Eighties.*

[171] *Ibidem*.

[172] Where the signing of Peace Accords between the Salvadoran government and the *guerrilla* came in 1992. https://peaceaccords.nd.edu/accord/chapultepec-peace-agreement. See also: Castronovo, V. *Piazze e Caserme: i Dilemmi Dell'America Latina Dal Novecento a Oggi*. Laterza, 2007. P. 309.

[173] Where the signing of Peace Accords between the Guatemalan government and the *guerrilla* came in 1996. Castronovo, V. *Piazze e Caserme: i Dilemmi Dell'America Latina Dal Novecento a Oggi*. Laterza, 2007. P. 240.

[174] Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005. P. 94.

[175] However, this intervention – known as Just Cause and occurred under the presidency of di H.W. Bush – had a side effect since drug trafficking's Colombian cartels, lost the Panamanian "platform" for their business, extended their trafficking routes to all Central America and, above all, to Mexico.

[176] Basosi, D. *The 'Missing Cold War' Reflections on the Latin American Debt Crisis, 1979-1989*. In Kalinovsky, M. A. and Radchenko, S. (Eds.) *The End of the Cold War and the Third World: New Perspectives on Regional Conflict*, Routledge, 2013. P. 211.

However, on the occasion of the war for the Falkland Islands, in the South Atlantic, owned by Great Britain but claimed by Argentina – calling them Malvinas –, Reagan launched a clear message to all Latin American countries: in spite of the Inter-American Treaty of Reciprocal Assistance – also known as the Rio Treaty, signed in 1947 by 19 American countries, included the United States –, the latter did not hesitate to side with its traditional European ally.

After the loss suffered, Argentina withdrew, by the way, its support to US policy in Central America, calling back home military advisors committed in the training of the Nicaraguan *contras*[177]. Some months later, the elections signed the end of the Argentinean military regime, settling Raúl Ricardo Alfonsín as the President of the Republic.

At the same time, even if unsolved, the debt crisis of various Latin American countries, and especially Mexico – which risked its default in 1982[178] – was brought back under relatively control by multilateral financial organizations[179].

It is important to underline how, right from the beginning, Reagan and his advisors assigned Mexico an absolute priority[180]: energy, migrants, trade, were the main points of the agenda. Nonetheless, the same document also pointed out that the goal was *«not the establishment of a greater North American common market, but the US market kept open to Mexican goods – particularly those that are from labor intensive industries»*[181], also known as *maquiladoras*[182]. These positions, indeed,

---

[177] Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005. P. 93-95; Castronovo, V. *Piazze e Caserme: i Dilemmi Dell'America Latina Dal Novecento a Oggi*. Laterza, 2007. PP. 208-209.

[178] In 1982, Mexico declared to not being able to fulfil its commitments, opening to a global credit crisis (In December of the same year, also Brazil followed its example). Due to indebtment, the subcontinent fell into a deep economic crisis, which lasted until the end of 1980s. In addition, it also suffered from a tremendous widening of social inequalities and from a steep increase of poverty – in 1989 it counted for almost a third of the population. Hence, the expression "lost decade" which outlines such negative and prolonged in time juncture of those years. See: Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005. P. 96; Castronovo, V. *Piazze e Caserme: i Dilemmi Dell'America Latina Dal Novecento a Oggi*. Laterza, 2007. P. 201.

[179] "The Mexican 1982 debt crisis", *RaboResearch - Economic Research*. https://economics.rabobank.com/publications/2013/september/the-mexican-1982-debt-crisis/ (cited on 15 November 2017). See also: http://www.heritage. org/americas/report/us-strategy-solve-mexicos-debt-crisis (cited on 15 November 2017); Basosi, D. *The 'Missing Cold War' Reflections on the Latin American Debt Crisis, 1979-1989*. In Kalinovsky, M.A. and Radchenko, S. (Eds.) *The End of the Cold War and the Third World: New Perspectives on Regional Conflict*, Routledge, 2013. P. 212 and following; and Gunder Frank, A. *¿Es posible desactivar la bomba de la deuda*? in Nueva Sociedad, Septiembre/Octubre 1985, PP. 34-47.

[180] See *A new Inter-American Policy for the Eighties*, better known as the document of Santa Fe Committee (Lewis Tambs, editor; May 1980), in Larkin, B. D. *Vital Interests. The Soviet Issue in US Central American Policy*, Lynne Rienne Publishers – Boulder/London. Part Five, Proposal 3.

[181] *Ibidem.*

[182] The term comes from the Arab word *makíla*. Anciently, it indicated the portion of mince that the peasant had to pay to the mill owner for his service. Today, with *maquiladora* is intended a business whose foreign capital, directly or, more often, through local subcontracted enterprises, controls the entire productive cycle, for which the company provides also raw materials for the production – in this differing from traditional assembly firms – as well as the final commercialization of the good. Moreover, *maquiladoras* benefit from any tax and other logistical advantages in the hosting country. Usually, these arise in free trade zones next to harbors, airports and borders – as the one across Mexico and the United States –, to facilitate the shipping of the goods towards Northern countries. In these companies, labor force is mostly composed of young women and the unionization is prohibited. See http://www.ans21.org/component/ content/article/215-envio-2015/luglio-agosto-n-7-8/715-nicaragua-lavoratrici-nelle-zone-franche-quando-il-sogno-si-trasforma-in-incubo (cited on 15 November 2017).

seem to be distant from what Reagan himself affirmed, when he launched his candidacy[183].

Was it true "victory"?

In a very different prospective from the one conceived by Nau, Arrighi wonders *«who actually won the Cold War, [and] if anyone did, remains a controversial issue»*[184]. Although for Arrighi himself there is no doubt *«that the change in the conjuncture of the global political economy precipitated by the neoliberal turn contributed decisively to the terminal crisis of the Soviet system of centrally planned economies»*[185]. In Arrighi's words, *«"now is the unipolar moment," a triumphalist commentator crows; "[t]here is but one first-rate power and no prospect in the immediate future of any power to rival it." But a senior US foreign-policy official demurs: "We simply do not have the leverage, we don't have the influence, the inclination to use military force. We don't have the money to bring the kind of pressure that will produce positive results any time soon"»*[186]. According to him, these conflicting evaluations of US power echoes the special dynamic that led the Cold War to an end: *«the triumphalist assessment reflected the unanticipated ease with which US policies had thrown the Soviet colossus off balance and "won" the Cold War without firing a shot. The cautionary assessment, in contrast, reflected the fact*

---

[183] *«We live on a continent whose three countries possess the assets to make it the strongest, most prosperous and self-sufficient area on Earth. Within the borders of this North American continent are the food, resources, technology and undeveloped territory which, properly managed, could dramatically improve the quality of life of all its inhabitants. It is no accident that this unmatched potential for progress and prosperity exists in three countries with such long-standing heritages of free government. A developing closeness among Canada, Mexico and the United States – a North American accord – would permit achievement of that potential in each country beyond that which I believe any of them -- strong as they are – could accomplish in the absence of such cooperation. In fact, the key to our own future security may lie in both Mexico and Canada becoming much stronger countries than they are today. No one can say at this point precisely what form future cooperation among our three countries will take. But if I am elected President, I would be willing to invite each of our neighbours to send a special representative to our government to sit in on high level planning sessions with us, as partners, mutually concerned about the future of our continent. First, I would immediately seek the views and ideas of Canadian and Mexican leaders on this issue and work tirelessly with them to develop closer ties among our peoples. It is time we stopped thinking of our nearest neighbours as foreigners. By developing methods of working closely together, we will lay the foundations for future cooperation on a broader and more significant scale. We will put to rest any doubts of those cynical enough to believe that the United States would seek to dominate any relationship among our three countries, or foolish enough to think that the governments and peoples of Canada and Mexico would ever permit such domination to occur. I, for one, am confident that we can show the world by example that the nations of North America are ready, within the context of an unswerving commitment to freedom, to see new forms of accommodation to meet a changing world. A developing closeness between the United States, Canada and Mexico would serve notice on friends and foe alike that we were prepared for a long haul, looking outward again and confident of our future; that together we are going to create jobs, to generate new fortunes of wealth for many and provide a legacy for the children of each of our countries. Two hundred years ago, we taught the world that a new form of government, created out of the genius of man to cope with his circumstances, could succeed in bringing a measure of quality to human life previously thought impossible».* Ronald Reagan's announcement for Presidential Candidacy, 11/13/1979. https://reaganlibrary.archives.gov/archives/ reference/11.13.79.html (cited on 15 November 2017).

[184] Arrighi, G. *The world economy and the Cold War, 1970–1990*, P.40. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

[185] *Ivi.* P. 36.

[186] *Ivi.* P. 40.

that the defeat of the Soviet Union had not eliminated the deeper causes of the crisis of US hegemony of the 1970s»[187]*.* In this context, *«to the extent that the Soviet collapse was caused by US power, it was due not to US military might but to a superior command over the world's financial resources. And to the extent that it had military origins, it confirmed rather than reversed the verdict of the Vietnam War: it showed that, in Afghanistan no less than in Vietnam, the high-tech military apparatuses controlled by the Cold War superpowers, whatever their use in reproducing the balance of terror, were of little use in policing the Third World on the ground»*[188]*.* However, what is worse, Arrighi adds, is that *«the mobilization of the world's financial resources to rescue the US economy from the deep recession of the early 1980s, and simultaneously to escalate the armaments race with the USSR, transformed the United States into the greatest debtor nation in world history, increasingly dependent on cheap East Asian credit, labor, and commodities for the reproduction of its wealth and power»*[189]*.* This meant, according to him, a *«shift of the center of world-scale processes of capital accumulation from North America to East Asia* [maybe as] *the most significant legacy of the Cold War»*[190]*.* This analysis of Arrighi represents a key insight into the relationship between the end of the Cold War and the world economy.

Also Falke appears inclined not to consider the end of the Cold War *«the only or primary source»*[191] of what he defines a *«paradigm shift»*[192] from *«free trade to fair trade»*[193] in the 1990s, in particular, according to him, with the establishment of Clinton at the White House, in 1993. Many of the factors that made it possible, Falke indeed claims, already existed before the collapse of the Soviet Union and at the end of the Cold War. Among them: *«the relative decline of the United States, defined by the decreasing relative US share of world GDP, world trade, and global manufacturing output (…); specific competitiveness problems of certain older industrial sectors and of some of the more advanced high-tech sectors; the rise of competitors in the Asian-Pacific region (…); serious macroeconomic imbalances that led to an overvaluation of the dollar and to high trade deficits; the inadequate*

---

[187] *Ivi*. PP. 40-41.
[188] *Ivi.* P.41.
[189] *Ibidem*.
[190] *Ibidem*.
[191] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. P. 266.
[192] *Ibidem*.
[193] *Ibidem*.

willingness of the new competitors of the United States, primarily Japan and the European Union (EU), to carry the hegemonic burden of advancing the multilateral trading order»[194].

In sum, at the beginning of the 1990s, perhaps "history was not over"[195], however, the historical phase that had characterized the aftermath of the Second World War was certainly finished, and with it, almost all political and economic doctrines had to be reconsidered, adapted and contextualized in the "new" world[196].

Different approaches to trade issue

Therefore, in what extent, does NAFTA reflect the debate – and conflict – among the different opinions of the role of the United States in world trade issues in early 1990s? According to Calleo, *«the end of the Cold War finally brought the US back to more conventional economic principles. Big cuts in defense spending, starting in 1989, significantly relieved the budget. Instead of parallel tax cuts, the administrations of the 1990s used this "peace dividend" to restore federal finances. At one point, the elder Bush actually raised taxes. But given the recessionary conditions early in the decade, his administration nevertheless continued running very large fiscal deficits»*[197]. After all, George H.W. Bush was not reelected notwithstanding the "dividend" deriving from the end of the Cold War and, mostly, by the successful results of the first Gulf War (1990/1991), in which, by the way, the United States made use of the rearmament experimented in the 1980s. Bush's candidacy appeared weakened, in particular, by the electoral campaign of the young democratic Bill Clinton, and by the presence of a third competitor, Henry Ross Perot *«whose declinist themes about the dangers of deficits and free trade dominated the election debates»*[198] . Ross Perot obtained the 18.7% of the votes, eroding significant republican electoral share, thus indirectly favoring Clinton. The latter, Calleo suggests, *«seemed a good compromise. He was clearly knowledgeable and intelligent about economic issues and his lack of interest in military prowess seemed*

---

[194] *Ibidem*.

[195] To paraphrase a long discuss statement at that time of the US political scientist Francis Fukuyama, in its opera *The End of History and the Last Man*, Free Press 1992.

[196] Emblematically, on the same day in which NAFTA entered into force, in sharp contrast with the choice of the Mexican government, occurred the upheaval of the indigenous Zapatistas in the Southern Mexican State of Chiapas, which had completely different characteristics than other Latin American *guerrillas* of the previous years. This, almost to testify, although from opposite sides, the innovating pattern of the new conjuncture.

[197] Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. PP. 96-97.

[198] *Ivi*. P. 97.

patent. His enthusiasm for welfare reform, globalization in general and information technology in particular, all helped to burnish his image as a leader with communitarian rhetoric but conservative and internationalist discipline», that guaranteed him the success[199] .

Although he did not succeed in the approval of a health care reform, Clinton went forward with determination in policies for the rebalancing of State's spending, mostly thanks to the reduction of military spending *«balancing the budget and liberalizing the economy appeared to have the beneficial effects classical economists had always predicted. Unemployment was at near-record lows and inflation scarcely visible»*[200]. The fact is that *«when Clinton left office in 2000*[201]*, the federal budget was pointed toward a large surplus. For the first time since World War II, American productivity growth began regularly outpacing that of Europe and Japan. Favorable macroeconomic conditions were matched by a major technology boom. The US appeared to be the leader in developing and applying the new technologies that were transforming the globe. Buoyed by this heady economic success, America's political imagination turned from economic declinism to economic triumphalism»*[202].

In that new international context, the guiding lines of the Clinton administration changed as well, putting the issue of economic safety of the United States at the center as fundamental basis for its hegemon role in the world. In this sense, also the economy itself as the heart of foreign policy, with the disappearance of the historical enemy, rather became a tool to achieve geopolitical objectives. In other words, even though the end of the Cold War did not mean the disappearance of US concerns for national security and the consequent strategies in a new global context characterized by instability and conflicts in several parts of the world, what appears evident to Falke is to show that economic policy objectives – outlined in the following guidelines – gained a new importance in the foreign policy of the Clinton administration:

> *«1. Economic security as the basis of America's role in the world;*
>
> *2. Economics as the core of foreign policy; and*
>
> *3. American foreign policy as a resource to attain economic objectives»*[203].

---

[199] *Ibidem*.
[200] *Ibidem*.
[201] Having gained the reelection in 1996 with a large margin of votes.
[202] Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009. P. 97.
[203] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. P. 268.

Therefore, what is exactly the paradigm shift, suggested by Falke, in the trade policy approach? Actually, *«it may not be immediately apparent why we can define the shift from "free" to "fair" trade by the rise of unilateral and regional approaches as complements to multilateralism. But the core element of fairness is strict reciprocity, which is much more easily achieved in unilateral or regional contexts»*[204]. According to him, US trade policy during Clinton's presidency was the result of the combination of different approaches to the matter: multilateral, unilateral and regional[205].

The multilateral approach – dominant in the post-World War II according to the guidelines established by Bretton Woods in 1944, which marked the end of US economic isolationism and created organizations such as the International Monetary Fund and the World Bank to protect free trade in the capitalist world – appeared evident in the US support to the well-known Uruguay Round negotiation, which aimed at fostering world trade expansion under the conditions dictated by the General Agreement on Tariffs and Trade (GATT)[206].

The unilateral approach, instead, seemed more visible in the recourse to the Section 301, in its various versions, of the US regulations on trade, which gives the President the authorization to take all appropriate action, retaliation included, in order to achieve the elimination of any act, practice or policy by a foreign government which violates an international trade agreement, or it is unreasonable, or discriminatory or unjustified, and that oppresses or limits US commerce. Moreover, the law provides that the US government does not have to wait for an authorization from the WTO to take implementing measures. In practice, thanks to

---

[204] *Ivi.* P. 264.

[205] What do these formulas mean? A unilateral trade agreement is a commerce treaty, not open to negotiation, in which, for example, a nation imposes a trade restriction, such as a tariff, on all imports without regard to other countries; or rather, in which a "big" country lifts a tariff on the imports from a "small" one, even not reciprocally, with the aim to help it. The bilateral agreement is between two countries: it is the most common and relatively easy to negotiate. On the contrary, a multilateral agreement takes a long time to be negotiated, but it's the most powerful. Regional means a trade accord concerning a geographic area. For some, of conservative spirit, the absence of any trade agreement implies, in real fact, a unilateral trade policy, conducted by a government that considers not to impose any restriction to the rights of its citizens to trade anywhere in the world. In that scenario, for example, other countries would keep their tariffs on US exports, gaining unilateral advantage, so that they could ship cheap goods into the United States, while US exports would be priced higher in their countries. In general, emerging nations are afraid of any trade agreements with developed nations, because they worry that the imbalance of power would create a unilateral benefit to the developed nation. Unilateral trade policies work great in the short term, since tariffs raise the price of goods imported and, as a result, the prices of locally made products seem lower in comparison. This boosts economic growth and creates jobs. However, over time, these advantages tend to disappear and in the spiral of new duties, regulations and other restrictions that characterize trade protectionism, many are affected and trade languishes. The United States follow unilateral trade policies under the Generalized System of Preferences – instituted on January 1, 1976, by the Trade Act of 1974 –, according to which developed countries grant preferential tariffs to imports from developing countries. The US GSP offers duty-free status for 5,000 imports from 120 countries. In 2015, total duty-free imports under the GSP was $18.7 billion. The GSP's has three goals: lowering the prices of imports for Americans; helping the countries become a more affluent market for US exports; furthering US foreign policy goals.

[206] Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press. PP. 265-266.

this norm, the United States can force a country considered "unfair" on a trade basis to open its own market to US products[207].

The regional approach is rather clear in the Free Trade Agreement with Canada and its following extension to Mexico under the North American Free Trade Agreement[208]. Nonetheless, of course, the different approaches are not necessarily in contradiction against each other. On the contrary, they can be complementary – as they proved to be in the case of the United States. The event that defines the turning point mentioned by Falke is when the multilateral approach ceased to be the choice in the last resort. This means, when it lost its hegemony over other plausible approaches.

Comparing the George H. W. Bush administration (1989/1993) and the one of Bill Clinton (1993/2001), Falke underlines that, for the former, every approach had the aim to achieve multilateral objectives.

But Bush did not hesitate to use unilateral means to reinvigorate GATT negotiations, while promoted the regional negotiation of NAFTA, clearly establishing that, firstly, it had to comply completely with the GATT itself, and, secondly, that all domestic policies on trade issues had to be subjected to it.

For Clinton, on the contrary, the multilateral approach's primacy was not obvious at all. Indeed, according to Falke, possible approaches were considered by his administration on equal terms, following a hypothetical starting line[209]. Nevertheless, also the Clinton administration privileged the multilateral approach to accomplish the Uruguay Round in 1993, prelude of the GATT ratification by the US Senate at the end of 1994, considered one of the major victories of Clinton's presidency.

In other words, sometimes, as Falke reported, the shift by him suggested, can wait[210]...

As far as the Western Hemisphere, according to Frieden, for the United States, regional integration was a way to improve its competitive positions. Firstly, the United States launched a Caribbean Basin Initiative, giving to the Caribbean countries privileged access to the American market. Then, it looked to Canada, with which the United States had long-standing investment and trade ties: thus, in

[207] *Ivi.* P. 277.
[208] *Ivi.* PP. 281-282.
[209] *Ivi.* P. 283.
[210] *Ivi.* P. 266.

1987 the two countries signed a free trade agreement, similar to European common market, even though without political and foreign policy implications. Then, five years later, Mexico signed NAFTA, entering into force in 1994. In its first ten years, the accord removed most of the barriers to the movement of goods, capital, and services among the three countries. The result was «*the gradual creation of a single North American market, although immigration was excluded from this liberalization*»[211].

Perhaps, when Frieden wrote these notes[212], the perspective of NAFTA appeared more optimistic than what appears today to the same supporters. NAFTA was seen as a pioneer accord among other similar accords between the North and the South of the world, so much as many Latin American and Caribbean countries wanted to join[213].

As a matter of fact, in the same years in which NAFTA was taking shape, Frieden writes *«the world's third-largest trading bloc was formed in South America. Between 1985 and 1990 Brazil and Argentina negotiated a trade area that eventually included Uruguay and Paraguay as full members and Chile and Bolivia as associates. The Southern Common Market – Mercosur in Spanish – was in place by 1994. Among the four members and two associates, it drew together 250 million people with a combined output of nearly two trillion dollars – fourth only to the EU, NAFTA, and Japan as a global trading power»*[214].

On the other hand, in the perspective of a regional integration that Frieden considers the *«antechamber to broader liberalization»*[215], in 1994 even the long-stalled trade negotiations of the Uruguay Round are completed: *«the new agreements extended trade liberalization to new issues and drew in new and future members from the developing and formerly Communist nations. The Uruguay Round also created a new institution, the World Trade Organization, to replace the GATT»*[216], which, differently from the latter, it has a permanent nature *«with powers of its own»*[217], to mediate trade disputes and to consolidate the open trading system[218].

---

[211] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. (Kindle's position 7301-7306)
[212] First edition dates back to 2006.
[213] Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014. Kindle File. (Kindle's position 7301-7306).
[214] *Ivi*. Kindle's position 7310.
[215] *Ivi*. Kindle's position 7318.
[216] *Ibidem*.
[217] *Ibidem*.
[218] *Ibidem*.

NAFTA and GATT rules

However, since custom duties are no longer in force, other non-commercial barriers become fundamental. These concern production standards, regulatory norms, possible "unfair" practices such as the recourse to State subsidies or monopolistic practices. In this sense, NAFTA anticipates the trend of the following negotiations on free trade agreements. It is important to underline in this context how negotiators came up with a solution for a possible conflict in the application of NAFTA and GATT rules.

The three State parties of NAFTA, in parallel subjected to the GATT, agreed that, in case of conflict generated by the compliance with obligations previously undertook within the GATT framework, NAFTA would prevail. Indeed, NAFTA provides for the maintenance of the GATT for governing trade among its members States, thus including its basic national treatment obligations. In other words, this imply that once a product has been imported by a member State, it will not be subject to any discrimination. This constitutes a fundamental provision, since it prevents the emergence of internal measures that would favor domestic merchandize over imported one. Article 301 of NAFTA's text highlights to what extent GATT's national treatment obligation implements dispositions applied by provinces or States: *«1. Each Party shall accord national treatment to the goods of another Party in accordance with Article III of the General Agreement on Tariffs and Trade (GATT), including its interpretative notes, and to this end Article III of the GATT and its interpretative notes, or any equivalent provision of a successor agreement to which all Parties are party, are incorporated into and made part of this Agreement»*[219].

As far as arrangements taken by provinces or States, *«2. The provisions of paragraph 1 regarding national treatment shall mean, with respect to a state or province, treatment no less favorable than the most favorable treatment accorded by such state or province to any like, directly competitive or substitutable goods, as the case may be, of the Party of which it forms a part»*[220]. In this sense, national treatment may not treat less advantageously than the most favourable treatment agreed by the State or province with service providers in the country to which they belong.

[219] Article 301. NAFTA, text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=1&secid=2d3a1faf-08c1-4bec-81e3-dce96918011b#A301 (Cited on 14 October 2017).
[220] *Ibidem.*

Antecedents of the accord

The milestone of NAFTA was succeeded in 1965 with the *Automotive Products Agreement (Auto Pact or Apta)* between Canada and the United States. It provided the elimination of tariffs on cars, trucks, buses, tires, and automotive parts between the two countries, greatly advantaging the large American car makers. In turn, the big three car makers General Motors, Ford, and Chrysler – and later also Volvo – agreed that automobile production in Canada would not drop below 1964 levels, as well as that they would ensure the same production and sales rate in Canada. Moreover, since 1985, large negotiations generated a series of bilateral trade accords that aimed to lower trade tariff barriers in the region and offered an institutional framework for the North American economic alliance.

In this context, one of the agreements that created many useful precedents of NAFTA was the Canada-US FTA[221]. In addition, between 1985 and 1989, the United States and Mexico signed three major deals.

The first one is the *Understanding on Subsidies and Countervailing Duties*, established in 1985, represented a sort of alternative for the participation of Mexico in the aid code of the General Agreement on Tariffs and Trade. Mexico, on its part, agreed to commit in reforms of its subsidy programs in exchange for an accord with the United States which established the application of injury tests in countervailing duty cases involving Mexican goods.

The second one, achieved in 1987, is the *Framework of Principles and Procedures for Consultation Regarding Trade and Investment Relations*, which set a consultation and dispute settlement mechanism for issues of bilateral trade, as well as an "immediate action agenda" for issues on bilateral trade and investment negotiations in goods and services sectors. These negotiations resulted, among others, in specific steel and textiles accords.

The third one is represented by the *Understanding Regarding Trade and Investment Facilitation Talks* of 1989, which gave birth to several bilateral negotiations on a vast range of issues, such as the complicated intellectual property one.

On the other hand, relations between Canada and Mexico went on in a parallel path, even though more slowly. This, by the way, reflected the low degree of direct

[221] Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994. P.3.

economic transactions between them, that constituted only about 2 billion dollars in total trade in 1989[222].

Notwithstanding, in 1990, Canada and Mexico signed 10 different deals aiming to improve bilateral consultations and share data on issues such as agricultural trade, environmental cooperation, nontrade areas like drugs and extradition, as well as a Framework for Trade and Investments Consultations, in line with the 1987 accord between the United States and Mexico.

Furthermore, on June 11, 1990, the United States and Mexico declared their intention to proceed with a bilateral FTA, which was then followed, on June 27, 1990, by the Bush's announcement to launch the *Enterprise for the Americas Initiative (EAI)*[223], a program that included an increase of the American funding and the negotiation of free trade agreements with Latin-American countries. These initiatives *«confronted Canada with the choice of either joining the "hub" (i.e. engaging in trilateral negotiations) or becoming just one of several "spokes" in the US FTA system»*[224]. Therefore, after long debates in the second half of 1990, Canada chose to engage in a regional trade pact.

In this sense, with the creation of the FTA, President Bush laid the foundation for the North American Free Trade Agreement, a trilateral agreement signed by the United States, Canada and Mexico, which, as reported by Nocera, has been described as one of the greatest achievements of his administration[225]. Washington created an association that enhanced economic and political obligations among its main trade and economic partners. Although Congress was showing resistance, after some months of hesitation, on February 1991, President Bush proclaimed that the three countries would began negotiations on NAFTA.

As a matter of fact, on June 12 of the same years, trilateral negotiations started in Toronto. Although at first NAFTA negotiation began with *tabula rasa*, the Canada-US FTA represented a significant model and source of influence for the new accord[226]. In fact, 19 negotiating groups were put to work and then merged in six categories, as follows:

---

[222] *Ivi*. P. 4.

[223] The Enterprise for the Americas Initiative (EAI) was created in 1990, with the aim of expanding investments in as well as providing debt relief to countries in Latin America and the Caribbean. The three components of the EAI are: the development of free-trade agreements, including the North American Free Trade Agreement (NAFTA); a US$1.5 billion grant fund to support the implementation of investment reform programs; and a program of official debt relief. https://www.usaid.gov/biodiversity/TFCA/enterprise-for-the-americas-initiative (cited on 15 November 2017).

[224] Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994. P.24.

[225] Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005. P. 107.

[226] Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994. P. 24.

1. Market access: tariffs and nontariff barriers; rules of origin; government procurement; agriculture; automobiles; other industrial sectors.
2. Trade rules: safeguards; subsidies, countervailing and antidumping duties; standards; health and safety; industrial.
3. Services: principles of services; financial; insurance; land transportation; telecommunications; other services.
4. Investment (principle and restrictions).
5. Intellectual property.
6. Dispute settlement.

Thus, one year later, NAFTA was created, promoting the emergence of a free trade area between the partners through the elimination of trade duties, tariffs and barriers. However, *«even before the talks started, the process of crafting a North American Free Trade Agreement (NAFTA) was transformed from an incremental approach of melding separate bilateral FTAS between individual countries into a full-fledged trilateral negotiation»*[227].

In Bush's words, pronounced during his speech before signing the treaty in December 17, 1992, *«by signing the North American free trade agreement, we've committed ourselves to a better future for our children and for generations yet unborn. This agreement will remove barriers to trade and investment across the two largest undefended borders of the globe and link the United States in a permanent partnership of growth with our first and third largest trading partners»*[228]. However, in some specific sectors such as agricultural products, tariffs would have been removed only after fifteen years.

According to the republican administration, NAFTA was supposed to represent *«the first giant step towards fulfillment of a dream that has long inspired us all, the dream of a hemisphere united by economic cooperation and free competition. Because of what we have begun here today, I believe the time will soon come when trade is free from Alaska to Argentina; when every citizen of the Americas has the opportunity to share in new growth and expanding prosperity»*[229].

Moreover, he also shared his hopes for the extension of the agreement also to Chile, other great partners in South America, Central America and the Caribbean.

[227] *Ivi.* P. 3.
[228] Bush, G.H.W. *Remarks on Signing the North American Free Trade Agreement.* December 17, 1992. Online by Peters, G. and Woolley, J.T. *The American Presidency Project*. At http://www.presidency.ucsb.edu/ws/?pid=21784 (cited on 15 November 2017).
[229] *Ibidem*.

Nonetheless, during his presidency, he did not manage to go any further the Mexican borders. On the other hand, the approval of the agreement had given rise to a lively debate at home and to a strong opposition both by small businesses and, mostly, trade unions, that feared a large loss of jobs due to cheaper labor costs of Mexico. For these reasons, NAFTA soon became one of the most burning and controversial issue of the presidential competition of 1992, in which, by the way, the democratic candidate Bill Clinton upheld NAFTA's ratification with extreme prudence, saying in a speech at North Carolina State University that *«the agreement should be part of a larger economic strategy designed to raise the incomes of American workers. If it is not done right, however, the benefits of the agreement are far less clear»*[230].

As a matter of fact, after being inaugurated as the 42nd President of the United States on January 20, 1993, Clinton endorsed the agreement and, during the signing ceremony held on September 14 of the same year, together with former presidents Gerald Ford, Jimmy Carter, and George H.W. Bush, he signed NAFTA's supplemental agreements. In his speech prior to the signing these side agreements, he enthusiastically endorsed the program, saying *«I will sign three agreements that will complete our negotiations with Mexico and Canada to create a North American Free Trade Agreement. In the coming months I will submit this pact to Congress for approval (…) And though the fight will be difficult, I deeply believe we will win. And I'd like to tell you why. First of all, because NAFTA means jobs, American jobs and good-paying American jobs. If I didn't believe that, I wouldn't support this agreement»*[231]. Clinton called for his fellow Americans, not to fear change, arguing that *«when you live in a time of change the only way to recover your security and to broaden your horizons is to adapt to the change, to embrace it, to move forward (…) The only way we can recover the fortunes of the middle class in this country so that people who work harder and smarter can at least prosper more»*[232]. In this sense, the issue about NAFTA lies on *«whether we will embrace these changes and create the jobs of tomorrow, or try to resist these changes, hoping we can preserve the economic structures of yesterday. I tell you, my fellow Americans, that if we learned*

[230] "The 1992 Campaign: The Democrats; With Reservations, Clinton Endorses Free-Trade Pact", *The New York Times*, 05/10/1992. http://www.nytimes.com/1992/10/05/us/1992-campaign-democrats-with-reservations-clinton-endorses-free-trade-pact.html?pagewanted=all (cited on 15 November 2017).

[231] Clinton, W.J: *Remarks at the Signing Ceremony for the Supplemental Agreements to the North American Free Trade Agreement.* September 14, 1993. Online by Peters G. and Woolley, J.T. *The American Presidency Project*. At http://www.presidency.ucsb.edu/ws/?pid=47070 (cited on 15 November 2017).

[232] *Ibidem*.

anything from the collapse of the Berlin Wall and the fall of the governments in Eastern Europe, even a totally controlled society cannot resist the winds of change that economics and technology and information flow have imposed in this world of ours. That is not an option. Our only realistic option is to embrace these changes and create the jobs of tomorrow»[233]. In this regard, Clinton affirmed to believe that *«NAFTA will create 200,000 American jobs in the first 2 years of its effect. (...) I believe that NAFTA will create a million jobs in the first 5 years of its impact. And I believe that that is many more jobs than will be lost, as inevitably some will be, as always happens when you open up the mix to a new range of competition»*[234].

However, on the same day, Press Secretary Margaret Jane Dee Dee Myers clarified that, due to a staff error, the President incorrectly stated that NAFTA would create 1 million new jobs over five years. As issued in the statement, NAFTA was supposed to create 200,000 new export-related jobs in the first two years after its entry into force. Moreover, by 1995, 900,000 US jobs would have depended on exports to Mexico. NAFTA, in this sense, would have helped to secure those jobs, and trade with Mexico to create even more jobs in the future years.

Anyway, NAFTA would have created these jobs, as he said, by encouraging an export boom to Mexico, through the removal of tariff walls, that, by the way, had already been slightly lowered by the then Mexican administration of President Salinas de Gortari, but were still higher than those in America. Moreover, to those who were worried that the accord would have inevitably moved jobs south of the border where differences in wage rates were huge, he answered that, among 19 trustworthy economic studies on NAFTA, only one had likely considered job losses. In addition, president Clinton underlined that *«businesses do not choose to locate based solely on wages. If they did, Haiti and Bangladesh would have the largest number of manufacturing jobs in the world. Businesses do choose to locate based on the skills and productivity of the work force, the attitude of the government, the roads and railroads to deliver products, the availability of a market close enough to make the transportation costs meaningful, the communications networks necessary to support the enterprise. That is our strength, and it will continue to be our strength»*[235].

The side agreements signed that day regarded specific provisions that removed

[233] *Ibidem*.
[234] *Ibidem*.
[235] *Ibidem*.

some incentives for people to move their jobs just across the border, which was supposed to make it harder to relocate businesses because of very low wages or lax environmental rules, as well as to apply trade sanctions against any of those countries that did not enforce its own environmental rules.

The second agreement made sure that Mexico would have implemented its laws in sectors that included worker health and safety, child labor and minimum wage. This would have implied the closing of the gap between wage rates of the United States and Mexico. In turn, earning more money, Mexican people would have spent more to buy even more American goods and, consequently, illegal immigration would have decreased because they would have had the possibility to support their own children at home.

As far as the third agreement is concerned, it was supposed to protect American industries against unforeseen surges in exports from either one of its trading partners.

Finally, other than the creation of new jobs, Clinton added other reasons why, according to him, the ratification of NAFTA was so crucial. As he stated, *«NAFTA is essential to our long-term ability to compete with Asia and Europe. (…) This pact will create a free trade zone (…), the largest in the world, a $6.5 billion market with 370 million people. It will help our businesses to be both more efficient and to better compete with our rivals in other parts of the world. This is also essential to our leadership in this hemisphere and the world. Having won the Cold War, we face the more subtle challenge of consolidating the victory of democracy and opportunity and freedom»*[236].

Moreover, in October 1993, a month ahead of the vote in Congress, in one of his radio addresses, president Clinton pointed that *«with NAFTA, our products will have easier access to Canada and the second fastest growing market in the entire world, Latin America. Without NAFTA, one of our best markets, Mexico, could turn to Japan and Europe to make a sweetheart deal for trade. With NAFTA, we'll be creating the biggest trading bloc in the world right at our doorstep and led by the United States. Without NAFTA, Mexico could well become an export platform allowing more products from Japan and Europe into America»*[237].

In the end, in November 1993, the agreement received congressional endorsement,

[236] *Ibidem*.

[237] Clinton, W.J. *The President's Radio Address.* October 16, 1993. Online by Peters, G. and Woolley, J.T. *The American Presidency Project*. http://www.presidency.ucsb.edu/ws/?pid=47215 (cited on 15 November 2017).

with 234 votes in favor and 200 against in the House of Representatives, whereas 61 votes in favor and 38 against in the Senate[238]. NAFTA, that entered into force on January 1, 1994, *«consolidated with 75% of hemispheric trade, has been the "model" and initial leader of the FTAA hemispheric integration process»*[239].

As one can well imagine, the United States, Canada and Mexico had different arguments and objectives to achieve in engaging in such an Agreement. Let's look at them more carefully.

NAFTA's national objectives

- *United States: considerable economic interests*

At the vastest degree, the United States manifested its interest in the promotion of economic growth, political stability and democratic process in Mexico[240]. In fact, a reduced risk of instability on its southern border would have brought considerable advantages to the United States. However, the United States had also significant economic interests in trade with its southern neighbor. Primarily, it wanted to simply boost trade with Mexico, which, at the time, was its third-largest trading partner[241]. More importantly, an agreement like NAFTA would have favored the effective use of human and natural resources in North American territory, hence enabling US workers and firms to better compete in global markets.

On the other, NAFTA would have fostered economic growth in Mexico, which, in turn, would have meant a demand growth for US products and services. What is more, signs of growth in Mexican economy would have created new jobs and higher wages in Mexico, eventually reducing illegal immigration.

In its entirety, the static beneficial effects for the United States from the removal of Mexican trade barriers would have been *«small but not inconsequential. This reflects the fact that the Mexican economy today is relatively small, with a GDP less than 4 percent that of the US economy. In addition, US exporters have already reaped some of the benefits to be derived from lower Mexican trade barriers as a result of the substantial trade reforms that Mexico has embraced unilaterally since 1985»*[242].

---

[238] Cox, M. and Stokes, D. *US Foreign Policy*. 2nd ed. Oxford: Oxford University Press, 2012. P. 91.

[239] Lewis, E.D. *The Hemispheric dynamics of integration*. Revista Pensamiento Propio/CRIES. (8) October-December 1998, Nicaragua. P. 41.

[240] Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994. P. 10.

[241] *Ivi.* P. 11.

[242] *Ibidem*.

Nonetheless, a NAFTA would have guaranteed and enhanced trade liberalization reforms, thus ensuring a continuity for US trading interests.
Moreover, NAFTA would have contributed to quick growth in Mexican employment and income rates. In this sense, a flourishing Mexico would have led to a boost in US export market.

- *Canada: defensive move but also commitment to improve the FTA*

To a certain degree, Canada has been defined as a «*reluctant partner in the NAFTA negotiations*»[243]. Nevertheless, Canada appeared to be much more concerned about economic rather than sovereignty issues. In fact, its fears on free trade with the United States and Mexico highlighted the distress towards the possibility of structural adjustments in the economy, with the consequent implication that these reforms would have generated for expensive public programs. Indeed, free trade systems forces a country to carefully analyze the costs that its microeconomic and macroeconomic policies would entail to individual firms. Although not demanding convergence on domestic policies, this system provides for the emergence of new competitive forces with the territory, so that pressure for convergence would have increased.
In addition, historically, Canada has always had a relevant role in the development process of international trading system. Thus, one of the driving reasons for Canada to pursue NAFTA negotiation was to maintain that kind of status.
Furthermore, another factor lies on the need to avoid the undermining of its FTA preferences on US market, as well as to gain Mexican market as much as what US competitor would have. In other words, Canada's head minister's decision to enjoy NAFTA can be described from an economic standpoint, both as a defensive move to protect the interests of the Canada-US FTA, but even as a commitment to better the FTA in order to foster export opportunities. Interests were also in preserving its position in the Canada-US FTA in sectors like trade in automobiles and energy, as well as in ensuring that dispositions that exempt Canadian cultural industries from FTA reforms would have remained unaffected.
Moreover, as pointed out, engaging in free trade with Mexico, Canada – and so the United States – needed to reconsider its labor adjustment assistance policies. In the

[243] *Ivi.* P. 19.

majority of cases, Canada was likely to receive competitive pressures in the same sectors as the United States. Some, instead, would have affected industries only partially touched by the Canada-US FTA, such as apparel, textiles and auto parts. In fact, even if *«the overall adjustment burden posed by a NAFTA will be much more limited than that posed by the FTA, it will be concentrated in these import-sensitive sectors»*[244]. Together with the United States, Canada needed to put much effort in integrating income maintenance programs concerning requalification and employment services.

- *Mexico: hopes for a better future*

Mexico's objectives seemed quite clear and specific. Certainly, a Free Trade Agreement with the United States would have fostered more secure and open access to the US market, which accounted for three-quarters of total Mexican exports[245]. Therefore, a NAFTA was likely to decrease US protectionist attitude and thus boost Mexican exports opportunities in the US market. Moreover, an international commitment under NAFTA, coupled with potential GATT accords, would have helped locking in internal Mexican reforms instituted since 1985.

The new trading arrangement was thought to confront Mexican industry with international competition and to enhance greater efficiency. Notwithstanding, the effects were deliberately postponed due to a heavily depreciated peso. In fact, between the beginning of 1985 and the end of 1986, Mexican pesos were devalued by 27% in real terms[246].

Consequently, trade liberalization surge did not promptly lead to an import boom, and Mexican industry ended up being isolated from structural adjustments.

Moreover, with the securing and expansion of economic reforms in Mexico, a NAFTA would have represented a positive signal that Mexico's favorable climate toward trade and investment will not easily be undone. This confidence would have encouraged foreign direct investments inflows, repatriation of outflow of capitals and new funding from international financial institutions. As a matter of fact, the open trade policy of Mexico highly depended both on its ability to sustain inflows of foreign direct investment and on the outflow of capital needed to fix its external debt. Indeed, both needed Mexico to preserve its economic stabilization

[244] *Ivi.* P. 21.
[245] *Ivi.* P. 12.
[246] *Ibidem*.

plan to keep inflation under control and to prevent a drastic depreciation of the peso.

In this sense, *«since the introduction of economic stabilization and trade liberalization programs in 1985, the stock of foreign direct investment in Mexico has more than doubled, to a level of $30.3 billion at the end of 1990»*[247]. In fact, its great performance at the end of the 1980s and the probable partnership in NAFTA seemed to have fostered new investors.

In other words, thanks to economic stabilization policies, trade reforms served for monetary and fiscal policy. Its trade reforms contributed to drastically reduce public deficit and to keep inflation rates under control, by opening the system to a stronger import competition. This, in turn, supported the discourage of inflationary pressures while bringing further competition in the market-place. The main task of policymakers during the 1990s was to maintain inflation under control, while enhancing restructuring policies of growth. In this context, investments were surely the main factor of growth. On the other hand, even trade policy was supposed to play a fundamental role by providing continuity to those measures already implemented to expand Mexican economy in international competition and by ensuring reciprocal trade concessions from Mexico's main trading partner.

[247] *Ibidem*.

CHAPTER TWO

RISING DOUBTS AND CRITICISMS BETWEEN SUPPORTERS AND OPPONENTS OF NAFTA

As already mentioned before, NAFTA carried with itself an innovative nature, representing an experiment and constituting a completely new trade agreement model, different from others signed in the past. As a matter of fact, it broke the boundaries of prior US trade accords, which had focused restrictively on phasing out tariffs and reducing quotas, and generated protections and new privileges for foreign investors that favored the offshoring of investments and jobs' delocalization by removing many of the risks usually resulting from moving the production to low-wage countries. What is more, NAFTA provided private foreign investors with the possibility to directly pursue domestic policies and actions before foreign tribunals, requiring government compensation for policies they considered as undermining their expected future profits.

After twenty-three years of NAFTA's implementation, the agreement has given rise to significant doubts and criticisms about its actual effectiveness in improving living standards and fostering economic benefits of US citizens, thus leading opponents to argue that those promises made during negotiation talks by its advocates are not being delivered at all or failing to materialize.

A Public Citizen's Global Trade Watch report elaborated in 2014 says that *«in 1993, the North American Free Trade Agreement (NAFTA) was sold to the American public with grand promises. NAFTA would create tens of thousands of good jobs here. US farmers would export their way to wealth. NAFTA would bring Mexico's standard of living up, providing new economic opportunities there that would reduce immigration to the United States»*[248]. In addition, the report wrote that *«NAFTA supporters' warnings about the chaos that would engulf Mexico, and a new wave of migration from Mexico, if NAFTA was not implemented have indeed come to pass, but ironically because of the devastation of many Mexicans' livelihoods occurring, in part, because NAFTA* was[249] *implemented»*[250]. However, the report added, *«20 years of*

[248] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement*. P. 1. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.

[249] In italics in the original text.

[250] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014, p. 2. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

living with NAFTA has created deep default skepticism among Americans about trade agreements»[251]. Moreover, according to the data provided by this abovementioned analysis, not only millions of people have experienced job losses, wage stagnation, and economic instability from the agreement, with many consequent environmental, health and other public interest policies jeopardized, but also consumer safeguards – key food safety protections included – would have been cancelled.

About trade deficit

Before going through some specific data on this issue, it is worth to observe how the cited Public Citizen's Global Trade Watch report objects the veracity of the official data on the trade deficit of NAFTA[252] on the basis of some statistical considerations, defining the methodology adopted by other sources as «*comparing apples and oranges»*[253]. For example, the real trade deficit would be underestimated, on the ground that *«the US Chamber of Commerce errantly claims that the United States has a trade surplus with FTA nations by counting foreign-made goods as "US exports." Their data include "foreign exports" – goods made elsewhere that pass through the United States without alteration before being re-exported abroad. Foreign exports support zero US production jobs and their inclusion artificially diminishes real FTA deficits»*[254]. The consequences of such recalculation are shown in **Table 5**[255] from which emerges a trade deficit of NAFTA slightly higher than the official one.

The year before NAFTA's implementation, in 1993, US goods trade deficit with Canada was at $29.6 billion and the surplus with Mexico was at $2.5 billion, whereas already by 2013, the Public Citizen's Global Trade Watch report accounted for *«combined NAFTA trade deficit of $182.1 billion by 2014»*[256]. This

[251] *Ibidem*. This was the sentiment on which Trump has likely leveraged to withdraw the United States from the Trans-Pacific Partnership (TPP), freeze the talks on the Transatlantic Trade and Investment Partnership (TTIP) and demand the revision of NAFTA.

[252] And not only that: according to this study, in fact, in 2015, the United States registered a $ 178 billion goods trade deficit with its 20 Free Trade Agreement (FTA) partners. As a result, it has been registered a dramatic job loss due to these accords. See Public Citizen's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression.* August 2015. P. 1. https://www.citizen.org/sites/default/ files/prosperity-undermined.pdf.

[253] *Ivi.* P. 10.

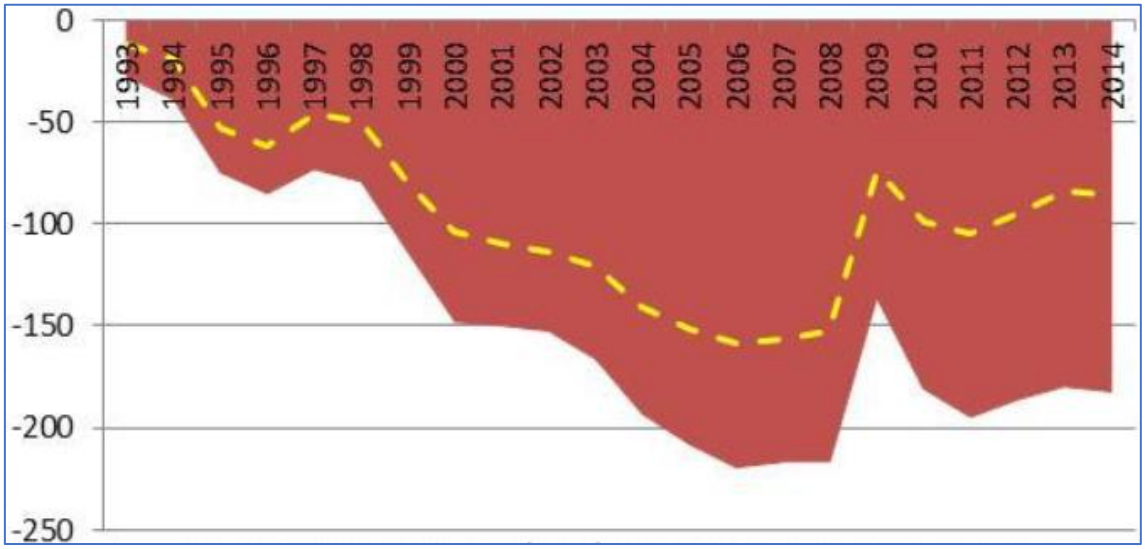
[254] *Ibidem*.

[255] *Ibidem*. As Public Citizen's Global Trade Watch's Global Trade Watch report points out: *«Real NAFTA trade deficit twice as large as version distorted by foreign exports»*.

[256] *Ivi*. P. 13.

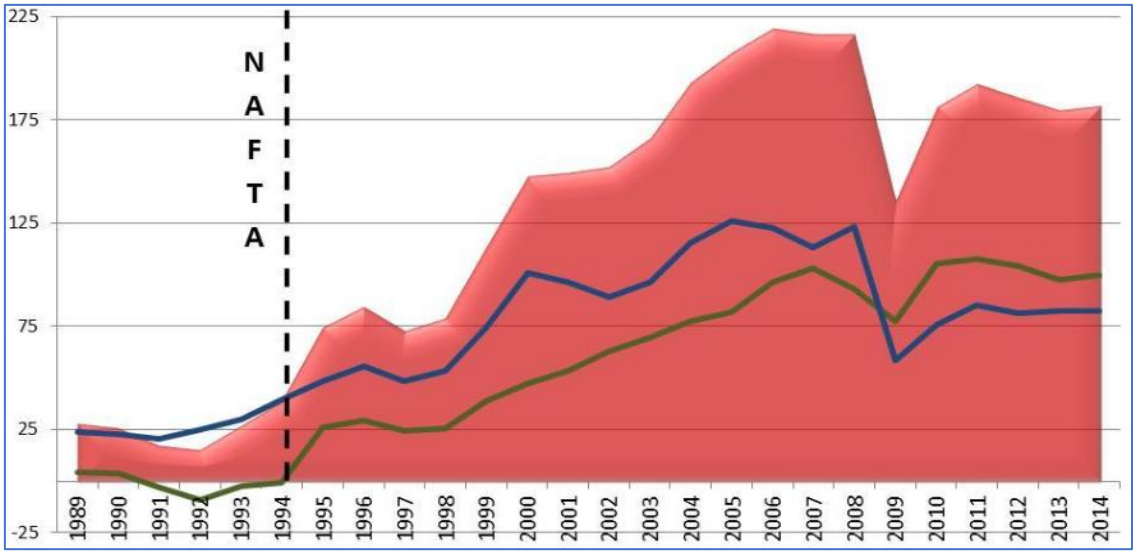
represents an increase in the NAFTA deficit of 565%. Moreover, being inflation-adjusted numbers, the difference is not due to inflation, but to an increase in the deficit in real terms (**Table 6**)[257].

Table 5. Real US goods trade deficit with Mexico and Canada (in USD billions).



Source: US International Trade Commission, US Census Bureau.
Note: the red area indicates the actual NAFTA trade deficit; the area delimited by the yellow line indicates the NAFTA deficit with foreign exports counted as "US exports".

Table 6. US trade deficit with Mexico and Canada (in USD billions adjusted for inflation).



Note: the red area indicates combined NAFTA trade deficit; the green line indicates the US trade deficit with Mexico; the blue line indicates the US trade deficit with Canada.

As underlined in the report, US trade deficit with its two NAFTA partners has worsened significantly more than the one with countries non-member of NAFTA or of any other NAFTA-style accords. Moreover, since NAFTA and up to 2014, the annual growth of US trade deficit has been 45% higher with Mexico and Canada

[257] *Ivi*. P. 16. As Public Citizen's Global Trade Watch's Global Trade Watch report comments: *«NAFTA trades deficit surges 565%».*

than with non-member countries to a NAFTA-style US trade pact[258]. NAFTA's supporters believe that the NAFTA deficit is only due to fossil fuel oil imports. Even though fossil fuel held a considerable share of trade deficit with Canada and Mexico, fossil fuel portion of trade deficit with Canada and Mexico actually dropped from 82% in 1993 to 49% in 2014[259]. Indeed, non-oil deficit with Canada and Mexico has grown to an even greater degree than total deficit, multiplying more than 19-fold since NAFTA's entry into force[260].

Another common claim of NAFTA defenders is simply that US trade with Mexico and Canada has increased under NAFTA, as can be seen by the report of the US Chamber of Commerce released for the 20th anniversary of the agreement: *«since NAFTA entered into force in 1994, trade with Canada and Mexico has risen three-and-half fold to $1.2 trillion, and the two countries buy about one-third of US merchandize exports. (…) Trade with Canada and Mexico supports nearly 14 million US jobs, and nearly 5 millions of these net jobs supported by the increase in trade generated by NAFTA, according to comprehensive economic study commissioned by the US Chamber»*[261]. Notwithstanding, what NAFTA promised was not merely an increase of the flow of goods across the borders of NAFTA partners, but also a growth in jobs and incomes.

What is at stake is the kind of trade that the accord has stimulated, but also the effects it has triggered on employment, real wages, social mobility and other practical realities. As a matter of fact, as registered by the US International Trade Commission and analyzed in the Public Citizen's Global Trade Watch report, *«nearly two-thirds (63 percent) of the increase in US trade with Canada and Mexico under NAFTA is due to import growth and only about one third (37 percent) owes to export growth»*[262]. Such imbalance encouraged the huge US trade deficit previously outlined and helped a degradation of US job quality and a growth in US income disparity. Trade effects cannot be blurred by putting the spotlight on the raw quantity of trade. Furthermore, the rapid increase of US trade deficit with China since it entered the WTO in 2001 has also had a crippling impact on US workers.

---

[258] *Ivi.* P. 14.

[259] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*. August 2015. P. 14. https://www.citizen.org/sites/default/files/prosperity-undermined.pdf.

[260] *Ibidem*.

[261] US Chamber of Commerce. *NAFTA Triumphant: Assessing Two Decades of Gains in Trade, Growth, and Jobs*. 2015. P. 1. https://www.uschamber.com/sites/default/files/documents/files/nafta_triumphant_updated_2015.pdf.

[262] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014, P. 7. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

Indeed, since China joined the WTO, US goods trade deficit with the country thereof has risen from $112 billion to $350 billion[263]. An Economic Policy Institute research has estimated that *«growing US goods trade deficit with China has the United States piling up foreign debt, losing export capacity, and losing jobs, especially in the vital but under-siege manufacturing sector. Growth in the US goods trade deficit with China between 2001 and 2013 eliminated or displaced 3.2 million US jobs, 2.4 million (three-fourths) of which were in manufacturing. These lost manufacturing jobs account for about two-thirds of all US manufacturing jobs lost or displaced between December 2001 and December 2013»*[264].

As a matter of fact, a study conducted by the National Bureau of Economic Research proved the existence of a *«link between the sharp drop in US manufacturing employment beginning in 2001 and a change in US trade policy that eliminated potential tariff increases on Chinese imports. Industries where the threat of tariff hikes declines the most experience more severe employment losses along with larger increases in the value of imports from China and the number of firms engaged in China-US trade. These results are robust to other potential explanations of the employment loss, and we show that the US employment trends differ from those in the EU, where there was no change in policy»*[265].

In addition, another National Bureau of Economic Research study has explored the contribution of the rapid increase of imports competition from China to the slow US employment rise: *«we find that the increase in US imports from China, which accelerated after 2000, was a major force behind recent reductions in US manufacturing employment and that, through input-output linkages and other general equilibrium effects, it appears to have significantly suppressed overall US job growth»*[266].

A key claim of advocates of trade accords similar in style to NAFTA is that they boost the creation of new jobs by enhancing faster US export growth. On the

---

[263] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression.* August 2015. P. 12. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[264] Scott, R. and Kimball, W. *China Trade, Outsourcing and Jobs*. Economic Policy Institute, December 11, 2014. P. 2. http://www.epi.org/files/2014/bp385-china-trade-deficit.pdf.

[265] Pierce, J.R. and Schott, P.K. *The Surprisingly Swift Decline of US Manufacturing Employment*. National Bureau of Economic Research, Working Paper 18655. Cambridge, MA. December 2012. P. 2. https://www.usitc.gov/research_and_analysis/documents/Pierce%20and%20Schott%20-%20The%20Surprisingly%20Swift%20Decline%20of%20US%20Manufacturing%20Employment_0.pdf.

[266] Acemoglu, D., Autor, D., Dorn, D., Hanson, G.H. and Price, B. *Import Competition and the Great US Employment Sag of the 2000s*. National Bureau of Economic Research, Working Paper 20395. Cambridge, MA. August 2014. http://www.nber.org/papers/w20395.pdf.

contrary, data registered show that the growth of all US exports to countries not FTA partners has overcome all US export growth to countries that are FTA partners by 30% over the last decade. In particular, US manufacturing and services exports *«grew slower after NAFTA took effect. Since NAFTA's enactment, annual growth in US manufacturing exports to Canada and Mexico has fallen 62 percent below the annual rate seen in the years before NAFTA. Even growth in services exports, which were supposed to do especially well under the trade pact given a presumed US comparative advantage in services, dropped precipitously after NAFTA's implementation. Annual growth of US services exports to Mexico and Canada since NAFTA has fallen 49 percent below the pre-NAFTA rate»*[267].

Jobs and wages trends

Before NAFTA ratification, various studies tried to predict the effects of the agreement on employment. When NAFTA was still in the middle of its debating stage, President Clinton was projecting an *«export boom to Mexico»*[268]. In addition, a study elaborated by Hufbauer and Schott of the Peterson Institute for International Economics (PIIE) – supporters of the agreement – predicted by 1995, an increase of US trade surplus with Mexico of about $7 billion to $9 billion annually, and to $9 billion to $12 billion between the 2000 and 2010[269]. In particular, they estimated that NAFTA would lead to a rising US trade surplus with Mexico, which would create 170,000 net new jobs in the United States within the Pact's first two years[270]. Hufbauer and Schott built their expectations on the observation that when export growth exceeds growth of imports, jobs generated by trade are more than those that are destroyed by trade[271]. However, this spirit of change did not last for long. Rather than a fostered trade balance with Canada and Mexico, NAFTA resulted in a burst of imports from Mexico and Canada which led to enormous US trade deficits. According to Hufbauer and Schott's own methodology,

[267] Public Citizen's Global Trade Watch's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. P. 8. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.
[268] Clinton, W.J. *Remarks at the Signing Ceremony for the Supplemental Agreements to the North American Free Trade Agreement*. September 14, 1993. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=47070.
[269] Hufbauer C.G. and Schott J.J. *NAFTA: An Assessment*. Washington, D.C.: Institute for International Economics, 1993.
[270] Calculated by multiplying projected US net exports to Mexico by Department of Commerce estimates of jobs supported per billion dollars of exports. See: Hufbauer, G.C. and Schott, J.J. *NAFTA Revisited: Achievements and Challenges*. Institute for International Economics, October 2005. P. 81.
[271] *Ibidem*. P. 14.

«these deficits meant major job loss»[272]. After barely two years Hufbauer realized that the effect of NAFTA on employment was close to zero. He also admitted *«the lesson for me is to stay away from job forecasting»*[273].

As Shaiken underlined some years later, *«the actual results have been very different»*[274]*.* Only ten years after NAFTA, in 2004, The Economic Policy Institute (EPI) estimated that the growing US trade deficit with NAFTA partners since the agreement entered into force had already phased out about one million net jobs in the United States: *«growth of exports to Mexico and Canada since NAFTA took effect supported domestic production that maintained or created 941,459 US jobs. However, the growth of imports displaced domestic production that supported 1,956,750 jobs. Changes in trade thus resulted in a net displacement of 1,015,290 job opportunities between 1993 and 2004, including 560,000 due to growing trade deficits with Mexico, and 456,000 with Canada»*[275].

Moreover, EPI analyzed that around one-third of the jobs lost because of the rising trade deficit under NAFTA's first ten years were in non-manufacturing sectors of the economy, including the service sector, which suffered since closed factories no longer demanded services. The study also calculated that the growing trade deficit with Mexico alone aroused about seven hundred thousand net US jobs between 1994 and 2010: *«US exports to Mexico in 2010 supported 791,900 jobs, but US imports displaced production that would have supported 1,474,800 jobs (…) Therefore, the $97.2 billion US trade deficit with Mexico in 2010 displaced 682,900 jobs. Since the United States had a small trade surplus in 1993 (…), all of those jobs were displaced between 1993 and 2010. On average, 40,200 jobs have been lost or displaced per year since NAFTA took effect»*[276]. In addition, this toll has likely increased since 2010, as the non-oil US trade deficit with Mexico has further improved. Much of the job erosion resulted from the decisions of US firms to encompass NAFTA's new foreign investor privileges and relocate production to Mexico, taking advantage of its lower wages and weaker environmental

---

[272] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 6. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[273] Lee, M.T. *False Prophets, The Selling of NAFTA*, Economic Policy Institute. July 1995. P. 11. https://secure.epi.org/files/page/-/old/briefingpapers/falsep_bp_1995.pdf.

[274] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. P. 37. https://clas.berkeley.edu/research/trade-nafta-paradox.

[275] Scott, R.E., Salas, C. and Campbell, B. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper 173. September 28, 2006. P. 9. https://secure.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.

[276] Scott, R.E. *Heading South: US-Mexico trade and job displacement after NAFTA*. Economic Policy Institute Briefing Paper 308, May 2011. P. 7. http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_displacement_after_nafta1/.

standards[277]. Moreover, *«nearly 5 million US manufacturing jobs (…) have been lost since the establishment of NAFTA, the WTO and NAFTA expansion deals. Since NAFTA took effect, more than 55,000 US manufacturing facilities have closed. The US manufacturing sector has long been a source of innovation, productivity, growth and good jobs. But by 2014, manufacturing accounted for less than 9 percent of the US workforce for the first time in modern history»*[278].

With the increase of prices for basic consumer goods exceeding wage increases, real wages in Mexico have dropped below pre-NAFTA levels. Despite promises that NAFTA would have benefitted Mexican consumers by ensuring access to cheaper imported goods, the cost of basic consumer products in the southern region has increased to seven times the pre-NAFTA level, whilst the minimum wage amounts to only four times the pre-NAFTA level[279]. As a result, in 2013, a minimum wage earner in Mexico could buy 38% fewer consumer products as on the day NAFTA was implemented[280].

Table 7[281] represents the evolution of real (inflation-adjusted) wages in Mexico from 1994 to 2014. To 1994-1996 corresponds a drop in real wages of 21.2%, related to the peso crisis and recession. Moreover, wages did not experience a recovery to their pre-crisis level – 1994 – until eleven years later, in 2006. By 2014, they were only 4.1% above the 1994 level, and barely higher than their 1980 level. For the minimum wage, adjusted for inflation, it was even worse. From 1994 to 2015, it dropped by 19.3%[282]. A study elaborated by the Economic Policy Institute has analyzed that inflation-adjusted wages for almost all the categories of Mexican workers slowed over the first six years of the agreement. Employed women with basic education and employed men with advanced education were the categories that suffered the highest losses of real earnings, -16.1% and -15.6%, respectively. The only exception to the downward earnings trend is represented by wages for mobile street vendors, which rose significantly, at 2.8% per year from

[277] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*, August 2015. P. 13. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[278] *Ivi*. P. 11.

[279] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 21. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

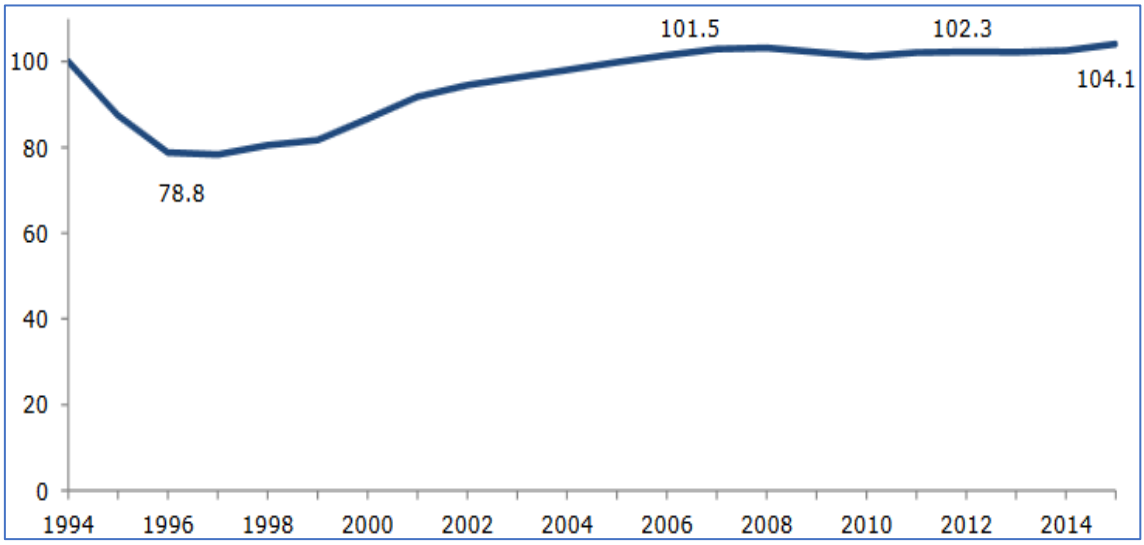
[280] Public Citizen's Global Trade Watch, *Failed Trade Policy & Immigration: Cause & Effect*. https://www.citizen.org/sites/default/files/failed-trade-policy-and-immigration_1.pdf. See also: http://www.sat.gob.mx/Paginas/Inicio.aspx for minimum wage data (cited on 15 November 2017).

[281] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 11. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.

[282] *Ibidem*.

1994 to 2000. However, even in this category, earnings were still below their levels of 1990, and only slightly better than their 1994 levels[283].

Table 7. Mexico: real average wages



Source: ECLAC (2014,2016a)
Note: Index 1994 = 100

Surely, not all these losses of US manufacturing jobs – one out of every four – are caused by NAFTA. The United States officially entered the WTO in 1995[284], whereas China joined in 2001. Since then, US trade deficit with China rocketed, thus enhancing manufacturing job loss[285].

Through the US Department of Labor's Trade Adjustment Assistance (TAA) program, the government is able to track some of the layoffs considered to have specifically occurred due to imports or offshoring. TAA is a restricted program, which only covers a subset of workers who have lost jobs to trade, excluding a part of the jobs directly relocated to Mexico or Canada. More than 930,000 specific US workers have been certified under TAA as losing their jobs to NAFTA[286]. Week after week, NAFTA supports corporations outsourcing more middle class jobs to Canada and Mexico. Nonetheless, the TAA program does not offer a comprehensive list of facilities or jobs that have been offshored or lost due to import competition. In fact, a report by the Peterson Institute for International Economics calculated that fewer than 10% of workers who lost their job position in industries, facing

[283] Salas, C. *Between Unemployment and Insecurity in Mexico: NAFTA Enters Its Second Decade*, in Scott, E.R., Salas, C. and Campbell, B. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper 173, September 28, 2006. P. 47. https://secure.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.
[284] However, the United States of America has been a member of GATT since 1948.
[285] To a state-by-state data erosion of manufacturing job losses since NAFTA's implementation and the entering into the WTO, see Public Citizen's Global Trade Watch's Global Trade Watch job loss map. http://www.citizen.org/job-loss-map.
[286] https://www.citizen.org/trade-adjustment-assistance-database.

strong import competition under NAFTA, received assistance under TAA. If, on the one hand, this program may underestimate the number of trade-related job losses, on the other, it is the only government program that provides information about job losses officially certified by the US government to be trade related. As a matter of fact, under TAA, more than 850,000 workers have been certified as having lost their jobs because of either imports from Canada and Mexico or the relocation of factories to those countries[287]. Moreover, the US government also attempted to identify specific jobs created by NAFTA rather than destroyed, establishing a US Department of Commerce program. However, after having discovered fewer than 1,500 specific jobs attributable to NAFTA, the program was closed considering its rather embarrassing findings[288].

Not only NAFTA supporters' promises of generating employment have remained unfulfilled, but also those promises made by big corporations, that have put pressure on NAFTA and claimed that it would have fostered their possibility to employ and would have reduced the need to relocate employment to Mexico and Canada, have broken. Indeed, since NAFTA's enactment, most of the promises of generating jobs did not turn into facts and numerous of these companies have actually transferred operations to Mexico and Canada.

For instance, as affirmed in a Public Citizen's Global Trade Watch report, *«Chrysler declared that if NAFTA passed, it would export 25,000 vehicles to Mexico and Canada by 1995, claiming that the sales would support 4,000 US jobs»*[289]. In real fact, since NAFTA's implementation the Company has phased out 7,108 US jobs explicitly certified under TAA as dismissed by growing imports from Canada and Mexico or decisions to move production to those countries[290], with thousands more trade-related job losses that do not specify a country. Not only *Chrysler*, but also *Caterpillar, Inc.* which affirmed that *«NAFTA would eliminate the incentive to move jobs to Mexico and that it would export more equipment. However, in 2008 Caterpillar laid off 338 workers at its Mapleton, Illinois facility as it shifted production to Mexico, while 105 workers were laid off from its Pendergrass, Georgia*

[287] To verify the full set of TAA-certified job losses – searchable by company, product, congressional district and city – visit Public Citizen's Global Trade Watch's Global Trade Watch TAA database at www.citizen.org/taadatabase.

[288] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA at Five: School of Real-Life Results, Report Card*. PC report, 1999. https://www.citizen.org/nafta-five-school-real-life-results-report-card.

[289] Public Citizen's Global Trade Watch, *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*, August 2015. P. 14. https://www.citizen.org/sites/default/files/prosperity-undermined.pdf.

[290] See: https://www.citizen.org/trade-adjustment-assistance-database.

facility due to rising imports from Mexico in the same year»[291]*; Siemens*, which *«made claims similar to* Caterpillar*'s, and yet it has eliminated over 1,500 US jobs while shifting production to Mexico»*[292]*;* and *Johnson and Johnson*, that *«promised that it would hire hundreds of US workers if NAFTA was approved, but it has ended up offshoring over 800 US jobs to Mexico and Canada since NAFTA went into effect»*[293]. In this perspective, **Table 8** summarizes some examples of corporations' unfulfilled promises of NAFTA employment growth.

Table 8. Specific corporate promises of NAFTA job gains *versus* actual outcomes.

Corporation	Promise	Reality
Chrysler	*«With the passage of NAFTA, Chrysler is planning to export 25,000 vehicles to Mexico and Canada by 1995 and 80,000 by the year 2000. The sales will support 4,000 US jobs by 1995, including Chrysler employees and US suppliers»*. In *NAFTA: We Need It: How US Companies View Their Business Prospects Under NAFTA,* National Association of Manufacturers, November 1993.	Chrysler has eliminated 17,757 US jobs due to imports or offshoring under NAFTA, including 7,108 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).
Fruit of the Loom	In a Senate floor speech on November 19, 1993, Sen. Mitch McConnell (R-Ky.) explained that he would be voting for NAFTA because *«American firms will not move to Mexico just for lower wages... without NAFTA, United States firms are more likely to move production to Mexico»*. He specifically cited *Fruit of the Loom*, stating *«This fine Kentucky firm, which is my State's largest private employer, expects to boost sales to Mexico under NAFTA and eventually create 1,000 new jobs»*. Congressional Record, November 19, 1993.	*Fruit of the Loom* has eliminated 12,155 US jobs due to imports or offshoring under NAFTA. That includes 2,936 job losses explicitly attributed to offshoring to Mexico or rising imports from Canada and Mexico (the remainder of the job losses do not specify the country). More than 3,600 of *Fruit of the Loom*'s trade-related layoffs have occurred in Kentucky.

[291] Public Citizen's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement*. P. 3. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.
[292] *Ibidem*.
[293] *Ibidem*.

General Electric	*«We are looking at another $7.5 billion in potential sales over the next ten years. These sales could support 10,000 jobs for General Electric and its suppliers. We fervently believe that these jobs depend on the success of this agreement»*. Michael Gadbaw, *General Electric*, before the House Foreign Affairs Committee, October 21, 1993.	*General Electric* has eliminated 11,675 US jobs due to imports or offshoring under NAFTA, including 6,135 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).
Caterpillar	*«The NAFTA would eliminate the incentive to move operations to Mexico... US companies would be better able to serve the Mexican market by exporting, rather than by moving production... Caterpillar estimates NAFTA-mandated tariff reductions – coupled with increased economic growth – would increase demand in Mexico by 250-350 units annually»*. In *The Impact of NAFTA on Illinois*, prepared for USA*NAFTA by the Trade Partnership, Washington D.C., June 1993.	*Caterpillar* has eliminated 3,270 US jobs due to imports or offshoring under NAFTA, including 738 job losses explicitly attributed to rising imports from Canada and Mexico or decisions to offshore production to those countries (the remainder of the job losses do not specify the country).

Sources: Public Citizen's Global Trade Watch. *NAFTA's Broken Promises: Failure to Create US Jobs*, January 1997; and for TAA-certified job losses, Trade Adjustment Assistance Database, 2014.

The offshorability

The National Bureau of Economic Research elaborated a study on the effects of trade US workers' wage taking into consideration the 2003-2008 period, in which there was growing import penetration, China joined the WTO, and increasing US multinational employment abroad. According to this study, the authors highlighted to have found considerable effects of globalization, with wage declines for US workers associated with both offshoring to low wage countries and imports: *«we present evidence that globalization has led to the reallocation of workers away from high wage manufacturing jobs into other sectors and other occupations, with large declines in wages among workers»*[294]. While other researchers have focused

[294] Ebenstein, A., Harrison, A. and McMillan, M. *Why are American Workers getting Poorer? China, Trade and Offshoring*. National Bureau of Economic Research; December 2015. At abstract. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.704.6665 &rep=rep1&type=pdf.

primarily on China's trade, the authors of the study wrote: *«we find that both imports and offshoring to China have led to wage declines among US workers (…) We also explore the impact of trade and offshoring on labor force participation rates. While offshoring to China has a negative impact on US labor force participation, other factors such as increasing computer use and substitution of capital for labor are significantly more important determinants of US employment rates across occupations»*[295].

Conducting econometric tests on wage and trade data from 1983 and 2008, the economists discovered that a 10% rise in an occupation's exposure to import competition was related to a more than 15% fall in wages for US workers making quite routine work. Moreover, they registered a closely 3% wage drop for US workers overall[296]. Alan S. Blinder, a former Federal Reserve vice chairman, Princeton economics professor and NAFTA-WTO advocate, and Alan Krueger, fellow Princeton economist and former Chairman of President Obama's Council of Economic Advisers, conducted a survey to determine the offshorability of each job in a random sample of US workers. They found out that under current US trade policy *«25% of US jobs are offshorable»*[297] in the near future. Moreover, they discovered that *«in terms of empirical findings, offshorability appears to be particularly prevalent in production work and in office and administrative jobs. By industry group, it is most common in manufacturing, finance and insurance, information services, and professional and technical services»*[298]. Moreover, according to their research, *«more educated workers appear to hold somewhat more offshorable jobs»*[299], hence meaning the United States could witness its best remaining jobs moving abroad[300].

As far as the decline in wages as a result of NAFTA, a Public Citizen's Global Trade Watch report[301] points out that trade influences the composition of jobs available in a given economy. The aggregated number of jobs available can be better

---

[295] *Ibidem*.

[296] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression.* August 2015. P. 19. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[297] VOX CEPR's Policy Portal, http://voxeu.org/article/twenty-five-percent-us-jobs-are-offshorable (cited on 5 December 2017).

[298] Blinder A. and Krueger A. *Alternative Measures of Offshorability: A Survey Approach*. Princeton University Center for Economic Policy Studies Working Paper No. 190. August 2009. P. 39. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.435.5708&rep=rep1&type=pdf.

[299] *Ibidem*.

[300] Bernstein, J., Lin, J. and Mishel, L. *The Characteristics of Offshorable Jobs*. Economic Policy Institute Report. November 2007. https://secure.epi.org/files/page/-/old/datazone/characteristics_of_offshorable_jobs.pdf.

[301] Public Citizen's Global Trade Watch'S Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

described by fiscal and monetary policy, effects of crisis and other macroeconomic realities. As a matter of fact, *«the United States has lost millions of manufacturing jobs during the NAFTA era, but overall unemployment has been largely stable (excluding the fallout of the Great Recession) as new low-paying service sector jobs have been created»*[302].

NAFTA's advocates augment the amount of jobs to assert that the agreement has not damaged US workers. However, according to Public Citizen's Global Trade Watch, what they do not point out is that the quality of jobs at disposal and the wages most US workers can earn, have been downgraded.

In fact, according to the analysis of the US Bureau of Labor Statistics, two out of every three dismissed manufacturing workers who were rehired in 2012 suffered a wage reduction. What is more, two out of every five displaced manufacturing workers experienced a pay cut of more than 20%[303]. For the average manufacturing worker earning more than $47,000 per year, this meant an annual loss of at least $10,000[304].

In particular, according to the US Census Bureau, US workers without college degree, which represent the 63% of the workforce[305], have likely lost an amount equal to 12.2% of their wages under NAFTA-style trade, even after accounting for the benefits of cheaper goods. That means a net loss of more than $3,300 per year for a worker earning the median annual wage of $27,500[306].

To the extent that such displacement provokes wage reductions not only for former manufacturing workers, it also does it for existing service sector workers. In fact, the report of Public Citizen's Global Trade Watch underlines that, *«as increasing numbers of workers displaced from manufacturing jobs have joined the glut of workers competing for non-offshorable, low-skill jobs in sectors such as hospitality and food service, real wages have also fallen in these sectors under NAFTA»*[307].

---

[302] *Ivi*. P. 10.

[303] US Bureau of Labor Statistics. *Displaced Workers Summary - Table 7. Long-tenured displaced workers (1) who lost full-time wage and salary jobs and were reemployed in January 2016 by industry of lost job and characteristics of new job.* August 25, 2016. https://www.bls.gov/cpi/ (cited on 5 December 2017).

[304] *Ibidem*.

[305] The share of workforce without a college degree comes from US Census Bureau. *Educational Attainment in the United States: Table 2. Educational Attainment of the Population 25 Years and Over, by Selected Characteristics: 2016.* https://www.census.gov/data/tables/2016/demo/education-attainment/cps-detailed-tables.html (cited on 5 December 2017).

[306] Baker, D. and Weisbrot, M. *Will New Trade Gains Make Us Rich?* Center for Economic and Policy Research (CEPR) Paper, October 2001. http://cepr.net/documents/publications/trade_2001_10_03.pdf.

[307] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 11. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

In fact, many supporters of NAFTA-style trade agreements are aware that they will provoke some US job losses. However, meanwhile, they suggest that US workers still find themselves in an overall winning position as they are able to purchase cheaper goods imported from abroad.

Notwithstanding, experts believe that, firstly, this promise has remained unfulfilled for several crucial commodities, such as food, whose average nominal price of food in the United States has increased *only* by 67% since NAFTA's implementation, although price of imported foodstuff from Canada and Mexico has risen by 239%[308].

Secondly, the reductions occurred in other consumer goods prices have not been enough to compensate wage losses under NAFTA. The Center for Economic and Policy Research has analyzed that, when comparing lower prices of cheaper goods and the income lost from low-wage competition under current trade policy, trade-related losses in wages are higher than the gains in cheaper goods for most of the US workers.

Growing inequality

Thus, the change in employment from high-paying manufacturing jobs to low-paying service jobs has played a part in overall wage stagnation. The average US wage has grown less than one percent annually in real terms since NAFTA was implemented even if worker productivity has increased at more than three times that rhythm[309]. Since disparities are rising, the average US wage has severely worsened.

As reported in the study of Emmanuel Saez, *«after decades of stability in the post-war period, the top decile share has increased dramatically over the last twenty-five years and has now regained its pre-war level. Indeed, the top decile share in 2015 is equal to 50.5 percent, a level higher than any other year since 1917 (except for 2012) and even surpasses 1928, the peak of stock market bubble in the "roaring" 1920s»*[310]. In other words, US income disparity has rocketed to levels not observed since the

[308] US Bureau of Labor Statistics. *Consumer Price Index Database.* CPI for food at home for all urban consumers, Series ID CUUS0000SAF11, US Department of Labor. https://www.bls.gov/cpi/ (cited on 5 December 2017).

[309] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 11. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[310] Saez, E. *Striking it Richer: The Evolution of Top Incomes in the United States*. UC Berkeley, June 30, 2016. PP. 3-4. https://eml.berkeley.edu/~saez/saez-UStopincomes-2015.pdf.

pre-depression of the 1920s, in line with the stagnation of middle-class wages, meanwhile the incomes of the rich have augmented.

Moreover, in 1979, the average weekly wage for US workers in current dollars was around $749. On the other hand, in 2014, it had surged only four dollars to $753. Throughout the same timeframe, productivity of US workers doubled[311].

At the same time, as pointed out by a Public Citizen's Global Trade Watch report[312], *«the richest 10 percent in the United States are now taking half of the economic pie, while the top 1 percent is taking more than one fifth. Since NAFTA's implementation, the share of national income collected by this richest 10 percent has risen by 24 percent, while the top 1 percent's share has shot up by 58 percent»*[313].

Wealthy people's portion of national income has been stable for the first several decades after World War II, however, it started growing in the early 1980s, and then rose even at a faster pace in the era of the WTO and NAFTA accords.

In fact, from 1981 and up until the implementation of NAFTA and the WTO, the income share of the richest 10% surged by 1.3% each year. Furthermore, during the first six years of NAFTA and the WTO – from 1994 to 2000 – this disparity rate doubled, with the top 10% obtaining 2.6% more of the national income share each year. After that, the income disparity has increased even further[314].

Since 1941, as Stolper and Samuelson suggested, the main central result of their theory also known as "Stolper-Samuelson theorem", is that *«international trade necessarily lowers the real wage of the scarce factor expressed in terms of any good»*[315]. Their research is striking in that *«it demonstrates that a productive factor's ability to relocate from an import-competing to an export industry does not prevent a loss in real income due to expanded trade»*[316].

Thus, standard economic theory suggested that trade liberalization is likely to foster a heavier income disparity in developed countries like the United States. As a matter of fact, if, on the one hand, direct competition with cheap labor abroad

---

[311] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*. August 2015. P. 16. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[312] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[313] *Ivi*. P. 11.

[314] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*. August 2015. P. 16. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[315] McCulloch, R. *Protection and Real Wages: The Stolper-Samuelson Theorem*. April 2005. P. 1. http://people.brandeis.edu/~rmccullo/wp/Stolper-Samuelson0405.pdf

[316] *Ibidem*.

encourages a reduction of wages of the middle-class, on the other, multinational companies' profits surge, and the wage gap between the rich and the rest of the society keeps broadening[317].

In this sense, agreements like NAFTA only have the effect to exacerbate and stimulate inequalities by creating a form of selection of free trade in goods that non-professional workers manufacture, whilst expanding monopoly protections – the opposite of free trade – for some multinational firms, such as patent protections for pharmaceutical multinational enterprises[318].

Thus, during the early 1990s, with the increase of US income disparity as the implementation of US "free trade" deals, a variety of economic studies decided to challenge the theory, with the objective to determine to what extent trade flows contribute to the increase in US income inequality.

The outcome, actually, was *«an academic consensus that trade flows had, in fact, contributed to rising US income inequality. The only debate was the* extent[319] *of trade's role, with most studies estimating that between 10 and 40 percent of the rise in inequality during the 1980s and early 1990s stemmed from trade flows»*[320].

As a matter of fact, NAFTA has boosted a reduction on wages for the middle and lower economic classes, thus *«forcing decently-paid US manufacturing workers to compete with imports made by poorly-paid workers abroad. The resulting displacement of those decently-paid US workers has further depressed middle class wages by adding to the surplus of workers seeking lower-paying service sector jobs»*[321].

Moreover, another issue raised by a Public Citizen's Global Trade Watch report[322] is that the agreement also fosters growing disparities by enabling employers to threaten the offshoring of their firms during wage bargaining with workers.

An example in this respect is represented by a Cornell University study commissioned by the North American Commission on Labor Cooperation[323], which

---

[317] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*, August 2015. P. 16. https://www.citizen.org/sites/default/files/prosperity-undermined.pdf.

[318] *Ibidem*. See also: "Want 'free trade'? Open the medical and drug industry to competition", *The Guardian*, 11/11/2013. https://www.theguardian.com/commentisfree/2013/nov/11/support-real-free-trade-medical-costs (cited on 5 December 2017).

[319] In italics in the original text.

[320] Public Citizen's Global Trade Watch's Global Trade Watch. *Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated US Income Inequality*. P. 1. https://www.citizen.org/sites/default/files/trade-and-income-inequality.pdf.

[321] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. P. 11. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[322] *Ibidem*.

[323] The body settled in the labor side agreement of NAFTA.

found out that after the implementation of the agreement, the *«62% of US union drives faced employer threats to relocate abroad, and the factory shut-down rate following successful union certifications tripled»*[324].

In addition, accords similar in style to NAFTA also ease middle class wages by prohibiting federal and State governments to require that US workers carry out jobs created by the outsourcing of government work. What is more, NAFTA tribunals may challenge those policies enacted against the off-shoring, Buy American[325] procurement measures and prevailing wage laws for violating trade agreement regulations[326].

As explained in the report, these measures, which serve to reinvest US tax payers' money in US local communities to create jobs, *«require that all firms operating in trade-pact partner countries be treated as if they were domestic firms when bidding on US government contracts to supply goods or services. Complying with this requirement means waiving existing Buy American or Buy Local procurement preferences that require US taxpayer-funded government purchases to prioritize US-made goods, or rules that require outsourced government work to be performed by U.S workers»*[327].

Even supporters of NAFTA admit that trade pressures have likely highlighted today's historical inequality rates. The pro-NAFTA Peterson Institute for International Economics has estimated that *«trade was responsible for a 7 percent*

---

[324] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. P. 11. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[325] *«The Buy America Act (23 USC § 103 (3)(4) and 49 USC. § 5323(j)) was adopted as part of the 1982 Surface Transportation Assistance Act and applies to transit-related procurements valued at more than $100,000, for which funding includes grants administered by the Federal Transit Authority (FTA) or Federal Highway Administration (FHWA)».* It means that Buy America provisions are a condition of US federal government grants to state, municipal or other organizations including transit authorities, and requires 100% US content for iron/steel and "manufactured" products, that have been narrowly defined to limit many goods; for example, the law also covers cement: *«rolling stock (trains, buses, ferries, trolley cars, etc.) components must have 60 percent US content, with final assembly occurring in the United States. Similar conditions are required for contracts for airport projects that receive funds from the Federal Aviation Administration as authorized by the Airport and Airways Facilities Improvement Act».* The Congress approved the Buy American Act (41 USC. § 10a–10d) in 1933: *«it applies to all US federal agency purchases of goods valued over the micro-purchase threshold (including construction materials) but does not apply to services. Under the act, all goods for public use (articles, materials or supplies) must be produced in the United States, and manufactured items must be manufactured in the United States from US materials unless an exception applies».* Domestic construction materials are defined as: *«an unmanufactured construction material mined or produced in the United States, or a manufactured product when the cost of domestic components exceeds 50 percent of the cost of all components».* In this sense, *«the Buy American law has three exceptions that allow procurement from countries other than the United States or designated (for instance trade agreement partner) countries: the public-interest exception; the non-availability exception (which applies only if articles, materials or supplies of the class or kind to be acquired are not mined, produced or manufactured here in sufficient and reasonably available commercial quantities, as determined by a contracting officer); and the unreasonable cost exception (which requires a finding by a contracting office that the price differential between the domestic product and an identical foreign-sourced product exceeds a certain percentage of the price offered by the foreign supplier)».* See: Public Citizen's Global Trade Watch's Global Trade Watch. *How Overreaching Trade Pact Rules Can Undermine Buy American Procurement Policies*, 2014. http://www.citizen.org/documents/buy-american.pdf.

[326] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement*. P. 4. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.

[327] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*. August 2015. P. 12. https://www.citizen.org/sites/ default/files/ prosperity-undermined.pdf.

gross increase in US wage inequality during a time period in which wage inequality rose by a total of 18 percent – meaning that the trade impact on US wage inequality amounted to 39 percent of observed inequality growth»[328].

In fact, since NAFTA's entry into force, about 61,000 US manufacturing facilities have closed[329]. While these closures have not been caused exclusively by NAFTA – also the impact of the WTO launch in 1995 and other factors played an important role –, NAFTA's promotion for offshoring has helped in the decline of US manufacturing. These firms' losses, together with the erosion of manufacturing jobs imply that there are fewer companies and well-paid workers to contribute to local tax bases[330].

Indeed, as researches have shown, a solid manufacturing base contributes to a broader local tax base as well as to a wider range of social services' supply[331]. In fact, *«with the loss of manufacturing, tax revenue that could have expanded social services or funded local infrastructure projects has declined, while displaced workers turn to welfare programs that are ever-shrinking. This has resulted in the virtual collapse of some local governments in areas hardest hit. Building trade and construction workers have also been directly impacted both by shrinking government funds for infrastructure projects and declining demand for maintenance of manufacturing firms»*[332]. Since many elements of the counterfactual are unknown, demonstrating whether Mexico would have done worse without NAFTA is rather a difficult job. Nonetheless, the performance of Mexican economy can be compared with the one of the rest of the region since 1994, on the basis of economic and social indicators available, and with its own past economic history.

In this sense, **Table 9**[333] illustrates the growth of per capita income in Mexico, which is the most basic indicator of economic development. Per capita GDP has grown by just 28.7% (cumulatively), from 1994 to 2016. The average annual growth rate registered is of only 1.2%, which, if compared with other countries in the region during the same timeframe, is relatively low.

---

[328] Public Citizen's Global Trade Watch. *Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated US Income Inequality*. P. 1. https://www.citizen.org/sites/default/files/trade-and-income-inequality.pdf.

[329] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 12. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

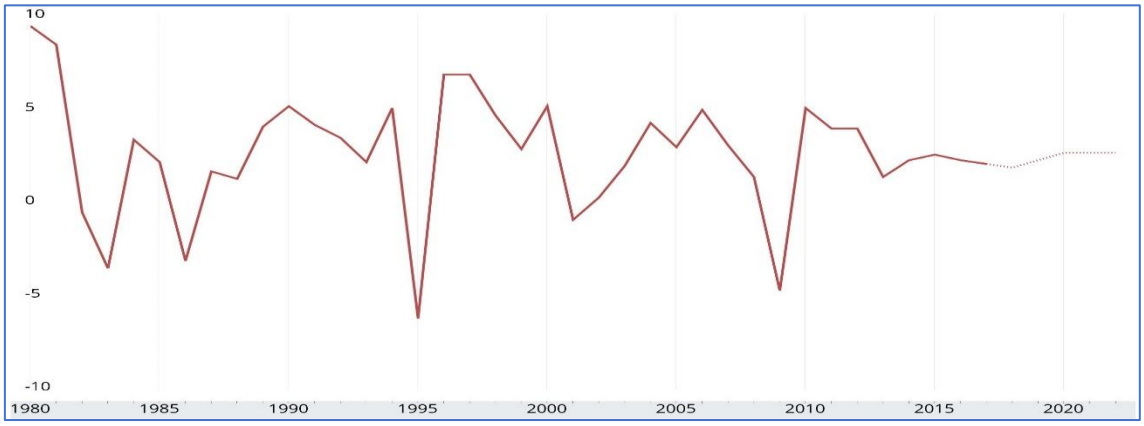
[330] Public Citizen's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement.* P. 5. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.

[331] Public Citizen's Global Trade Watch, *Prosperity Undermined During Era of Fast Tracked NAFTA and WTO Model Trade Agreement.* P. 6. https://www.citizen.org/sites/default/files/prosperityunderminedfinal.pdf.

[332] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014, p. 12. https://www.citizen. org/sites/default/files/nafta-at-20.pdf.

[333] International Monetary Fund, http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MEX (cited on 5 December 2017).

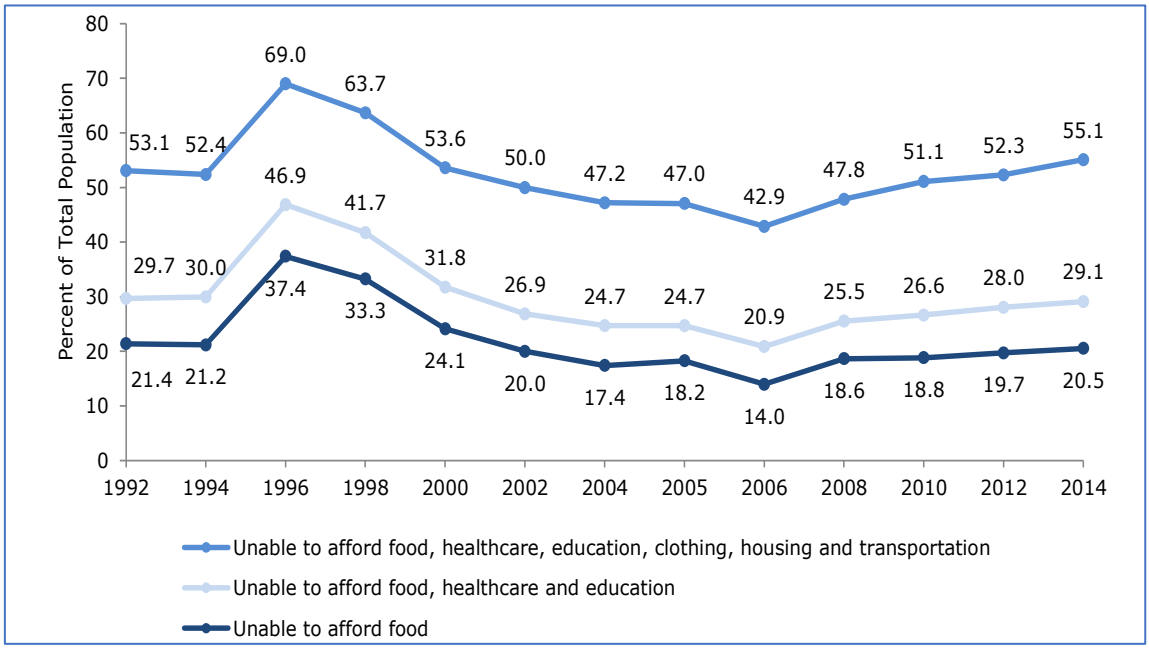
Table 9. Mexico: real GDP per capita growth (annual percent growth).



Source: IMF DataMapper; World Economic Outlook (October 2017).

Furthermore, Mexico's annual per capita GDP growth rate in comparison to the rest of Latin America ranks at the 15th position out of 20 countries. The CEPR commented that *«from these numbers, and in the absence of any natural disaster or war in Mexico during the past decades that could account for such poor economic performance, it would be difficult to argue that Mexico would have done much worse in the absence of NAFTA»*[334]. In this context of scarce economic development, poverty rate rose. **Table 10**[335] shows Mexico's national poverty rate: in 2014, it was 55.1%, while 52.4% in 1994. Hence, in 2014, about 20.5 million more Mexicans than in 1994 were living below the poverty line.

Table 10. Mexico: poverty levels based on consumption baskets (CONEVAL estimate).



Source: CONEVAL 2014; Cordero and Campos, coords. (2016). P.98

[334] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 6. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.
[335] *Ivi*. P. 9.

Indicators of more extreme poverty, like "unable to afford health care, education and food," and "unable to afford food" – according to the categorization made by Mexico's *Consejo Nacional de Evaluación (CONEVAL) de la Política de Desarrollo Social* – improved very slightly since 1994, dropping by just 0.6 and 0.9 percentage points, respectively[336].

The investor-state issue

NAFTA involved a range of new corporate investment rights and protections that were unprecedented in scope and power[337]. These special privileges for foreign investors provided *«new rights to own and control other countries' natural resources and land, establish or acquire local firms, and to operate them under privileged terms relative to domestic enterprises»*[338]. The "investments" include derivatives and other financial instruments, intellectual property rights, government licenses and permits, and more traditional forms of investment. The pacts provide *«foreign firms with a way to attack domestic public interest, land use, regulatory and other laws if they feel that a domestic policy or government decision has undermined the firms' new "trade" pact privileges, such as by contravening their "expectations"»*[339].

Moreover, the benefits provided by these measures offered for offshoring included a guaranteed minimum standard of treatment that Mexico had to provide in order to relocate US firms, which went beyond the treatment provided to domestic firms[340]. These firms are granted an *«access under the deals to an "investor-state" enforcement system, which allows them to skirt national court systems and privately enforce their extraordinary new investor privileges by directly challenging national governments before extrajudicial tribunals»*[341]. The investor-state cases are debated outside any domestic legal system in special international arbitration courts created by the World Bank, in which a panel composed of three corporate lawyers has the power to reward unlimited amounts of public money to corporations for

[336] *Ibidem*.
[337] Public Citizen's Global Trade Watch's Global Trade Watch. *Table of Foreign Investor-State Cases and Claims under NAFTA and Other US 'Trade' Deals*, March 2017. P. 1. https://www.citizen.org/sites/default/files/investor-state-chart_march_2017_final.pdf. See also: https://www.citizen.org/our-work/globalization-and-trade/investor-state-system.
[338] *Ibidem*.
[339] *Ibidem*.
[340] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014. P. 10. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.
[341] Public Citizen's Global Trade Watch's Global Trade Watch. *Table of Foreign Investor-State Cases and Claims under NAFTA and Other US 'Trade' Deals*, March 2017. P. 1. https://www.citizen.org/sites/default/files/investor-state-chart_march_2017_final.pdf.

the "expected future profits" that the attorneys presume the firms would have earned if not challenged by those measures. In this sense, *«the mechanism elevates private firms to the same status as sovereign governments* [and it leads to] *a privatization of the justice system and a consolidation and formalization of corporate power»*[342].

This process is called "investor-State" enforcement. In other words, the agreement elevates foreign investors to the same level of sovereign signatory governments, exclusively giving the power to individual corporations to skirt domestic laws and courts and privately implementing the terms of the public treaty by directly challenging public interest policies of the governments before World Bank and U.N. tribunals. These tribunals are usually composed by three private sector attorneys, not liable to any electorate, who often exchange roles, passing from being "judges" to presenting appeals on behalf of corporations against governments. These tribunals are entitled to demand the payment of unlimited sums of public funds to compensate the investors, at the expenses of taxpayers, public interests, environmental health and human rights[343].

Originally, this investor-state system was conceived to supply a tool to foreign investors for obtaining compensation in case their factory or land was expropriated by a government without a reliable domestic court system[344]. Nonetheless, NAFTA extends far beyond this initial purpose, thus ensuring foreign investors extreme privileges unavailable to domestic firms[345]. In this way, incentives to offshore investments in order to gain the new privileges are created. For instance, *«the new protections include a guaranteed "minimum standard of treatment" that host governments must provide, which investor-state tribunals have increasingly interpreted as a foreign investor's "right" to a regulatory framework that conforms to their expectations»*[346]. Therefore, if a corporation wins its investor-State dispute, taxpayers of the "losing" country must pay the check: *«more than*

---

[342] *Ibidem*.

[343] "Exposed: elite club of lawyers who make millions from suing states", *TNI*, 23/11/2012. https://www.tni.org/en/pressrelease/exposed-elite-club-lawyers-who-make-millions-suing-states (cited on 5 December 2017).

[344] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 17. https://www.citizen. org/sites/default/files/nafta-at-20.pdf.

[345] Actually, the Investor to State Dispute Settlement (ISDS) mechanism proposed by the United States within the TTIP is completely analogous to the one designed for NAFTA.

[346] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014, P. 17. https://www.citizen.org/sites/default/files/nafta-at-20.pdf. For a list of foreign investor-states disputes, see also: Public Citizen's Global Trade Watch's Global Trade Watch. *Table of Foreign Investor-State Cases and Claims under NAFTA and Other US 'Trade' Deals*, March 2017. https://www.citizen.org/sites/default/files/investor-state-chart_march_2017_final.pdf.

$440 million in compensation has already been paid out to corporations in a series of investor-state cases under US FTAs. This includes attacks on natural resource policies, environmental protections, health and safety measures and more. In fact, of the more than $70 billion in the 21 pending claims under NAFTA and other FTAs, nearly all relate to environmental, energy, financial, public health, land use and transportation policies – not traditional trade issues»[347].

Moreover, the protections guaranteed to multinationals interested in offshoring contributed to the flow of foreign investment into Mexico, which quadrupled after the implementation of NAFTA[348].

Many argue that the investor-State system fosters the international delocalization of employment by granting special rights and privileges for companies that relocate abroad. The bipartisan National Conference of State Legislatures[349] is firmly against this system for undermining federalism.

In this sense, States whose laws are challenged are not legitimized in the cases and must count on the federal government to protect state policies that the federal government may not defend.

If, on the one hand, in the first three decades of this investor-state system only 50 cases had been filed, on the other, every year for the last five years, corporations have launched at least 50 cases, signing a record in 2015 with 70 cases launched. Thus, this issue has been heightening concerns about the threats that this system embodies to democracy, taxpayers and the public interest[350].

The agricultural issue

In the mid-1990s, advocates of NAFTA – and also of the WTO – sold these pacts to US farmers and ranchers as the new way to economic success – overstating the agreements' previsions for increasing exports. In fact, US agriculture was supposed to be the sector with the most to gain from NAFTA[351]. As a matter of fact, as

[347] Public Citizen's Global Trade Watch's Global Trade Watch. *Table of Foreign Investor-State Cases and Claims under NAFTA and Other US 'Trade' Deals.* March 2017. P. 1. https://www.citizen.org/sites/default/files/investor-state-chart_march_2017_final.pdf.

[348] Public Citizen's Global Trade Watch's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression*. August 2015. P. 16. https://www.citizen.org/sites/default/files/ prosperity-undermined.pdf.

[349] It is the national association of US state legislative bodies.

[350] UNCTAD. *Record Number of Investor-State Arbitrations Filed in 2015*. February 2016. http://investmentpolicyhub.unctad.org/News/Hub/Home/458 (cited on 5 December 2017).

[351] Public Citizen's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement.* P. 6. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.

pointed out by researchers, US agricultural exports have surged under the agreement, but also imports have increased, and considerably more[352]. Consequently, *«the average annual trade deficit in agricultural products with Canada and Mexico in the five years before NAFTA nearly tripled (a 174 percent increase) in the five years after the deal took effect (…) The average annual US agricultural deficit with Mexico and Canada in NAFTA's first two decades reached $975 million, almost three times the pre-NAFTA level»*[353]. Moreover, *«in 2016, the total volume of US food exports stood just 27 percent higher than in 1995, the year that the WTO took effect and one year into NAFTA. In contrast, imports of food into the United States in 2016 towered 135 percent above the 1995 level»*[354].

In this sense, these data might appear surprising, since usually agricultural trade data is reported on a value basis, not volume. When it is based on value, peaks in international prices can be conceived as a leap in agricultural exports. However, what seems to be an "increase" in exports quotas, indeed, does not reflect greater surges in the volume of US exports, but rather the growth in world market prices. In this context, prices of US food exports have strictly followed international food prices, which, after implementation of the WTO, became highly volatile[355]. As specified in a Public Citizen's Global Trade Watch report, starting in 2007 and spiking in 2011, global agricultural items prices reached historically high levels. Even though in the past few years prices have decreased, they still remain significantly higher than in the previous two decades[356]. Thus, agricultural trade data based on value is likely to highlight considerable export gains if compared to values before NAFTA's implementation. However, as shown in **Table 11**[357], the *volumes* of US agricultural export went from negative values during the first years of the agreement to then rise during the last decade; however, they have maintained a rather modest fluctuation. Changes in Export Value Index appear far

[352] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P. 1. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_ final.pdf.

[353] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 12. https://www.citizen. org/sites/default/files/nafta-at-20.pdf.

[354] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P. 1. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_ final.pdf.

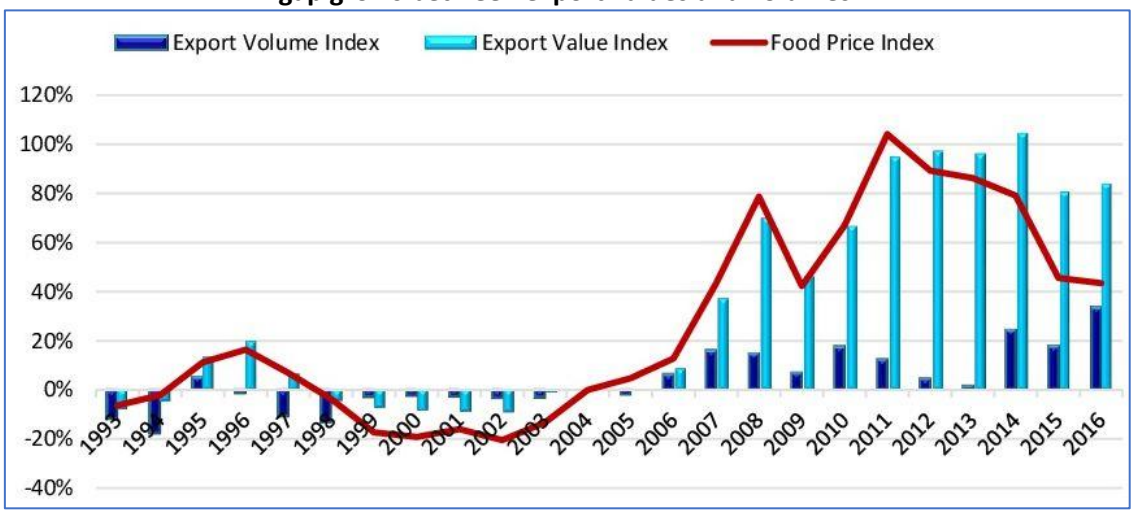
[355] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 13. https://www.citizen. org/sites/default/files/nafta-at-20.pdf.

[356] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety.* June 2017. P. 2. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_ final.pdf.

[357] Public Citizen's Global Trade Watch's Global Trade Watch. *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P.1. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf

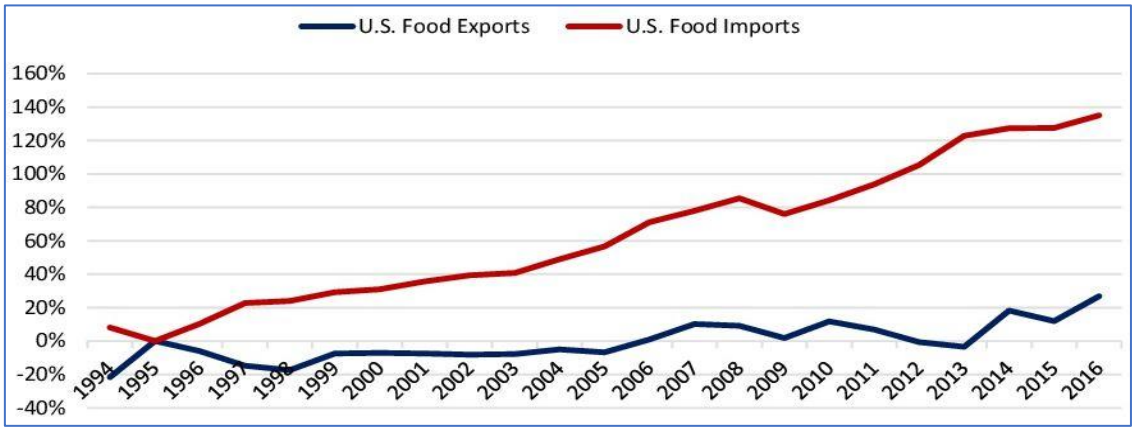
more pronounced. As a result, in 2015, Food and Agriculture Organization's international food price index was 43% above the average price level for 2004[358]. In other words, the high price of food drove the *value* of US food exports to 84% above the level of 2004, while US food exports *volume* was merely 33% above the level of 2004. Shaping up the evolution of US food trade without the distortion of short-term price peaks needs an analysis of the volume of US exports and imports, hence, not only of the value.

Table 11. US food exports now rely on volatile price swings: gap grows between export values and volumes.



Source: US Department of Agriculture; Food and Agriculture Organization of the United Nations.
Note: US food export and international food price levels; indexed to 2004 = 0 (2004 is the median year for price levels).

Table 12. US food imports rising faster than food exports (relative to 1995).



Source: US Department of Agriculture, Foreign Agricultural Service.
Note: US food exports, Indexed to 1995 = 0.

In fact, as can be observed from **Table 12**[359], gauged by volume, imports of food

[358] Food and Agriculture Organization of the United Nations, http://www.fao.org/worldfoodsituation/foodpricesindex/en/ (cited on 5 December 2017).
[359] Public Citizen's Global Trade Watch's Global Trade Watch. *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P.2. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf.

into the United States have increased more steadily and to a higher degree than US food exports under NAFTA – and the WTO[360].

As can be seen, the volume of US food exports registered in 2016 was only 27% higher than in 1995, year in which the WTO came into force. On the contrary, in 2016, US food imports were 135% higher than in 1995[361]. Thus, the portion of imported Americans' food, versus the portion produced in the United States, has grown. Moreover, *«the much greater rise in imports over exports is more notable given historically high international food prices since 2007, which would be expected to dampen the volume of US food imports. Absent this price effect, the volume of US food imports would likely be even higher today»*[362]. The hardest hit by the import influx caused by deals like NAFTA have been smaller-scale US family farms[363]. In 2005, the United States became a net food importer for the first time since the US Department of Agriculture began to report data in 1967[364]. Trade deficit has become the norm for US agriculture under NAFTA. High imports and pale exports under NAFTA have particularly devastated US family farmers in some sectors due to deficit surges[365].

Under the agreement, some US farming sectors have sustained not only an overflow of imports, but have also experienced scarce gains from exports, even with the post-2007 peaks in international prices, and despite promises to the contrary[366]. For instance, small gains in US beef and live cattle exports have been flooded by high imports throughout NAFTA era (**Table 13**)[367].

Or even, under NAFTA, on the one hand, overall US vegetable imports from Canada and Mexico have almost quadrupled, with a 332% rise, on the other, US vegetable exports to NAFTA partners have maintained relatively stable, with a 71% rise. In

---

[360] Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. PP. 13-14. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[361] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P. 2. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf.

[362] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 14. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[363] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*, June 2017. P. 3. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf. According to the issue, *«Farming typologies and numbers come from the USDA. Small family farms consist of "farming occupation" farms grossing less than $250,000 per year ("lower sales" and "higher sales"), while large farms include family farms grossing more than $250,000 per year ("large" and "very large") and nonfamily farms».*

[364] Public Citizen's Global Trade Watch. *Food Imports to United States Soar under WTO-NAFTA Model, Threatening American Farmers and Safety.* June 2014. P. 2. https://www.citizen.org/sites/default/files/food-under-nafta-wto.pdf.

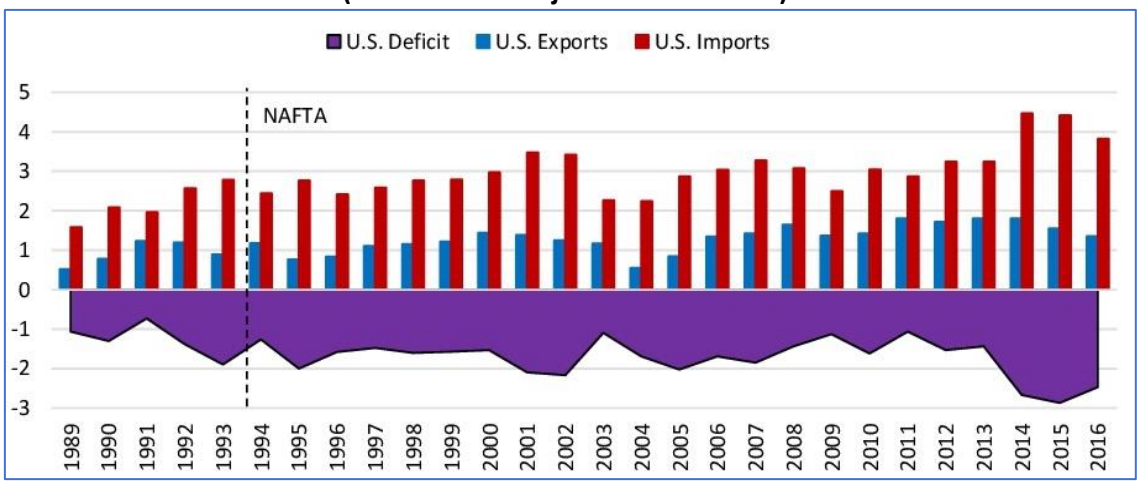
[365] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 14. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[366] Public Citizen's Global Trade Watch's Global Trade Watch. *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety.* June 2017. P. 3. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf.

[367] *Ibidem*.

this sense, US vegetable deficit with Canada and Mexico has hiked to $5.4 billion, almost 12 times the existent level prior to NAFTA (**Table 14**)[368].

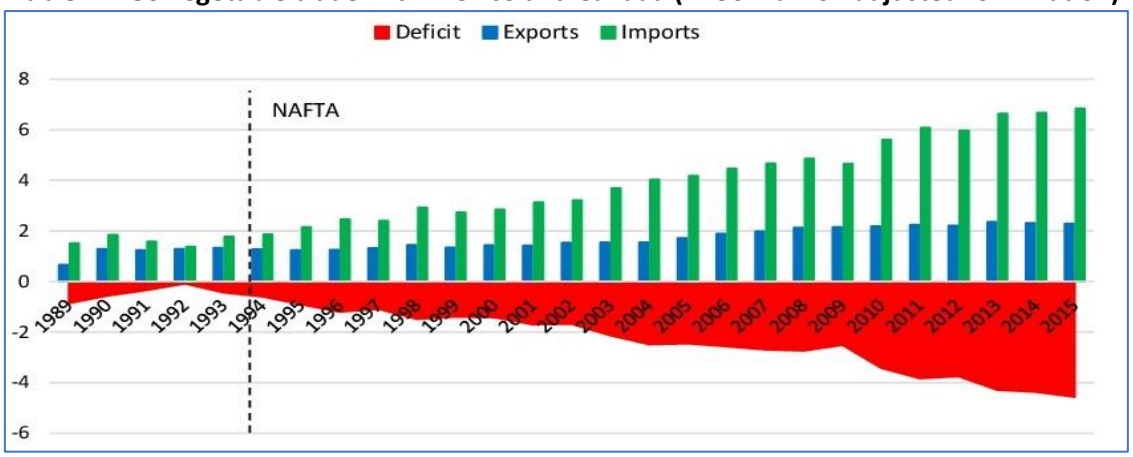
Table 13. US trade deficit with Canada and Mexico in beef and live cattle (in USD billion adjusted for inflation).



Source: US International Trade Commission, Dataweb.

An exception in this sense is represented by US corn[369]. US corn exports to Mexico during the three years after NAFTA surged 378% above the level registered in the three years prior the agreement. Moreover, in 2016, the United States exported 37 times as much corn to Mexico as prior to NAFTA[370]. However, as pointed out in a study of Public Citizen, *«when the flood of US corn in Mexico caused corn prices to plummet 66 percent for Mexican farmers, 2.5 million farmers and agricultural workers in Mexico lost their livelihoods, many of whom resorted to migration»*[371].

Table 14. US vegetable trade with Mexico and Canada (in USD billion adjusted for inflation).

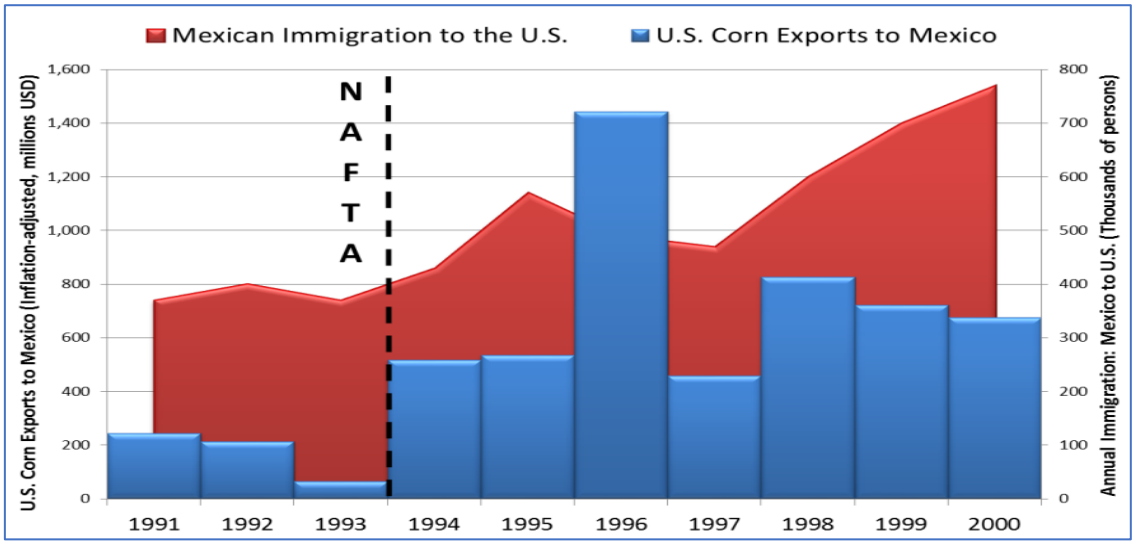


Source: US International Trade Commission, Dataweb.

[368] *Ivi*. P 4.
[369] *Ibidem*.
[370] *Ibidem*.
[371] *Ibidem.*

In this regard, as analyzed by the Pew Hispanic Center, *«between 1980 and 1990, the number of Mexican immigrants in the US more than doubled, and between 1990 and 2000 the numbers doubled again»*[372]. In particular, the amount of people migrating to the United States from Mexico remained steady in the three years prior NAFTA's implementation. Then, the number of annual immigrants from Mexico more than doubled: from 370,000 in 1993 to 770,000 in 2000 – hence, a 108% surge. As can be observed in **Table 15**[373], *«the immigration rise coincided with a NAFTA-enabled flood of subsidized US corn into Mexico»*[374].

Table 15. NAFTA: flood of corn and wave of immigration.



Sources: for corn exports, US International Trade Commission, *Interactive Tariff and Trade Dataweb,* 2013; for immigration, Jeffrey Passel, J., D'Vera Cohn and Ana Gonzalez-Barrera, A. *Net Migration from Mexico Falls to Zero – and Perhaps Less*, Pew Research Center, April 23, 2012.

Furthermore, as can be seen also from **Table 16**[375], in seven years, from 1994 to 2000, the estimated annual amount of people migrating from Mexico to the United States surged by 79%, with the annual flow of migrants soaring from 430,000 in 1994 to 770,000 in 2000[376].

Table 16. Annual immigration from Mexico to the US (1991/2010, in thousand).

Year	***1991***	***1992***	***1993***	***1994***	***1995***	***1996***	***1997***	***1998***	***1999***	***2000***
Migrants	370	400	370	430	570	490	470	600	700	770
Year	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***
Migrants	580	580	570	670	550	390	280	250	150	140

Note: revised by the Author.

[372] Passel, J., Cohn D.., and Gonzalez-Barrera, A. *Net Migration from Mexico Falls to Zero—and Perhaps Less*. Pew Hispanic Center, April 23, 2012. P. 21. http://www.pewhispanic.org/files/2012/04/Mexican-migrants-report_final.pdf.
[373] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 22. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.
[374] *Ibidem*.
[375] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 15. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.
[376] *Ibidem*.

After 2000, migration from Mexico to the United States decreased due to several factors. Firstly, after the "9/11" attacks of 2001, border security was strengthened; secondly, the US recession of 2001 and the extended weakness in the creation of employment in the following years; finally, the higher costs and greater danger of crossing the border[377]. NAFTA's supporters argued that the agreement would have limited immigration phenomenon, as affirmed by the then Mexican President Carlos Salinas de Gortari: *«Mexico prefers to export its products rather than its people»*[378]; then adding that «*the US decision over NAFTA was a choice between "accepting Mexican tomatoes or Mexican migrants that will harvest them in the United States»*[379]. In fact, the impact of trade liberalization has been particularly significant on Mexican agriculture, and especially on corn farming. As a lot of the poorest people in Mexico perform in corn production, this aspect is used as a barometer to assess the condition of the most marginalized groups in Mexican society. In this sense, it should be taken into consideration that, before NAFTA's implementation, the 37% of Mexico's rural population earned less than the minimum income needed for food, percentage that has increased by more than 52% in the agreement's first four years, according to World Bank data[380].

Notwithstanding, to what extent the responsibility of the worsening – or improvement – of the Mexican *campesinado*'s conditions would lie with NAFTA? On this aspect scholars have divergent opinions. If there is no doubt that *«after ten years of NAFTA, results show that the poorest have fared exceptionally badly»*[381], a study conducted in 2004 questioning what went wrong pointed out how *«not all of the increase in rural poverty can be attributed to membership in NAFTA* [since] *«NAFTA is part of a wider constellation of policies and policy changes that affect the rural poor. Mexican trade liberalization was accompanied by national policy revisions that did away with government support programs and, instead, focused on increasing export led-growth. It is therefore analytically very difficult to attribute negative impacts exclusively to any particular free trade agreement»*[382].

---

[377] *Ivi*. P. 16.

[378] Public Citizen's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement*. P. 9. https://www.citizen.org/sites/default/files/naftas-broken-promises.pdf.

[379] *Ibidem*.

[380] Colombia and Mexico Country Management Unit, Latin America and the Caribbean Region, Poverty Reduction and Economic Management Division. *Poverty in Mexico: An Assessment of Conditions, Trends and Government Strategy*. World Bank, Report No. 28612-ME, June 2004, at 57. http://documents.worldbank.org/curated/en/539241468752996263/pdf/286120ME.pdf.

[381] Henriques, G. and Patel, R. *NAFTA, Corn, and Mexico's Agricultural Trade Liberalization.* Interhemispheric Resource Center. February 2004. P. 1.

[382] *Ibidem*.

Nonetheless, as observed by the Center for Economic and Policy Research, agricultural measures of NAFTA removed tariffs, but not subsidies, on agricultural goods, with a period of transition that saw a gradually rising import quota for certain products[383]. In this sense, it phased out tariffs as well as programs supporting small farmers, but it did not regulate US subsidies, thus provoking a massive dislocation of peasants in the Mexican countryside[384].

In fact, the period of transition for corn, which is the major cultivation for Mexican producers, was the longest, ending only in 2008. Indeed, US production displaced millions of Mexican farmers: which should not be surprising, since those US agricultural products were not only subsidized, but also, at that time, had higher average levels of productivity than those of Mexico[385].

According to census data, **Table 17**[386] illustrates agricultural employment in Mexico in 1991 and 2007.

Table 17. Mexico: Employment in Agricultural and Forestry from Agrarian Census 1991/2007.

	1991	***2007***	***Percent Change***
Family*	8,370,879	3,510,394	-58%
Remunerated Total	2,305,432	5,139,793	123%
Permanent (more than 6 months)	427,337	420,989	-1%
Seasonal (less than 6 months)	1,878,095	4,718,804	151%
Total	**10,676,311**	**8,650,187**	**-19%**

Notes: * = Family and other workers who are not paid in cash are sometimes listed as "non-remunerated".
Adapted by the Author.

As can be seen, it has been registered a 19% fall in agricultural employment, that means a loss of about 2 million jobs.

In particular, the loss was in labor employed in the family farm sector. Seasonal labor – less than six months' employment – won about 3 million jobs, even though it was not closely enough to offset the 4.9 million jobs drop in the family farm sector[387].

Within a NAFTA-fostered inflow of cheap US corn, *«there was a 66% drop in real producer prices from the early 1990s to 2005, before the recent rise in commodity prices. During the same time Mexico's import dependency increased from 7% to 34%,*

[383] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 14. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.
[384] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership.* February 2014. P. 20. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.
[385] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 14. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.
[386] *Ivi*. P. 25.
[387] *Ivi*. P. 14-15.

a share that would have been significantly higher if not for an impressive 50% increase in corn production, most of it white corn»[388]. Hence, forcing many to abandon farming.

Moreover, Mexico's involvement in the agreement also contributed to encourage a change to the Constitution's land reform of Mexico, annulling measures that ensured small plots – the so called *ejidos*[389] – to the millions of Mexican people living in rural villages. With the collapse of corn prices, indebted farmers lost their lands, which could be newly bought by foreign companies that converted first quality acres into large plantations[390].

In this sense, *«as cheap American foodstuffs flooded Mexico's markets and as US agribusiness moved in, 1.1 million small farmers – and 1.4 million other Mexicans dependent upon the farm sector – were driven out of work between 1993 and 2005. Wages dropped so precipitously that today the income of a farm laborer is one-third that of what it was before NAFTA. As jobs disappeared and wages sank, many of these rural Mexicans emigrated, swelling the ranks of the 12 million illegal immigrants living incognito and competing for low-wage jobs in the United States*»[391].

However, even if the price paid to Mexican producers for corn crashed after NAFTA, the deregulated retail price of tortillas – Mexico's staple food – rocketed 279% in the first ten years of the accord[392].

Moreover, NAFTA involved service sector and investment regulations that aimed at facilitating the *«consolidation of grain trading, milling, baking and retail so that in short order the relatively few remaining large firms dominating these activities were able to raise consumer prices and reap enormous profits as corn costs simultaneously declined»*[393].

As becomes clear from these analysis, this outcome goes deeply in contrast with the promises made by NAFTA's advocates that Mexican consumers would have benefitted from the agreement. In this respect, the Center for Economic and Policy

---

[388] Wise, T. *Agricultural Dumping Under NAFTA: Estimating the Costs of US Agricultural Policies to Mexican Producers*. Woodrow Wilson International Center for Scholars. 2010. P. 19. http://www.ase.tufts.edu/gdae/Pubs/rp/AgricDumpingWoodrowWilsonCenter.pdf.

[389] An area of communal land used for agriculture on which community members individually farm designated parcels and collectively maintain communal holdings.

[390] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 21. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[391] "Trade Secrets", *The New Republic*, 9/4/2008. https://newrepublic.com/article/63888/trade-secrets (cited on 5 December 2017).

[392] Henriques, G. and Patel, R. *NAFTA, Corn, and Mexico's Agricultural Trade Liberalization.* Interhemispheric Resource Center. February 2004. P. 6. http://dspace.africaportal.org/jspui/bitstream/123456789/113/1/NAFTA%20Corn%20and%20Mexicos%20Agricultural%20Trade%20Liberalization.pdf?1.

[393] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 21. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

Research points out that *«proponents of NAFTA of course knew that family farms in Mexico would not be able to compete with subsidized US production but argued that displaced workers would shift to higher productivity agriculture (mainly vegetables and fruits for export), as well as industrial jobs. Although vegetable and fruit production did expand considerably (from 17.3 million tons in 1994 to 28.2 million in 2012), and presumably accounted for many of the 3 million seasonal jobs created, it was clearly not enough in terms of employment»*[394].

Furthermore, after ten years of NAFTA, *The Washington Post* wrote: *«while the percentage of poor Mexicans is about the same now as it was in the early 1980s – a little more than 50 percent – the population has grown over the same period, from 70 million to 100 million. That means about 19 million more Mexicans are living in poverty than 20 years ago, according to the Mexican government and international organizations. About 24 million – nearly one in every four Mexicans – are classified as extremely poor and unable to afford adequate food»*[395].

Today, despite the promises made by NAFTA's proponents and according to the World Bank, over half of the Mexican population, and over 60% of the rural population, lives below the poverty line[396].

Food safety

Since US current trade agreements both rise imports *and* establish limits on the provisions and inspection rates for imported foods, US food trade pattern also constitutes great risks to food safety[397].

In fact, the United States was required by the WTO and NAFTA *«to replace its long-standing requirement that only meat and poultry meeting US safety standards (…) specifically approved by USDA*[398] *inspectors could be imported. But WTO and NAFTA – and the FTAs that followed – required the United States to accept meat and poultry from all facilities in a trade partner country if that country's system was found to be "equivalent," even if core aspects of US food safety requirements, such as continuous*

[394] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 15.

[395] "Trade Brings Riches, but Not to Mexico's Poor", *The Washington Post*, 22/3/2003. https://www.washingtonpost.com/archive/politics/2003/03/22/trade-brings-riches-but-not-to-mexicos-poor/70d1823f-17d6-4587-b040-1b882c627ae2/?utm_term=.194730c7d119 (cited on 5 December 2017).

[396] World Bank. *World dataBank: World Development Indicators.* http://databank.worldbank.org (cited on 5 December 2017).

[397] Public Citizen's Global Trade Watch. *Food Imports to United States Soar under WTO-NAFTA Model, Threatening American Farmers and Safety*. June 2014. P. 6. https://www.citizen.org/sites/default/files/food-under-nafta-wto.pdf.

[398] US Department of Agriculture.

inspection or the use of government (not company-paid) inspectors, were not met»[399].

In this sense, USDA has found 44 nations' meat and/or poultry safety systems to be equivalent, thus recognized as eligible to export to the United States[400]. On the other hand, these equivalence determinations have permitted US meat imports to continue even after occasional USDA random testing sample of a country's processing plants have found severe health threats[401].

The issue here is that NAFTA – together with the WTO – enabled the inundation of imports, thus jeopardizing public health by engulfing the ability of limited US inspectors to ensure and guarantee the safety of food supply. Moreover, it is acknowledged that the Food and Drug Administration (FDA), *«owing in part to the volume of imported food, FDA cannot physically examine every shipment; the agency examines about 1 percent of entry lines annually. FDA electronically screens all imported food shipments to determine which imports to physically examine at the border and which imports to allow into US commerce»*[402]. Imported seafood rates are even lower: *«FDA's planned number of import samples to collect represents a small portion of the annual seafood imports into the United States. Thus, in fiscal year 2009, the seafood samples FDA reported it collected for drug residue testing amounted to 0.1 percent of all the seafood products imported into the United States»*[403].

As far as beef, pork, and chicken, it has been proven that only 6.7% of these products are physically inspected at the border by the USDA[404]. In this context, notwithstanding the numerous reforms enacted to improve domestic safety provisions, as can be observed by the registered data of the Center for Disease Control and Prevention, the occurrence of foodborne diseases, such as salmonella, listeria and vibrio in the United States have risen since the WTO and NAFTA came

---

[399] Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. P. 7. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_final.pdf.

[400] United States Department of Agriculture, https://www.fsis.usda.gov/wps/portal/fsis/topics/international-affairs/importing-products/eligible-countries-products-foreign-establishments/eligible-foreign-establishments (cited on 5 December 2017).

[401] Bottari, M. and DePalma, W. *The WTO Comes to Dinner: US Implementation of Trade Rules Bypasses Food Safety Requirements*. Public Citizen's Global Trade Watch report, July 2003. http://www.citizen.org/documents/equivalency finalreport.pdf; see also: Public Citizen's Global Trade Watch, *NAFTA's Broken Promises: Fast Track to Unsafe Food,* Fall 1997. https://www.citizen.org/our-work/globalization-and-trade/executive-summary-naftas-broken-promises-fast-track-unsafe.

[402] US Government Accountability Office. *Imported Food Safety*: *FDA's Targeting Tool Has Enhanced Screening, but Further Improvements Are Possible*. May 2016. P. 8. http://www.gao.gov/assets/680/677538.pdf.

[403] US Government Accountability Office. *Seafood Safety: FDA Needs to Improve Oversight of Imported Seafood and Better Leverage Limited Resources*. April 2011. P. 21. http://www.gao.gov/assets/320/317734.pdf.

[404] Food Safety and Inspection Service. *Quarterly Enforcement Report for Quarter 4, Fiscal Year 2013.* US Department of Agriculture, 2013, at Table 3a. http://www.fsis.usda.gov/wps/portal/fsis/topics/regulatory-compliance/regulatory-enforcement/quarterly- enforcement-reports/qer-q4-fy2013.

into force[405]. Emblematic, in this sense, is the case of the Michigan schoolchildren and teachers that occurred in 1997, which consisted in severe epidemic hepatitis A caused by strawberries imported from Mexico. It resulted in 163 children and teachers becoming ill, and several even seriously[406]. Furthermore, *«after Sue Doneth, whose daughter Lindsay was among the most severely injured in the outbreak, testified to Congress and spoke at events around the country, the outbreak became a rallying cry for Congress' rejection of President Bill Clinton's request in 1998 for Fast Track trade authority to expand NAFTA, but the trade pact's threats to food safety remained in place»*[407].

[405] Centers for Disease Control and Prevention. *Table 2b FoodNet–Incidence of Laboratory–Confirmed Infections by Year 2013*. http://www.cdc.gov/foodnet/data/trends/tables/2013/table2a- b.html (cited on 5 December 2017).
[406] "Tainted Strawberries' Danger Has Eased, US Officials Say", *The New York Times*, 4/4/1992. http://www.nytimes.com/ 1997/04/04/us/tainted-strawberries-danger-has-eased-us-officials-say.html (cited on 5 December 2017).
[407] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 16. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

CHAPTER THREE

THE PERFORMANCE OF NAFTA: A CONTROVERSIAL ISSUE

One of the innovative features of NAFTA lies also in the fact that *«it was the first time that an FTA linked two wealthy, developed countries with a low-income developing country»*[408] (**Table 18**)[409].

Table 18. Selected economic indicators for Mexico, Canada and the United States (1994/2017).

	Mexico		***Canada***		***United States***	
	1994	***2017***	***1994***	***2017***	***1994***	***2017***
Population (millions)	92	129	29	37	263	327
Nominal GDP (US$ billions)[a]	508	1,148	548	1,627	7,309	19,371
Nominal GDP, PPP Basis (US$ billions)[b]	790	2,372	654	1,671	7,309	19,371
Per Capita GDP (US$)	5,499	8,890	19,914	44,415	27,777	59,332
Per Capita GDP in $PPP	8,555	18,370	22,531	45,630	27,777	59,330
Exports of goods and services (% of GDP)	14%	37%	33%	31%	10%	12%
Imports of goods and services (% of GDP)	18%	39%	32%	34%	11%	15%

Source: Compiled by CRS based on data from Economist Intelligence unit (EIU) online database.
Notes: Some figures for 2017 are estimates.
a. Nominal GDP is calculated by EIU based on figures from World Bank and World Development Indicators.
b. PPP refers to purchasing power parity, which reflects the purchasing power of foreign currencies in US dollars.

This aspect is of crucial importance within the debate that has accompanied the agreement throughout all these years and has seen as main characters many different categories such as politicians, farmers, manufacturers, labor unions, academics and non-governmental organizations. Moreover, it is a key aspect particularly for the assessment of the performance of this treaty, topic of this chapter. According to many economists, convinced that liberalizing trade fosters the overall growth and efficiency of the economy among trading partners, the fact that that some short-term arrangement cost had to be taken into account in such a complex framework cannot lead to the negativity of the agreement itself. After all, according to its supporters, the advantages of NAFTA would have by far exceeded disadvantages, creating thousands of jobs and reducing income inequalities, most of all in Mexico. On the contrary, opponents of the accord warned and argued that,

[408] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 10. https://fas.org/sgp/crs/row/R42965.pdf.
[409] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 5. https://fas.org/sgp/crs/row/R44981.pdf.

with the moving of firms to Mexico where labor costs are substantially lower, the agreement would have triggered huge job losses in the United States.

In this context, on the one hand, some studies have concluded that NAFTA has kept many of those promises it made, among trade and economic beneficial results[410]. On the other, several studies have suggested that the accord has cost much to US workers[411]. The duplicity of these results is line with the assumption, shared by several economists, that trade liberalization policies really boost the overall economic growth development among trading partners, however creating both winners and losers. Furthermore, it must be considered that not every adjustment or change in investment and trade issues since 1994 in North America can be attributable to the agreement. In fact, during these years, trade among Mexico, Canada and the United States has been affected by several and different factors. For instance, the heavy evaluation of the Mexican peso in 1994 and the consequently crisis in Mexico – also known as Tequila crisis[412] – have caused a significant impact on the economy; as well as the economic downturn provoked by the financial crisis of 2008 did. In this sense, Villarreal suggests that *«trade-related job gains and losses since NAFTA may have accelerated trends that were ongoing prior to NAFTA and may not be totally attributable to the trade agreement»*[413].

The fact is that NAFTA has been a controversial issue since its entry into force, as affirmed by Dussel Peters and Gallagher, among others[414]. Also because, as underlined by Villarreal, it should not surprise that estimating the effects of such a complex trade agreement is a challenging task, due mostly, to the lack of essential data, as well as significant practical and theoretical issues related to generating outcomes from economic models[415]. Moreover, because these estimations offer an incomplete vision of the overall effects on the economy due to trade agreements[416].

---

[410] Hufbauer, C.G. and Schott, J.J. *NAFTA Revisited: Achievements and Challenges*. Institute for International Economics, October 2005.

[411] Scott, R. E. *Heading South: US-Mexico Trade and Job Displacement under NAFTA*. Economic Policy Institute, May 3, 2011. http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_displacement_after_nafta1/

[412] Kose, M.A., Meredith, G.M., Towe C.M. *How Has NAFTA Affected the Mexican Economy? Review and Evidence*. International Monetary Fund Working Paper. April 2004. P. 4. https://www.imf.org/external/pubs/ft/wp/2004/wp0459.pdf.

[413] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 11. https://fas.org/sgp/crs/row/R42965.pdf.

[414] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 84. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

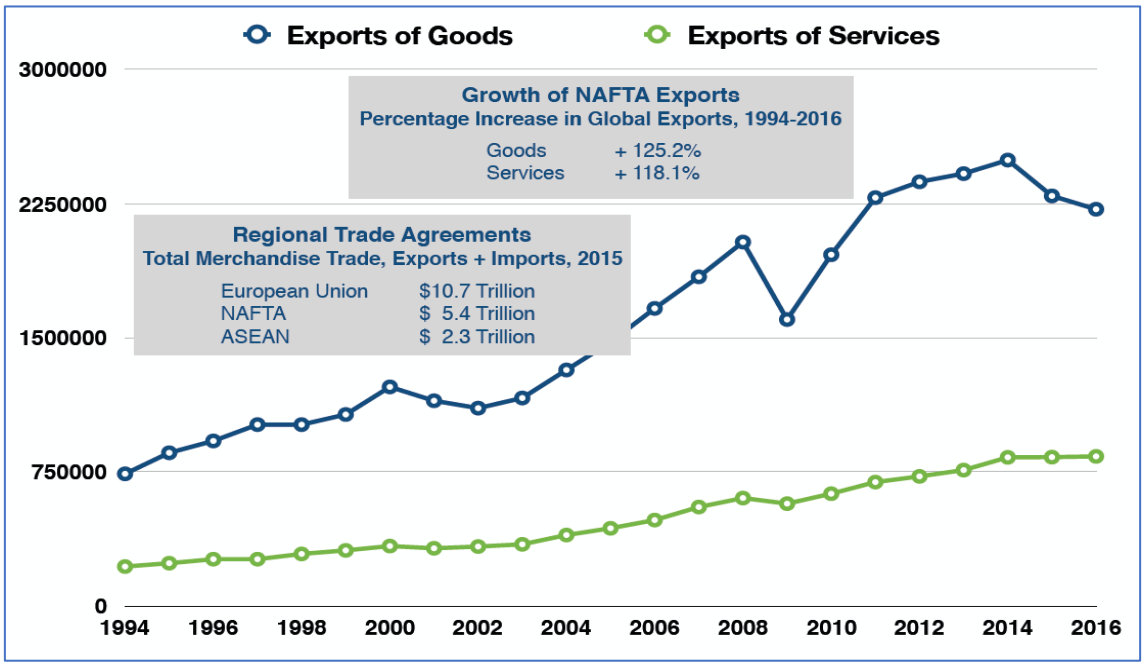
[415] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 11. https://fas.org/sgp/crs/row/R42965.pdf. In this regard, it is useful to point out that all the sources I had access to, both the most official and trusted ones, somewhat differed in the statistics. Various technical factors during the collection, classification and elaboration of the data may explain in part these diversities. Moreover, since I do not pretend to establish which "numbers" are truer, I shall confine myself to quote the sources providing them and to report the data I consider more corresponding to those already cited by other sources.

[416] *Ibidem*.

NAFTA in numbers

Therefore, I shall start going through official data on trade among NAFTA partners. With a total merchandize trade of $5.4 trillion in 2015, NAFTA was the world's second largest trading block behind the European Union ($10.7 trillion in the same year) and ahead of ASEAN[417] ($2.3 trillion, less than half). Between 1994 and 2016, global exports of goods by the three NAFTA countries grew from $738 billion to $1.7 trillion. During the same period, NAFTA's global service exports grew from $220 billion to $480 billion (**Table 19**)[418].

Table 19. Global Exports of Goods and Services by NAFTA, 1994/2016 (in USD million)

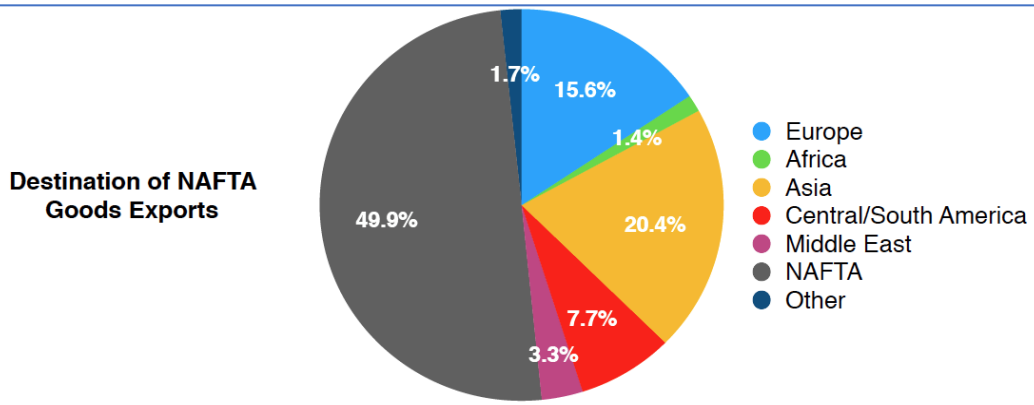


Source: WTO World Trade Statistics.

In 2015, trade among the United States, Canada and Mexico represented one-half of NAFTA's global exports. Among the rest-of-world trading partners, Asia and Europe received the largest shares of NAFTA good's exports (20.4% and 15.6% respectively). Machinery and transport represented the largest share (43.4%) of goods exported by NAFTA. Whereas as far as service exports, travel (29.2%), financial services (15.2%) and use of intellectual property (15.2%) represented the biggest categories (**Table 20**)[419].

[417] The Association of South-East Asian Nations is composed by Philippines, Indonesia, Malaysia, Singapore, Thailand, Brunei, Vietnam, Myanmar, Laos, Cambodia, East Timor.
[418] "The Renegotiation of NAFTA", *The European Financial Review,* 14/8/2017. http://www.europeanfinancialreview.com/?p=17412#!prettyPhoto (cited on 18 December 2017).
[419] *Ibidem*.

Table 20. Destination and Composition of NAFTA Exports, 2015.



Composition of NAFTA Goods Exports

Agriculture & Food	11.0%
Chemicals	11.2%
Fuels & Mining	12.1%
Machinery & Transport	43.4%
Other	22.3%

Composition of NAFTA Services Exports

Goods-Related Services	3.4%
IT Services	5.3%
Professional Services	10.0%
Transport Services	11.8%
Financial Services	15.2%
Use of Intellectual Property	15.2%
Travel Services	29.2%
Other Services	9.9%

Source: WTO World Trade Statistics.

However, as shown in **Table 21**[420], in 2015, the United States indeed registered deficits of $20.8 billion with Canada and $63.9 billion with Mexico, whilst in the same year, Canada was registering a surplus of $3.8 billion with Mexico.

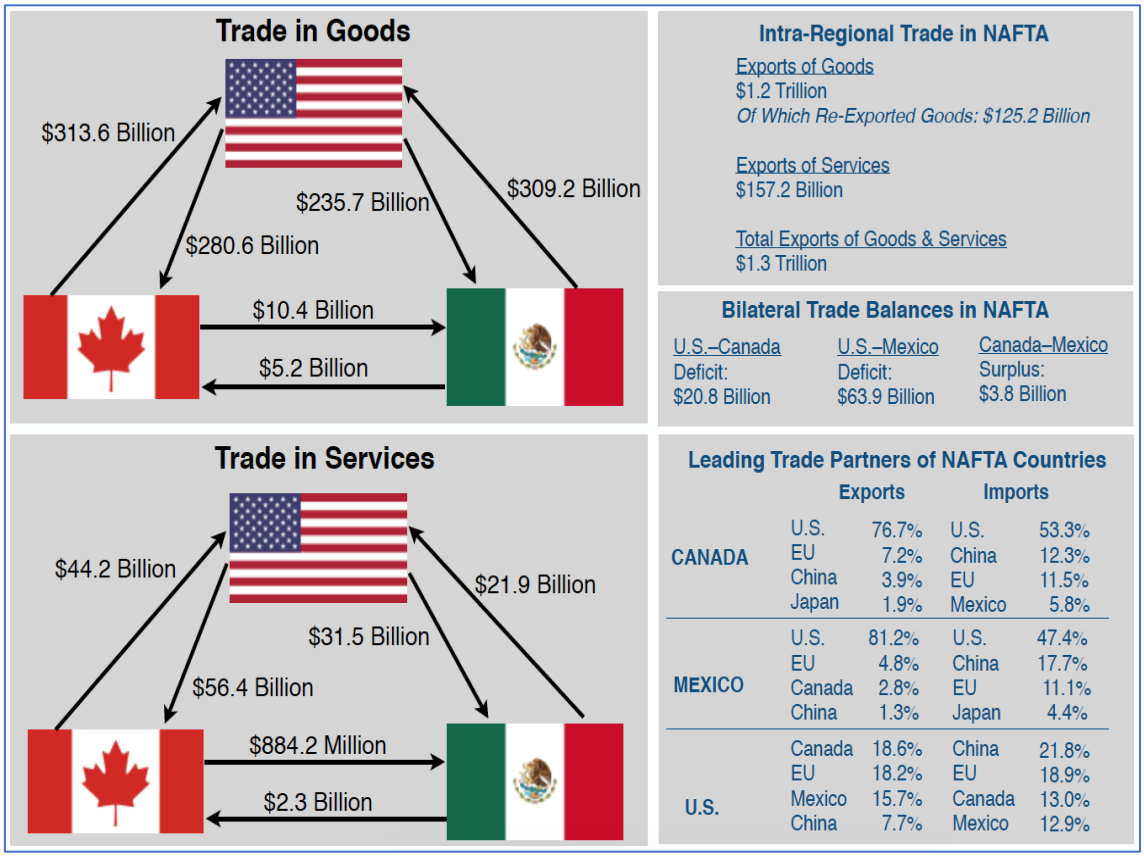
These trade unbalances seem to "penalise" particularly the United States as far as export of goods – even though the high import content of intermediate goods manufactured on the US side, hence exported in the United States, must be taken into consideration –, whereas values are all to the advantage of the United States in the services sector, mostly those with high added value in terms of design and engineering, research and development, and know-how.

A further testimony of this issue is given by Shaiken's study of 2014, arguing that *«sharply expanded trade has brought benefits to Mexico, although it has hardly been the "undeniable success story" that some herald. Mexico has gained much-needed jobs, access to advanced production technology, and new ways of organizing work. However, only 3 percent of border plant exports are sourced domestically, and a mere 0.4 percent of gross domestic product (GDP) is invested in research and development. Moreover, low wages diminish purchasing power, limit the domestic market, and slow Mexico's potential growth»*[421].

[420] *Ibidem*.

[421] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. P. 38. https://clas.berkeley.edu/research/trade-nafta-paradox.

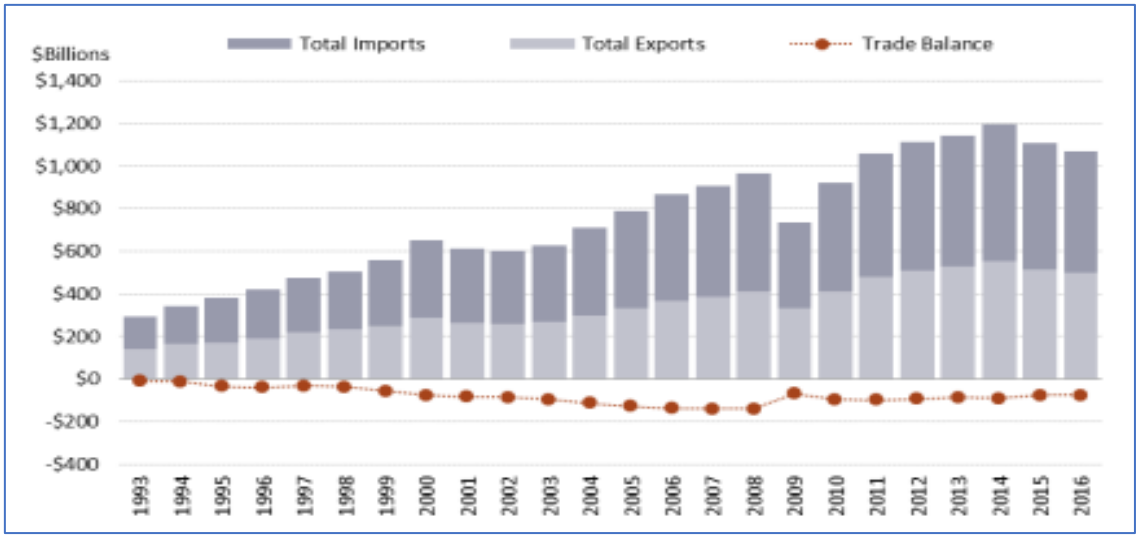
Table 21. NAFTA trade in goods and services, 2015.



Sources: UN COMTRADE Database; WTO World Trade Statistics.

Table 22[422] summarizes trade – thus import and export (only) of merchandise – between the United States and the other countries of NAFTA, in the period from 1994 to 2016, in which trade balance has always been negative.

Table 22. US merchandize trade with NAFTA partners: 1994/2016 (in USD billions).

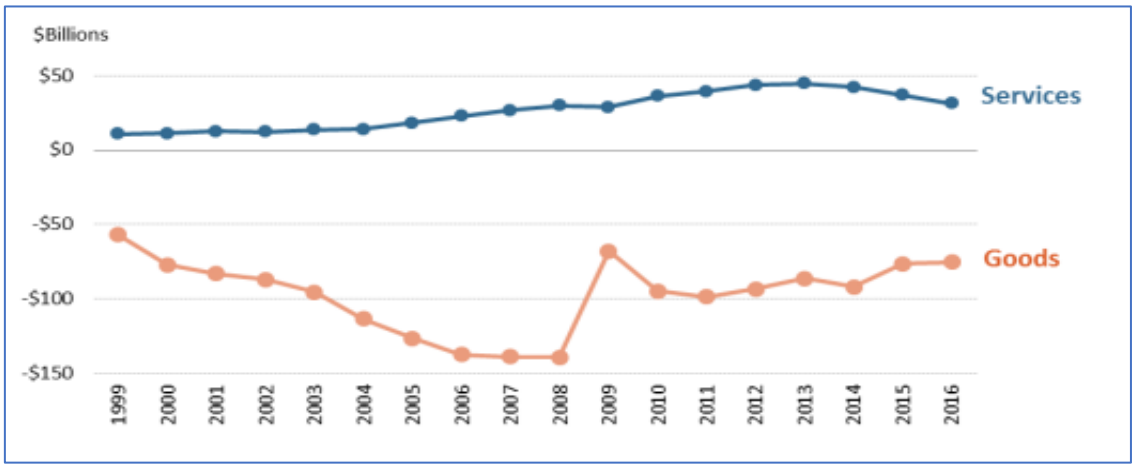


Source: Compiled by CRS using trade data from the US International Trade Commission's Interactive Tariff and Trade Data Web, at http://dataweb.usitc.gov.

[422] Villarreal, M. A. and Fergusson, I.F. NAFTA Renegotiation and Modernization. Congressional Research Service. October 12, 2017. P. 8. https://fas.org/sgp/crs/row/R44981.pdf.

Whereas **Table 23**[423] summarizes trade of goods and services between the United States and NAFTA countries, again between 1994 and 2016.

Table 23. US services and merchandize trade balance with NAFTA partners (in USD billions).



Source: Compiled by CRS using trade data from the US Bureau of Economic Analysis at http://www.bea.gov and the US International Trade Commission's (USITC's) Interactive Tariff and Trade Data Web, at http://dataweb.usitc.gov.

As registered data show, US trade with the two NAFTA partners not only has more than tripled since its entry into force, but also it has increased faster than trade with the rest of the world[424]. Moreover, since 1993, trade with Mexico has grown more rapidly than trade with Canada or with non-NAFTA countries. In fact, NAFTA trade amounted for $1 trillion in 2011. In 2016, Canada was the leading market for US exports, whereas Mexico gained the second position. In the same year, Canada and Mexico's markets put together accounted for 34% of US exports overall. As far as suppliers of US imports, Canada was at the second position, whereas Mexico at the third one. The two countries put together amounted for 26% of US imports overall. Since economic relations between the United States and Canada were already highly integrated, major effects of NAFTA trade may be due to developments in trade and investment sectors with Mexico.

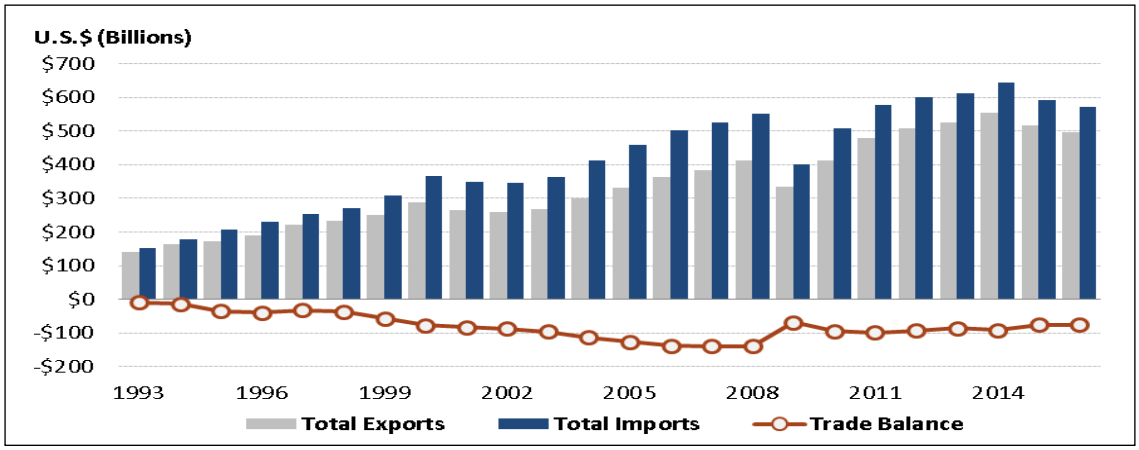
If it is true that NAFTA has accelerated economic relations between the United States and Mexico since 1993, it is also true that also other relevant factors may have played a role in trade evolution and development. As a matter of fact, economists have proved that trade is likely to increase during economic growth cycles, and it is likely to decrease as growth slows down.

As can be observed by **Table 24**[425], the economic slowdown in 2001/2002 and in

[423] *Ivi*. P. 9.
[424] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 11. https://fas.org/sgp/crs/row/R42965.pdf.
[425] *Ivi*. P.12.

2009[426] likely influenced the decrease in both exports to and imports of the United States from Canada and Mexico.

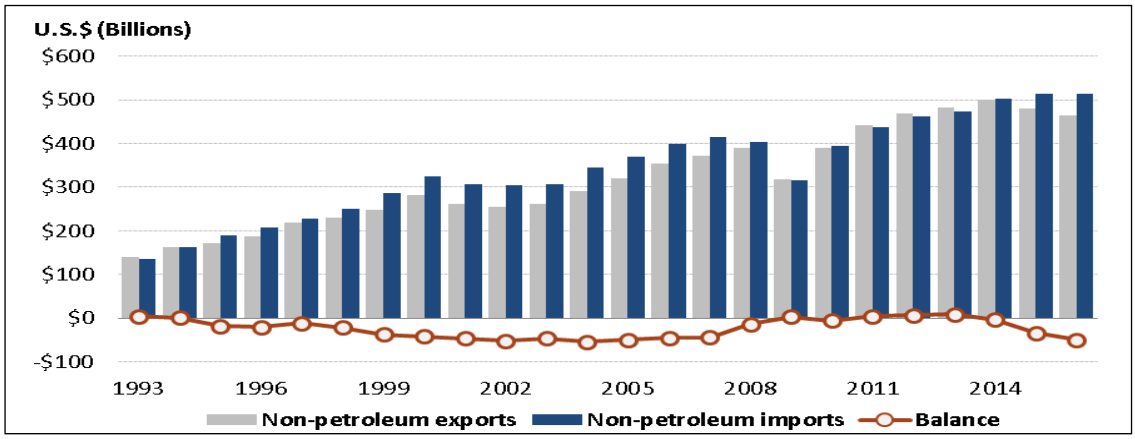
Table 24. US merchandize trade with NAFTA partners (1993/2016).



Source: Compiled by CRS using trade data from the US International Trade Commission's Interactive Tariff and Trade Data Web, at http://dataweb.usitc.gov.

Moreover, as showed in **Table 25**[427], excluding crude oil and petroleum products from the trade balance, in some years, the deficit with the other two NAFTA partners has been lower than the overall deficit and the trade balance in non-energy goods has been positive. In 2016, the balance in non-petroleum products went from a surplus of $8.7 billion in 2013 to a deficit of $49.8 billion. Petroleum products have accounted for 10-17% of total trade with NAFTA partners over the past ten years.

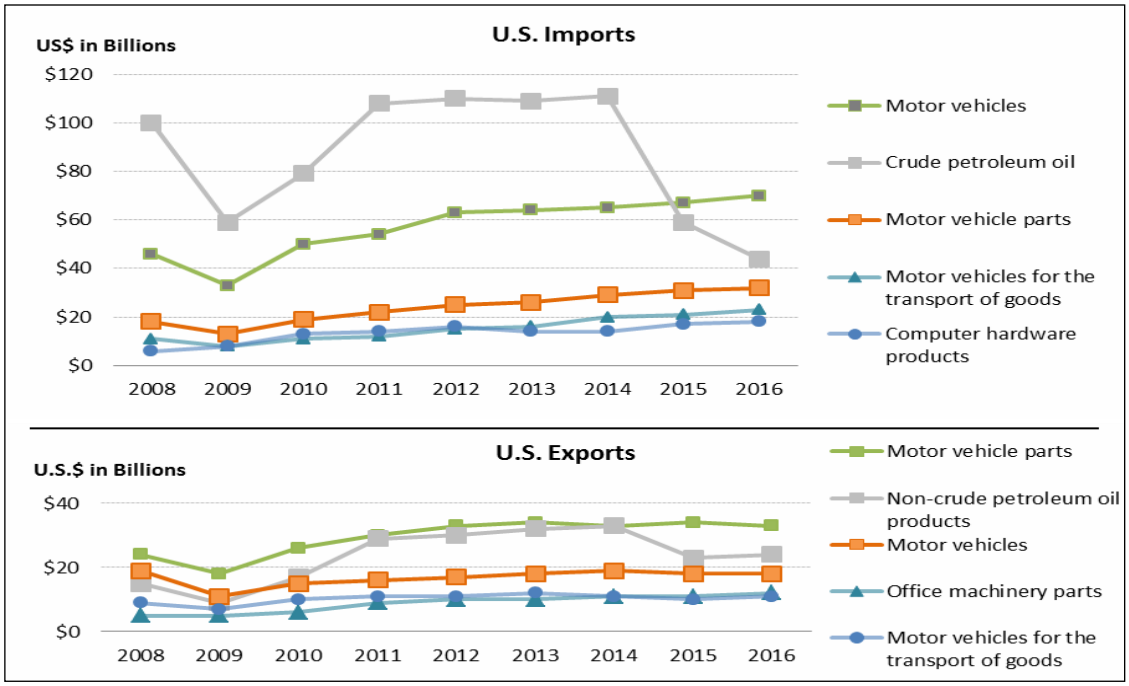
Table 25. Trade with NAFTA partners excluding petroleum and oil products (1993/2016).



Source: Compiled by CRS using trade data from the US International Trade Commission's (USITC's) Interactive Tariff and Trade Data Web, at http://dataweb.usitc.gov.
Note: The United States uses different classifications of trade for trade statistics. Trade data in this chart excludes energy trade in three categories: Harmonized Tariff Schedule (HTS) code 2709, petroleum oils and oils from bituminous minerals, crude; HTS code 2710, petroleum oils and oils from bituminous minerals (other than crude) and products therefrom, NESOI, containing 70% (by weight) or more of these oils; and HTS code 2711, petroleum gases and other gaseous hydrocarbons. See http://dataweb.usitc.gov.

[426] These periods temporarily coincide with China joining the WTO, occurred in 2001 – issue developed later – and the so called "subprime crisis" struck in 2008.
[427] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 13. https://fas.org/sgp/crs/row/R42965.pdf.

Table 26. Top five US import and export items to and from NAFTA partners.



Source: Compiled by CRS using trade data from the USITC at http://dataweb.usitc.gov.
Note: This figure does not include low-value export shipments. Statistics are derived from the harmonized Tariff Schedule (HTS) of the United States at the 4-digit level. The HTS comprises a hierarchical structure for describing all goods in trade for duty, quota, and statistical purposes. This structure is based on the international Harmonized Commodity Description and Coding System (HS), administered by the World Customs Organization in Brussels.

As far as trade by product is concerned, in **Table 26**[428] it is possible to observe the trend of the five major products of US imports and exports from and to NAFTA countries. In 2016, at the first position among the five import goods in US imports from NAFTA partners there was motor vehicles. The following leading product was crude petroleum oil, motor vehicle parts, motor vehicles for the transport of goods and computer hardware. As far as exports, on the other hand, the most exported products to NAFTA countries were motor vehicle parts, non-crude petroleum products (mainly gasoline), motor vehicles, office machinery components and motor vehicles for the transport of goods[429].

Trade with Canada

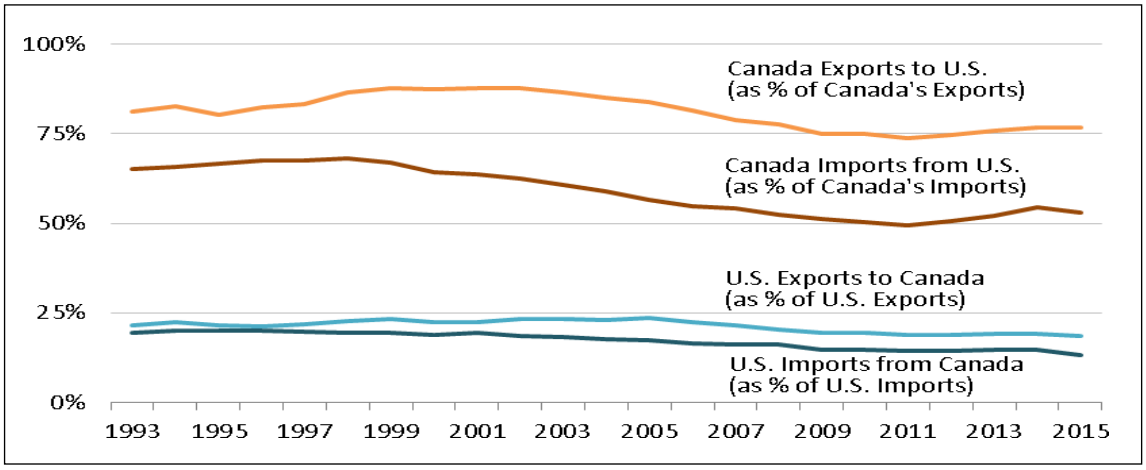
Since the US-Canada FTA came into effect on January 1, 1989, trade liberalization policies between the two countries was well on the way – or already completed – by the time of NAFTA's implementation. In this sense, in this section, I will get through the effects of trade liberalization from both agreements on Canada.

[428] *Ivi.* P. 14.
[429] *Ivi.* P. 13.

From the Canadian standpoint, the significant consequence of the FTA may have been that many of the concerns of opening trade with the United States did not come true. Canada did not become an economic extension or the "51st state", as many had feared. In this sense, as a Canadian commentator once remarked, *«free trade helped Canada to grow up, to turn its face out to the world, to embrace its future as a trading nation, [and] to get over its chronic sense of inferiority»*[430]. On the other hand, some of the hopes for the FTA, such as that it would have been a driving force for greater productivity in Canadian industry sector, also did not come true. Hence, the United States is the leading purchaser of Canadian goods as well as the number one supplier of imports to Canada. During the 1980s, Canada's share of exports towards the United States steadily increased, rising from 60.6% in 1980 to 70.7% in 1989, first year of the FTA. Canada's percentage of total exports to the United States continued to increase, reaching 87.7% in 2002. However, the relative weight of the value of US-Canadian trade has been falling in recent years. As a matter of fact, since 2002, this percentage has decreased to 76.4% in 2016.

The US quotas of Canada's overall imports, which spiked up at 70.0% in 1983, has constantly declined to a recent 52.1% in 2015 (**Table 27**)[431]. Nonetheless, Canada is still the major export destination for 35 US States[432].

Table 27. Market share as percentage of total trade: Canada and the United States (1993/2015).



Source: Economic Intelligence Unit, from IMF International Financial Statistics.
Note: Represents exports to and imports from other country as percentage of country's total trade.

[430] "After 25 Years, Free-Trade Deal with US Has Helped Canada Grow Up", *The Globe and Mail*, 29/9/2012. https://www.theglobeandmail.com/report-on-business/economy/after-25-years-free-trade-deal-with-us-has-helped-canada-grow-up/article4576313/ (cited on 30 November 2017).

[431] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 23. https://fas.org/sgp/crs/row/R42965.pdf.

[432] "35 states lean on Canada for trade; but we're a small piece of their economic pie", *BNN*, 27/1/2017. https://www.bnn.ca/35-states-lean-on-canada-for-trade-but-we-re-a-small-piece-of-their-economic-pie-1.659349 (cited on 30 November 2017).

Historically, Canada was the largest purchaser of US exports and supplier of US imports. Notwithstanding, shares of both exports and imports peaked prior to the FTA. In 1987, Canada acquired 23.5% of US exports, equaled that amount in 2005, but since then it has lowered to 18.3% in 2016. Traditionally, Canada was the major supplier of US imports, amounting at 20.6% in 1984, achieving a NAFTA high of 20.1% in 1996, but since then collapsing to 12.6% in 2016. China took over Canada as the main supplier of US imports in 2007, whereas Mexico surpassed Canada, ranking at the second position in 2015.

Table 28. US merchandize trade with NAFTA partners (in USD billions).

	Canada			Mexico			Total NAFTA		
Year	Exports	Imports	Trade balance	Exports	Imports	Trade balance	Exports	Imports	Trade Balance
1993	100.4	111.2	-10.8	41.6	39.9	1.7	142.0	151.1	-9.1
1994	114.4	128.4	-14.0	50.8	49.5	1.3	165.3	177.9	-12.6
1995	127.2	144.4	-17.1	46.3	62.1	-15.8	173.5	206.5	-33.0
1996	134.2	155.9	-21.7	56.8	74.3	-17.5	191.0	230.2	-39.2
1997	151.8	167.2	-15.5	71.4	85.9	-14.5	223.2	253.2	-30.0
1998	156.6	173.3	-16.7	78.8	94.6	-15.9	235.4	267.9	-32.5
1999	166.6	198.7	-32.1	86.9	109.7	-22.8	253.5	308.4	-54.9
2000	178.9	230.8	-51.9	111.3	135.9	-24.6	290.3	366.8	-76.5
2001	163.4	216.3	-52.8	101.3	131.3	-30.0	264.7	347.6	-82.9
2002	160.9	209.1	-48.2	97.5	134.6	-37.1	258.4	343.7	-85.3
2003	169.9	221.6	-51.7	97.4	138.1	-40.6	267.3	359.7	-92.3
2004	189.9	256.4	-66.5	110.7	155.9	-45.2	300.6	412.3	-111.7
2005	211.9	290.4	-78.5	120.2	170.1	-49.9	332.1	460.5	-128.3
2006	230.7	302.4	-71.8	133.7	198.3	-64.5	364.4	500.7	-136.3
2007	248.9	317.1	-68.2	135.9	210.7	-74.8	384.8	527.8	-143.0
2008	261.1	339.5	-78.3	151.2	215.9	-64.7	412.4	555.4	-143.1
2009	204.7	226.2	-21.6	128.9	176.7	-47.8	333.6	402.9	-69.4
2010	249.3	277.6	-28.4	163.7	230.0	-66.3	412.9	507.6	-94.7
2011	281.3	315.3	-34.0	198.3	262.9	-64.6	479.6	578.2	-98.6
2012	292.7	324.3	-31.6	215.9	277.6	-61.7	508.5	601.9	-93.3
2013	300.8	332.5	-31.7	226.0	280.6	-54.6	526.7	613.1	-86.4
2014	312.8	349.3	-36.5	240.3	295.7	-55.4	553.1	645.0	-91.9
2015	280.6	296.2	-15.5	235.7	296.4	-60.7	516.4	592.6	-76.2
2016	266.8	278.1	-11.2	231.0	294.2	-63.2	497.8	572.2	-74.4

Source: Compiled by CRS using trade data from the US Census Bureau at https://www.census.gov/foreign-trade/balance/country .xlsx (data accessed Feb. 8, 2017.)

Notes: The data for US exports to Canada are derived from import data compiled by Canada. The use of Canada's import data to produce US export data requires several alignments in order to compare the two series. The aggregate U. S. export figure is slightly larger. US Census Bureau. *US/Canada Data Exchange and Substitution*. At https://www.census.gov/foreign-trade/reference /guides/tradestatsinfo.html#canada.

However, regarding trade in services, Canada remains the leading trading partner of the United States. As can be observed from the trade balance figures in **Tables 28**[433] and **29**[434], the United States has always had a trade deficit with Canada, since

[433] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 34. https://fas.org/sgp/crs/row/R42965.pdf.

the very beginning of the FTA in 1989 – when it ran a $9.9 billion trade deficit –, reaching its maximum in 2008 with $78.3 billion and then decreasing in the following years to $11.2 billion in 2016.

Table 29. US Private Services Trade with NAFTA Partners (in USD billions).

	Canada			*Mexico*			*Total NAFTA*		
Year	*Exports*	*Imports*	*Trade balance*	*Exports*	*Imports*	*Trade balance*	*Exports*	*Imports*	*Trade balance*
1993	17.0	9.1	7.9	10.4	7.4	3.0	27.4	16.5	10.9
1994	17.2	9.9	7.3	11.3	7.9	3.4	28.5	17.8	10.7
1995	17.9	11.0	6.9	8.7	7.9	0.8	26.6	18.9	7.7
1996	19.5	12.4	7.1	9.4	8.9	0.5	28.9	21.3	7.6
1997	20.5	13.7	6.8	10.8	9.9	0.9	31.3	23.6	7.7
1998	19.4	15.0	4.4	11.7	9.8	1.9	31.1	24.8	6.3
1999	22.9	16.6	6.3	14.2	9.7	4.5	37.1	26.3	10.8
2000	24.8	18.2	6.6	15.8	11.2	4.6	40.6	29.4	11.2
2001	24.7	17.8	6.9	16.7	10.9	5.8	41.4	28.7	12.7
2002	25.2	18.4	6.8	17.9	12.3	5.6	43.1	30.7	12.4
2003	27.6	20.0	7.6	18.5	12.5	6.0	46.1	32.5	13.6
2004	29.5	21.2	8.3	19.5	13.9	5.6	49.0	35.1	13.9
2005	32.8	22.6	10.2	22.5	14.4	8.1	55.3	37.0	18.3
2006	37.9	23.9	14.0	23.8	14.9	8.9	61.7	38.8	22.9
2007	42.7	25.7	17.0	25.0	15.3	9.7	67.7	41.0	26.7
2008	45.4	26.0	19.4	26.2	15.9	10.3	71.6	41.9	29.7
2009	43.5	23.7	19.8	22.9	14.0	8.9	66.4	37.7	28.7
2010	53.1	27.4	25.7	24.6	14.0	10.6	77.7	41.4	36.3
2011	58.3	30.5	27.8	26.4	14.7	11.7	84.7	45.2	39.5
2012	61.9	31.1	30.8	28.2	15.4	12.8	90.1	46.5	43.6
2013	62.9	30.8	32.1	29.9	17.3	12.6	92.8	48.1	44.7
2014	62.0	30.3	31.7	30.2	19.9	10.3	92.2	50.2	42.0
2015	56.4	29.0	27.4	31.5	21.9	9.6	87.9	50.9	37.0

Source: Compiled by CRS using most recent data from the Bureau of Economic Analysis online database at http://www.bea.gov.

As underlined by Villarreal and Fergusson, *«while the trade deficit with Canada has been attributed to the FTA/NAFTA, increases have been uneven and may also be attributed to other economic factors, such as energy prices»*[435]. The overall trade with Canada fell due to 2001 crisis, although it then reached higher levels in 2008, amounting at $600.6 billion, to fell again because of 2009 recession, reaching $430.9 billion[436]. As far as trade in services is concerned, the United States ran a surplus of $27.4 billion in 2015 in trade with Canada. The exports of US private services to Canada grew between 1993 to 2015, from $17.0 billion to $56.4 billion. On the other hand, US private services imports from Canada grew from $9.1 billion in 1993 to $29.0 billion[437] during the same timescale. Between 1989 and 1999, it

[434] *Ivi*. P. 35.
[435] *Ivi*. PP. 14-15.
[436] *Ivi.* P. 14.
[437] *Ivi.* P. 15.

means during the first decade of the FTA/NAFTA, US trade with Canada more than doubled, passing from $166.5 to $362.2 billion. Data registered an increase in US exports to Canada from $100.2 billion in 1993 to $312.1 billion in 2014, slowing down in 2016 to $266.8 billion (**Table 30** and **31**)[438].

Table 30. What did US export to Canada between 1989 and 2016 (in value).

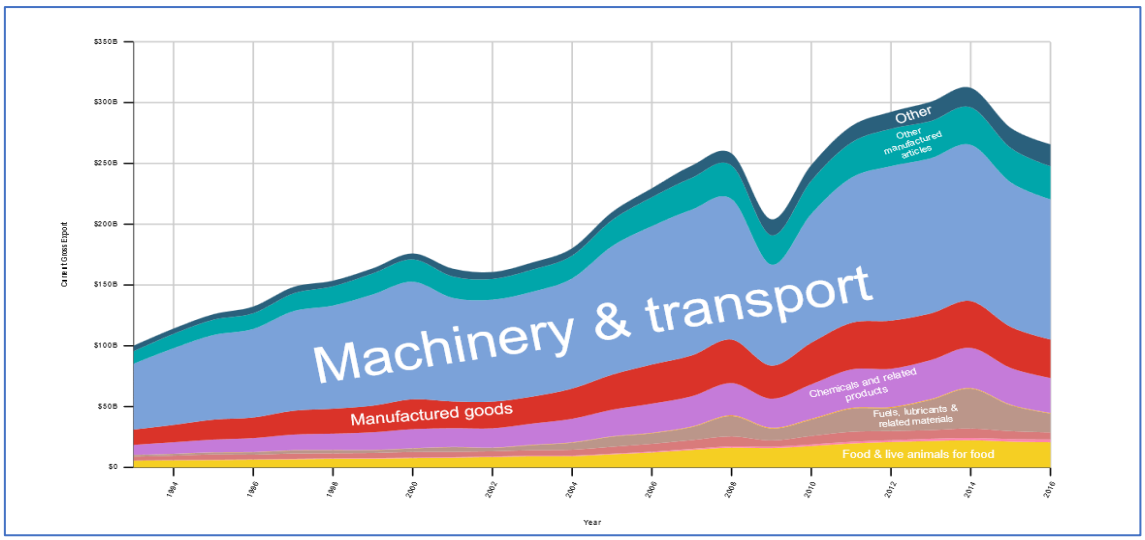
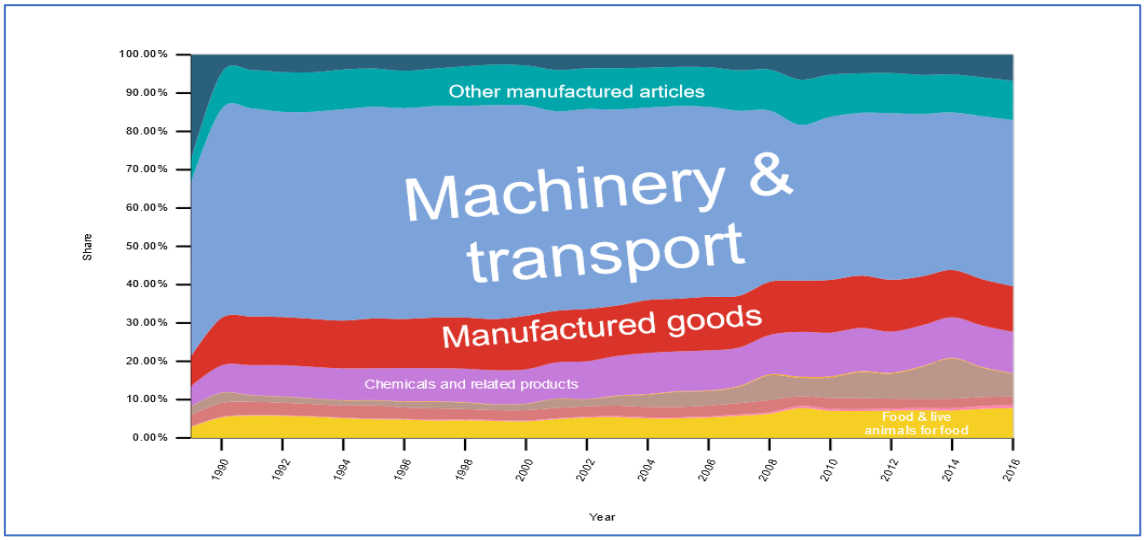


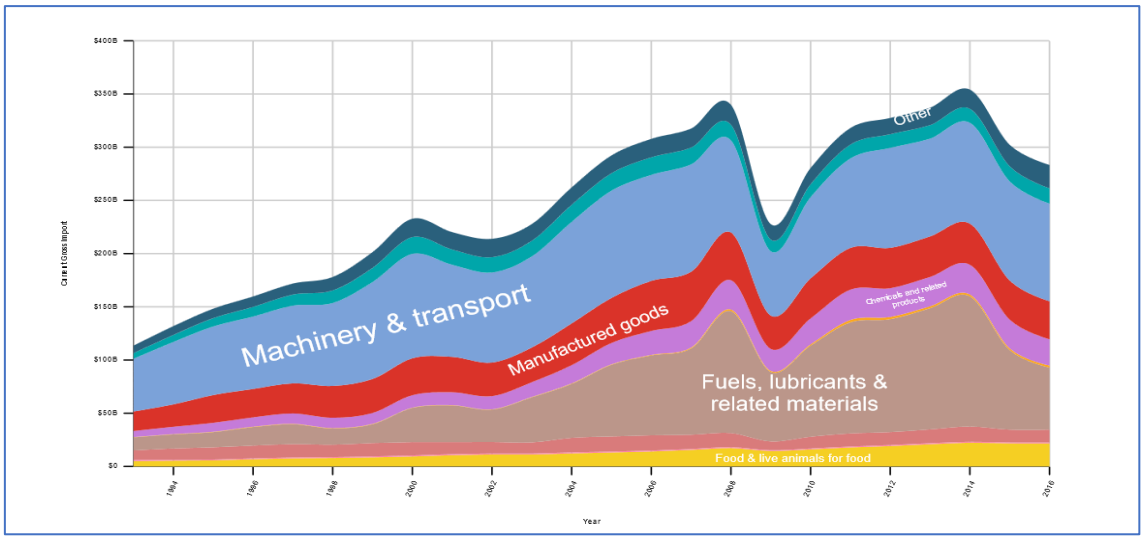
Table 31. What did US export to Canada between 1989 and 2016 (in share).



[438] Center for International Development at Harvard University, ATLAS of Economic Complexity. http://atlas.cid.harvard.edu/ (cited on 5 December 2017). The Tables 15, 16, 17, 18, 22, 23, 24 and 25 use the SITC4 product class, instead of HS classification, trying to correspond to the data mentioned by other source cited in these pages. Also, the trade flow is expressed in gross (only exports). The Standard International Trade Classification (SITC) and Harmonized System (HS) are two different trade classifications, the main difference being that the SITC is focused more on the economic functions of products at various stages of development, whereas the HS deals with a precise breakdown of the products' individual categories. The SITC was developed by the United Nations with the intention of classifying traded products not only on the basis of their material and physical properties, but also according to which stage of processing, as well as their economic functions in order to facilitate economic analysis. The SITC was originally developed for statistical purposes and it has to maintain a correlation with the tariff nomenclature (classification) seeing as customs declarations are the principal source of trade data. The HS was introduced in 1988 and has since then it has become an internationally accepted method of classification wherever products are traded. The HS classification is "harmonized" in relation to the classifications of the United Nations and the European Communities. Goods are classified according to simple objective criteria and applications. See: http://siteresources.worldbank.org/INTRANETTRADE/Resources/Internal-Training/287823-1285275962946/ Cadot.pdf and http://legacy.intracen.org/mas/sitchs.htm. Anyway, at the link indicated above it is possible to have access to the data according to values and classifications.

On the other hand, US imports from Canada experienced a rise from $110.9 billion in 1993 to $349.3 billion in 2014, and then dropped to $278.1 billion in 2016 (**Tables 32** and **33**)[439]. In 2016, US exports of goods and services to Canada were $321.3 billion, down 4.4% from 2015, and imports from Canada were $313.5 billion, down 5.5% from 2015. As a result, the trade surplus with Canada increased to $7.7 billion. In 2016, exports to Canada accounted for 14.5% of total US exports, whereas imports from Canada were at 11.6% of total US imports. Industrial supplies and materials constituted the main exports (equal to 22.1% of overall exports to Canada) and imports (equal to 38.8% of overall imports from Canada)[440]. Canada remains the second largest trading partner of the United States[441].

Table 32. What did US import from Canada between 1993 and 2016 (in value).

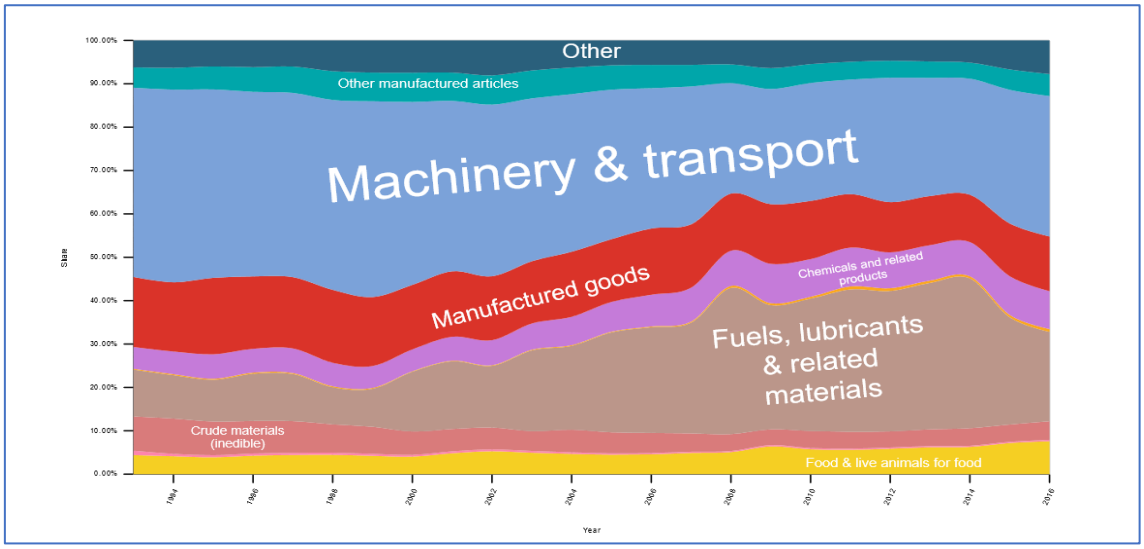


As underlined by Villarreal and Fergusson, also the composition of Canadian trade has changed[442]. Initially, Canada suffered from a manufacturing recession after the FTA implementation, because branch facilities of US companies established behind the Canadian tariff wall were abandoned. Nevertheless, more internationally, competitive manufacturing sectors flourished as long as the Canadian dollar became relatively cheap. From a low point of a Canadian dollar, which valued US$0.65 in 2002, it gained parity in 2007, and has stood near the parity point as of 2013, before shifting to a recent US$0.75 at the end of 2016. The appreciation was

[439] *Ibidem*.
[440] Bureau of Economic Analysis, https://www.bea.gov/international/factsheet/factsheet.cfm?Area=100 (cited on 5 December 2017).
[441] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 22. https://fas.org/sgp/crs/row/R42965.pdf.
[442] *Ivi*. P. 23.

assigned to the boom in the natural resources of Canada. For instance, in 2005, oil and gas took over motor vehicles as Canada's leading export to the United States. The value of the Canadian dollar depends on its merchandize exports, and the depreciation came as a result of the end of the boom that followed China's downturn. Moreover, the "great recession" triggered by the 2008 financial crisis hit the Canadian manufacturing sector, which, between 2010 and 2013, was exacerbated by the strong Canadian dollar[443].

Table 33. What did US import from Canada between 1993 and 2016 (in share).



However, even after North American economic recovery and the fall of the *loonie* after 2013, Canadian manufacturing sectors still have not witnessed major improvements of their assets. The Canadian auto sector is emblematic. Despite having financed with C$12 billion the bailout of General Motors and Chrysler, since 2009 no new automotive assembly plant has opened in Canada, model lines have been moved to Mexico or the United States, and Canada's share of North American vehicle output decreased to 14% by 2014. According to the Royal Bank of Canada, *«planned capacity expansion in Mexico (…), as well as stronger investment in the US, could result in further erosion of Canadian producers' market share»*[444], limiting the capacity of Canadian manufacturers *«to take advantage of strong auto sales* [forecasted] *to increase in both Canada and the US (…) The same is true for Canadian parts manufacturers, who have lost a significant share of the US import market. With North American production growth gravitating toward Mexico and the*

[443] Also nicknamed "the loonie" for the soaring loon pictured on its reverse.
[444] *A look at the recovery of the Canadian auto sector since the 2008-2009 recession.* Royal Bank of Canada. May 2014. http://www.rbc.com/economics/economic-reports/pdf/other-reports/Auto_May_2014.pdf.

Southern US, this segment of the Canadian auto industry may only see limited growth despite strong North American sales»[445].

Some supporters in Canada believe that free trade was meant to relieve the existing long-term labor productivity gap between the United States and Canada. Open competition was perceived as forcing Canadian industry sector to be more productive.

Table 34. US Foreign Direct Investment positions with Canada and Mexico (1993-2015 historical cost basis in USD millions).

Year	*Canadian FDI in the US*	*US FDI in Canada*	*Mexican FDI in the US*	*US FDI in Mexico*
1993	40,373	69,922	1,244	15,221
1994	41,219	74,221	2,069	16,968
1995	45,618	83,498	1,850	16,873
1996	54,836	89,592	1,641	19,351
1997	65,175	96,626	3,100	24,050
1998	72,696	98,200	2,055	26,657
1999	90,559	119,590	1,999	37,151
2000	114,309	132,472	7,462	39,352
2001	92,420	152,601	6,645	52,544
2002	92,529	166,473	7,829	56,303
2003	95,707	187,953	9,022	56,851
2004	125,276	214,931	7,592	63,384
2005	165,667	231,836	3,595	73,687
2006	165,281	205,134	5,310	82,965
2007	201,924	250,642	8,478	91,046
2008	168,746	246,483	8,420	87,443
2009	188,943	274,807	11,111	84,047
2010	192,463	295,206	10,970	85,751
2011	205,225	330,041	12,500	85,599
2012	214,314	366,709	12,751	104,388
2013	222,989	370,259	15,869	86,433
2014	257,142	358,452	16,567	89,650
2015	268,972	352,928	16,597	92,812

Source: Compiled by CRS using most recent data from the Bureau of Economic Analysis online database at http://www.bea.gov.

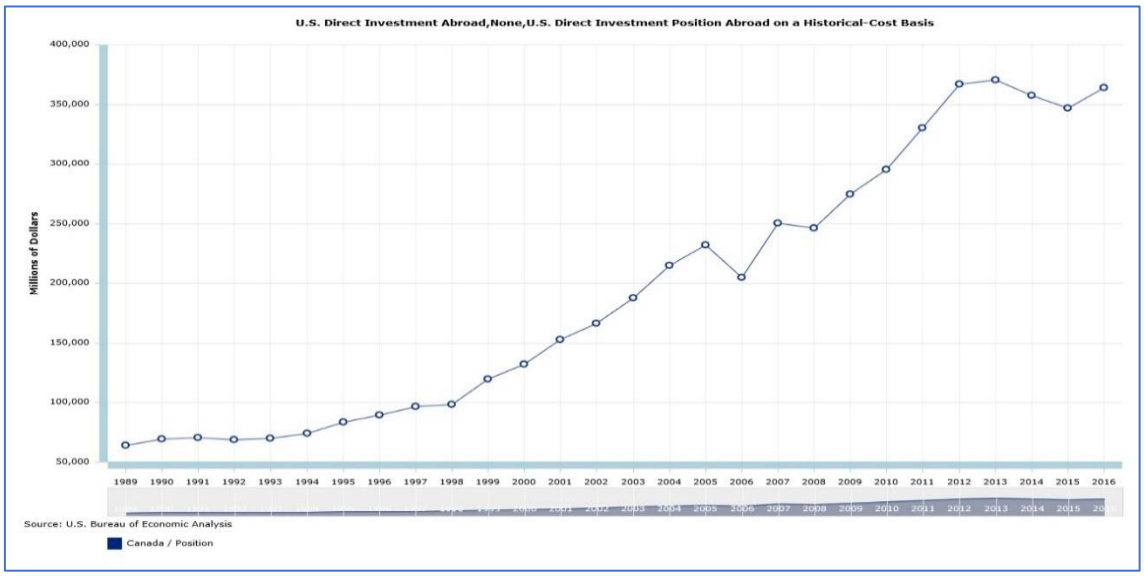
[445] *Ibidem*.

Since NAFTA's implementation, this gap could be represented by the low value of the Canadian dollar. The addition of capital goods – often purchased from the United States – was comparatively more expensive than hiring extra workers that were often employed. Moreover, the appreciation of the Canadian dollar made further capitalization more attractive, even though labor productivity recently stalled only at 72% of US levels. The relatively low productivity rates of Canadian industry, as well as its relatively low investments in research and development sector (R&D), and relatively lower spending on information technology, are perceived as a threat to Canadian long-term competitiveness. This remains an alarming situation for Canadian policymakers although Canada ranks in the first position at the Organization of Economic Cooperation and Development (OECD) for population with post-secondary education[446].

As far as Foreign Direct Investments (FDI) is concerned, bilateral investments have also increased considerably since NAFTA, in terms of stock as well as in flow of investments (**Table 34**)[447].

The United States is the main single investor in Canada. Its stock of FDI into Canada reached $363.9 billion in 2016, rising from a stock of $69.9 billion in 1993 (**Table 35**)[448]. US investments amount for 49.4% of the overall stock of FDI in Canada from global investors.

Table 35. US FDI in Canada (1988/2016)



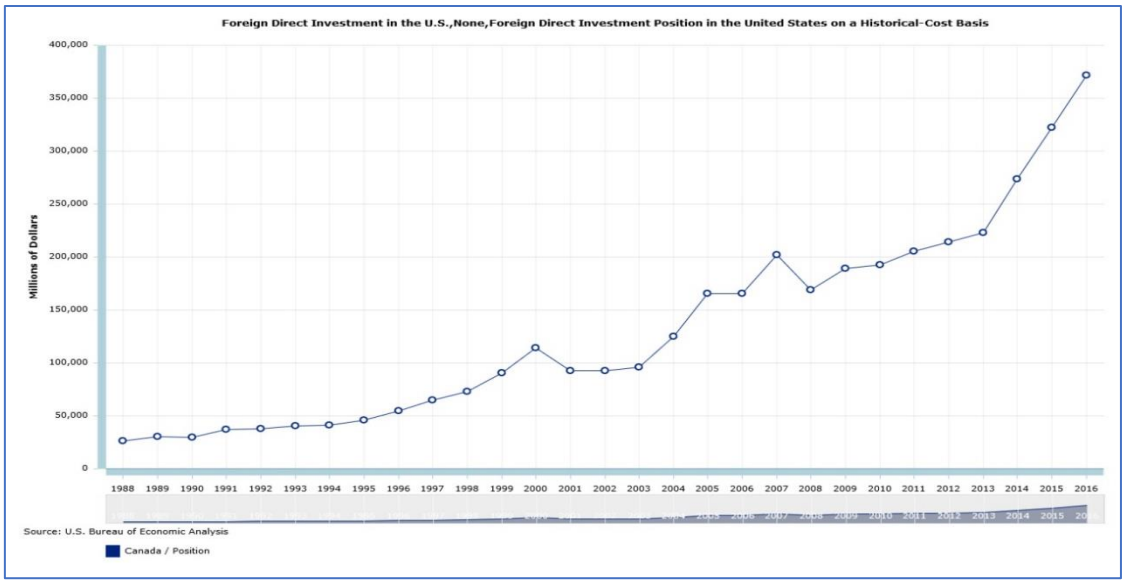
[446] Villarreal, M. A. and Fergusson, F.I. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 24. https://fas.org/sgp/crs/row/R42965.pdf.
[447] *Ivi.* P. 37.
[448] Investment statistics are from the US Department of Commerce, Bureau of Economic Analysis, and Statistics Canada. Revised by the Author.

Moreover, during the five years preceding NAFTA, US FDI flows into Canada averaged $3.28 billion, and, in the first six years of the FTA, they decreased to an average of $1.7 billion, mainly due to investments of US-owned subsidiary plants in Canada.

However, US flows into Canada have increased significantly to an average of $20.1 billion in the decade from 2005 and 2015. The stock of US FDI now equals to 22% of the value of Canadian GDP, in contrast to 1% at the beginning of the FTA. These paths highlight the changing perception of FDI among Canadians: from a more skeptical or hostile view that sees FDI as vehicles of foreign control over the Canadian economy, to another one that is more open to new jobs and techniques generated by FDI.

Canada is not the major investor in the United States, but the United States represented the main destination for Canadian FDI in 2016 with a stock of $371.5 billion, increasing from $26.6 billion of 1988 (**Table 36**)[449].

Table 36. Canada FDI in US (1988/2016)



In 2014, approximately 42.2% of Canadian FDI was invested in the United States. Canadian FDI flows into the United States annually amounted at $2.3 billion in the five years preceding the FTA, and an annual average of $1.8 billion during the FTA years, although more recently grew to an annual average of $9.9 billion from 2005 to 2015[450].

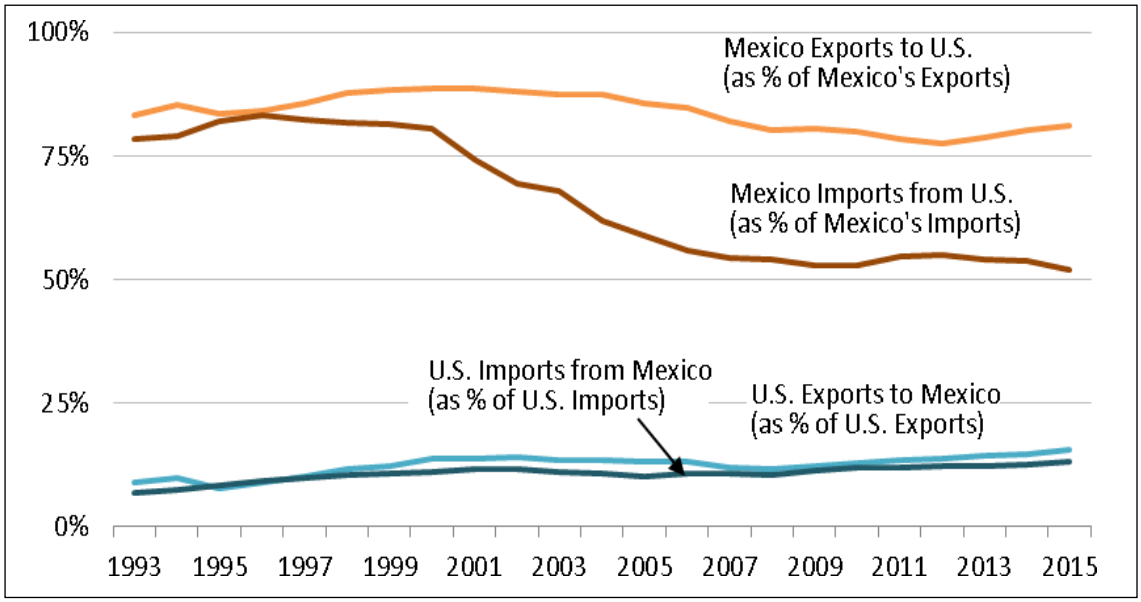
[449] *Ibidem*.

[450] Villarreal, M.A. and Fergusson, F.I. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P.24. https://fas.org/sgp/crs/row/R42965.pdf.

Trade with Mexico

Mexico depends deeply on the United States as an export market, but, over the years, this dependence has slightly lowered. The percentage of Mexico's overall exports to the United States has reduced from 83% in 1993 to 81% in 2015 (**Table 37**)[451].

Table 37. Market share as percentage of total trade: Mexico and the US (1993/2015).



Source: Economist Intelligence Unit, from IMF International Financial Statistics.
Note: Represents exports to and imports from other country as percentage of country's total trade.

Moreover, its share of the US market has fallen behind since 2003, year in which China surpassed Mexico gaining the second position as supplier of US imports. Even the United States is losing share of Mexico's import market. As a matter of fact, the US quotas of Mexico's imports decreased from 78% to 54% between 1993 and 2015. China has become the second most important source of imports of Mexico. Anyway, the United States represents Mexico's leading partners in trade in goods. US exports to Mexico have grown rapidly since NAFTA's implementation, from $41.6 billion in 1993, to $231.0 billion at the end of 2016, thus an increase of 455% (**Tables 38** and **39**)[452].

Notwithstanding, trade under NAFTA does not simply imply Mexican consumers buying US goods or conversely, but rather, it entails that Mexican plants import, assemble and export parts for sale, in large measure to the United States. In this

[451] *Ivi.* P.20.
[452] Center for International Development at Harvard University, ATLAS of Economic Complexity. http://atlas.cid.harvard.edu/ (cited on 5 December 2017).

context, according to Shaiken: *«one might call these imports, whether from the United States or China, "industrial tourists" since they stay in Mexico only long enough to become cars, televisions, and other goods that are then bought by US consumers. Mexicans may handle these imports on assembly lines, but they don't purchase them in stores»*[453]. As data have shown, goods made from these temporary imports amounted at an average of 72% of Mexico's manufacturing exports between the years 1993 and 2010, representing a high concentration according to global standards[454].

Table 38. What did US export to Mexico between 1993 and 2016 (in value).

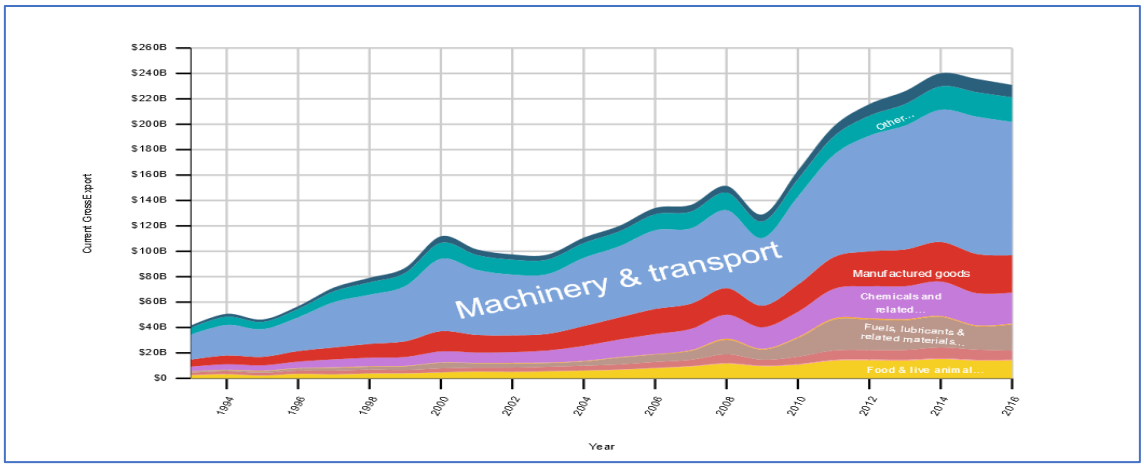
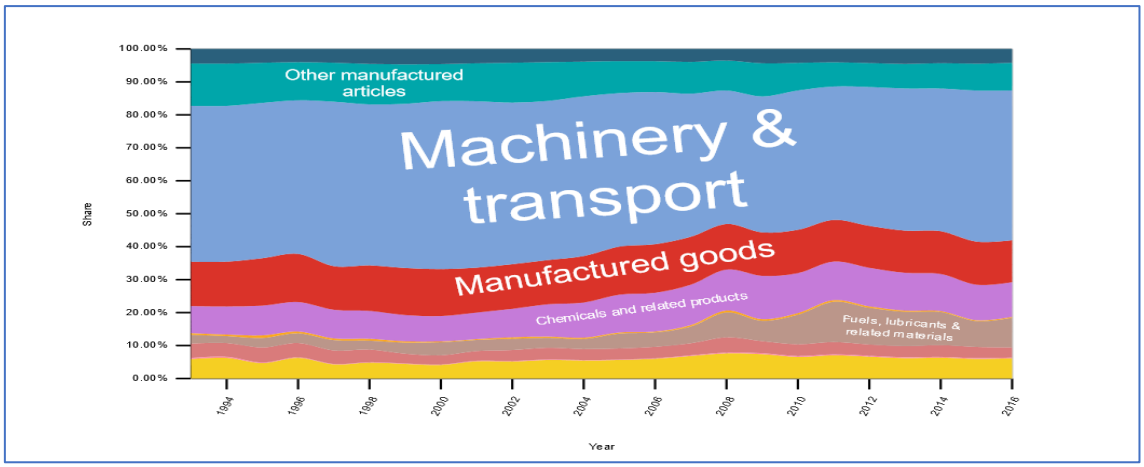


Table 39. What did US export to Mexico between 1993 and 2016 (in share).



Even imports have intensified: in 1993 they were $39,9 billion, whereas in 2016 they amounted for $294,2 billion, thus increasing by 637% (**Tables 40** and **41**)[455].

[453] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. P. 38. https://clas.berkeley.edu/research/trade-nafta-paradox.
[454] *Ibidem*.
[455] *Ibidem*.

Table 40. What did US import from Mexico between 1993 and 2016 (in value).

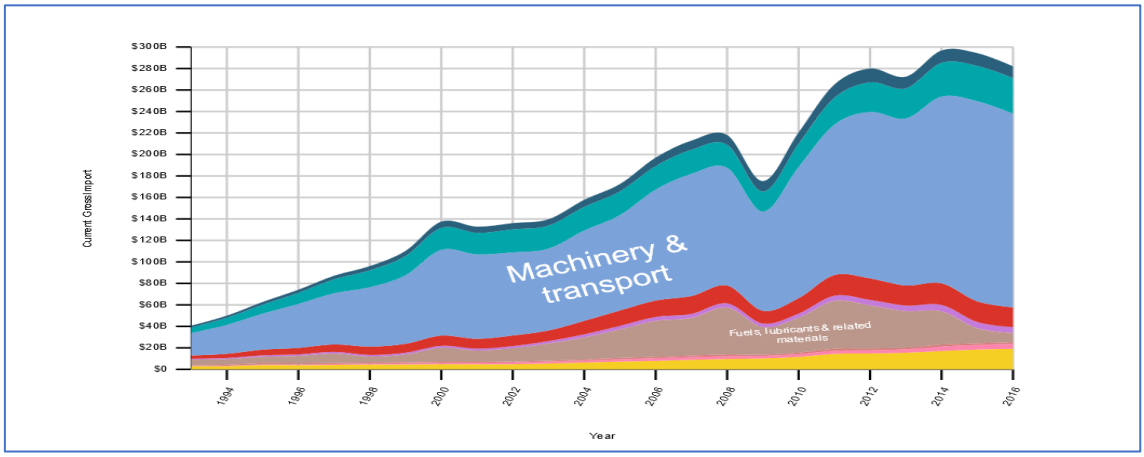
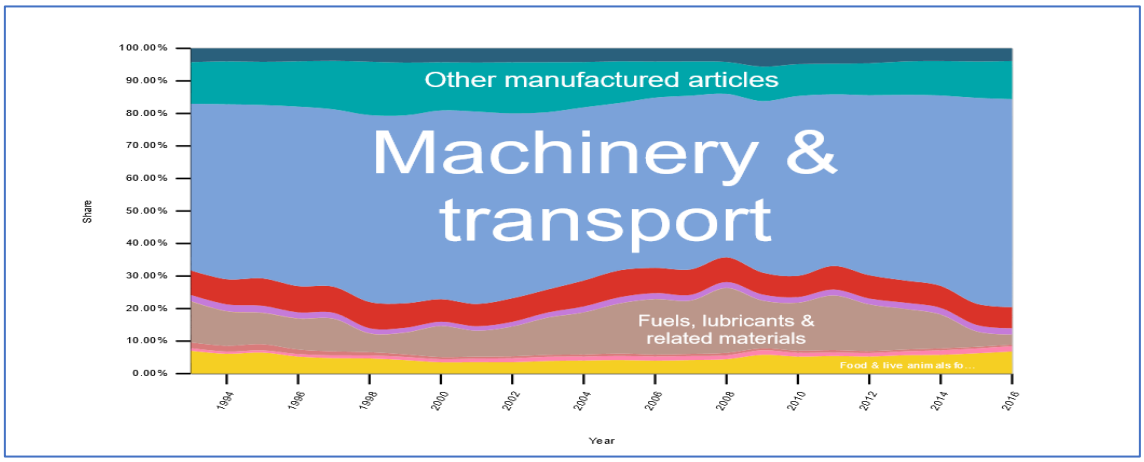


Table 41. What did US import from Mexico between 1993 and 2016 (in share).



Accordingly, in 1993, trade balance corresponded to a surplus of $1,7 billion, and then, in 2016, converted to a deficit of $63.2 billion, even though reaching its maximum in 2007, when trade deficit registered was $74.8 billion.

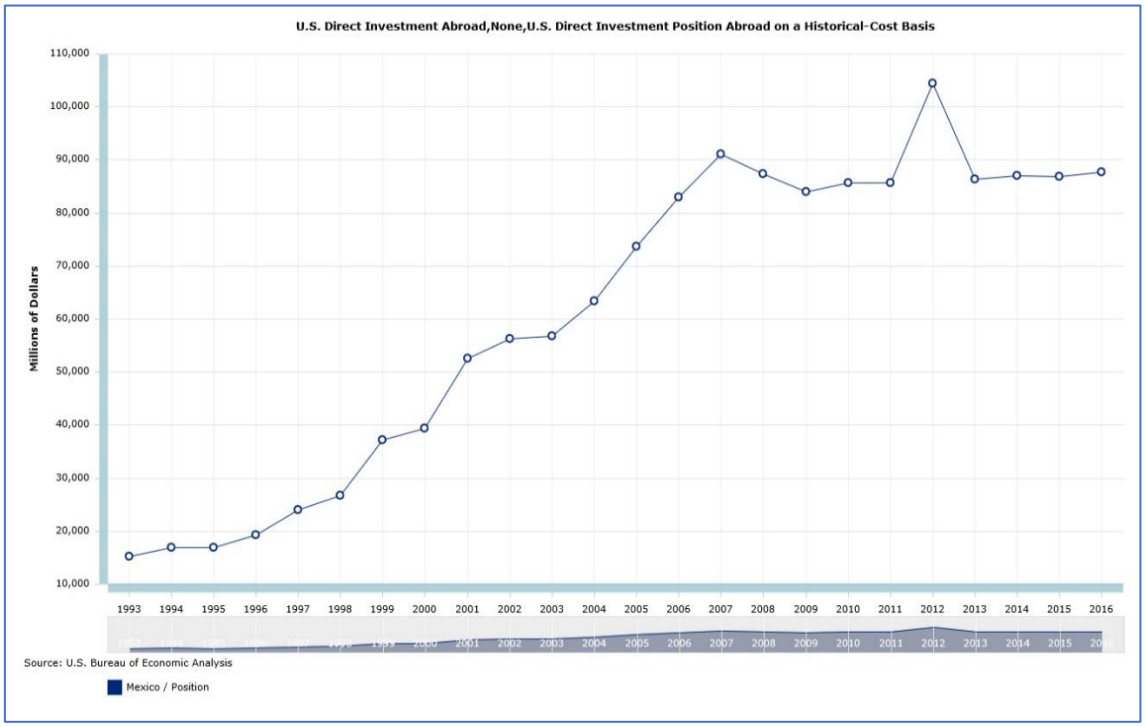
Moreover, US trade in services with Mexico had a surplus of $9.6 billion in 2016. US private services exports to Mexico *«increased from $10.4 billion in 1993 to $31.5 billion in 2015»*[456]. On the other hand, US private services imports *«increased from $7.4 billion in 1993 to $21.9 billion in 2015»*[457].

As far as Foreign Direct Investment (FDI), they represented an integral part of the economic relationship between the United States and Mexico for several years, especially following NAFTA's implementation. Bilateral investments grew rapidly after NAFTA. The United States constitutes the major source of FDI in Mexico. The shares of US FDI in Mexico raised from $15.2 billion in 1993 to $104.4 billion in

[456] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 15. https://fas.org/sgp/crs/row/R42965.pdf.
[457] *Ibidem*.

2012 (587%), and then, in 2016, decreased to $87.6 billion (**Table 42**)[458]. However, FDI flows have been influenced also by other factors throughout the years, experiencing higher increase rates during the economic expansion period of the late 1990s, whereas slower rates in recent years, perhaps caused by the economic downturn generated by the 2008 global financial crisis and/or the increased violence rate in Mexico. Moreover, whilst Mexico's unilateral trade and investment liberalization reforms in the 1980s and early 1990s helped in the increase of US FDI in Mexico, NAFTA measures on foreign investment may have contributed to consolidate Mexico's reforms and foster investor's confidence[459].

Table 42. US FDI in Mexico (1993/2016).

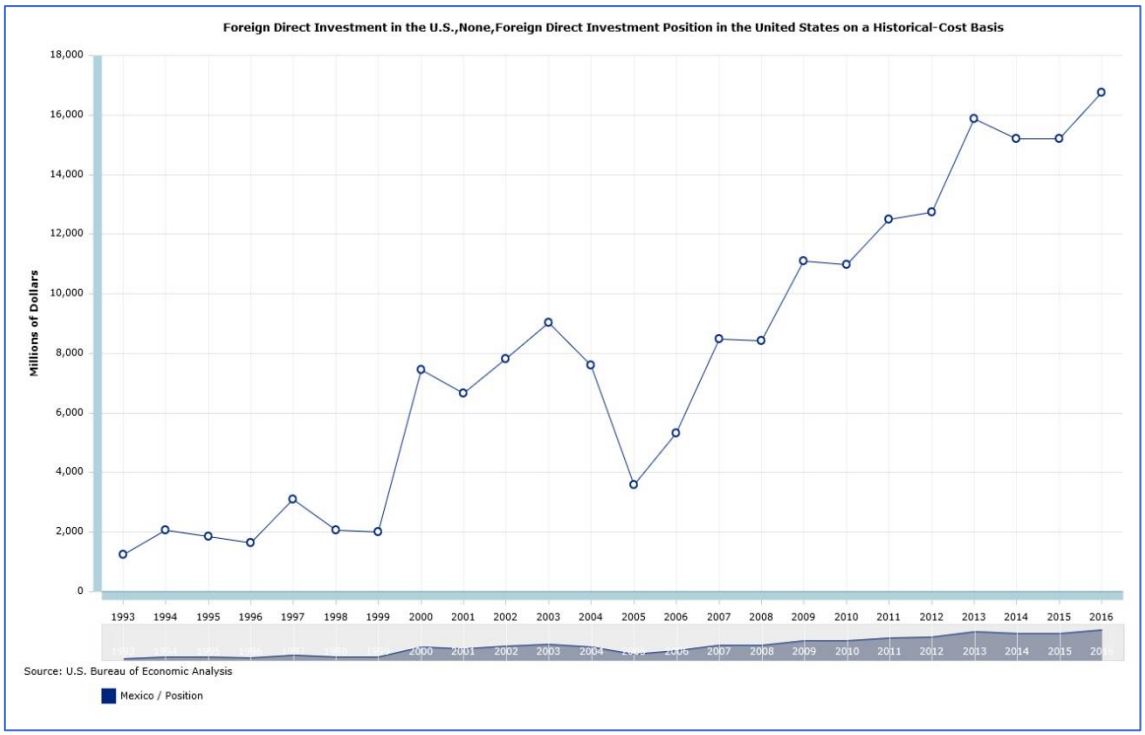


In addition, NAFTA played a role in giving US and Canadian investors nondiscriminatory treatment of their investments as well as granting investor's protection in Mexico. Almost half of total FDI investment in Mexico is in the manufacturing industry.

On other hand, although it has significantly decreased in respect of US investment in Mexico, Mexican FDI in the United States has instead grew rapidly, from $1.2 billion in 1993 to $16.8 billion in 2016 (1347% increase) (**Table 43**)[460].

[458] Bureau of Economic Analysis online database: http://www.bea.gov (cited on 5 December 2017). Revised by the Author.
[459] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 21. https://fas.org/sgp/crs/row/R42965.pdf.
[460] Bureau of Economic Analysis online database: http://www.bea.gov (cited on 5 December 2017). Revised by the Author.

Table 43. Mexico FDI in U.S (1993/2016).



According to Villarreal and Fergusson, several studies have demonstrated that NAFTA has benefitted the entire Mexican economy in terms of economic and social development. However, it is also true that these beneficial effects have not been equally distributed throughout the whole country. Moreover, the accord positively impacted Mexican productivity. A study carried out by the World Bank in 2011, discovered that the advance in trade integration after NAFTA's implementation had a positive consequence, thus stimulating the productivity rate of Mexican facilities[461]. Much of the studies on economic impact carried out after the entry into force of the agreement have registered that the net overall effects on the Mexican economic landscape seemed to be positive but modest.

As a matter of fact, Mexico registered times of positive and negative economic increase after the implementation of the treaty. For this reason, it is quite hard to quantify exactly the economic changes generated by NAFTA.

Another World Bank report of 2005 concluded that, after having assessed some of the economic effects on Mexico deriving from NAFTA, the agreement fostered Mexico's process of development in getting closer to development levels of the United States and Canada.

[461] De Hoyos, R.E. and Iacovone, L. *Economic Performance under NAFTA*. The World Bank Development Research Group. May 2011, PP. 25-27. http://www.etsg.org/ETSG2007/papers/iacovone.pdf.

In addition, it added also data showing that: NAFTA supported a more quickly adaptation of Mexican manufacturers to US technological innovations; in Mexico, it likely had a positive effect on the quantity and quality jobs, as well as decreased macroeconomic volatility or large variations in the GDP growth rate; in all three partners countries, it increased the levels of synchronicity in business, as well as strengthened the high sensitivity of Mexican economic sectors to economic developments in the United States[462].

On the other hand, other reports have underlined how NAFTA did not fulfilled expectations in the substantial improvement of Mexican economy or in the concrete reduction of inequalities between Mexico and its northern partners. In this regard, experts claim that a possible reason for the limited success that NAFTA had in Mexico may lie in the fact that the agreement was not combined with policies that might have supported a stronger regional integration commitment, as well as involved developments in sectors like education, investments in infrastructure and industrial policies.

Furthermore, among the most controversial issues of NAFTA there is the agricultural sector in Mexico, together with the perception that NAFTA has provoked a higher number of Mexican worker displacement in this sector than in other economic sectors.

In this context, much of the criticisms relate that there has been a significant amount of job losses in Mexican agricultural sector, and, especially, in the corn production one.

A study carried out by the Economic Policy Institute estimated that, between 1991 and 2000, the corn production sector experienced around 1 million jobs losses[463].

Nonetheless, if, on the one hand, any of the evolutions in the agricultural sector are directly resulting from NAFTA, on the other, as Mexico started to import more products with lower prices from the United States, many of the changes can be attributable to the unilateral agricultural reforms implemented in Mexico during the 1980s and early 1990s[464]. Most of these reforms involved privatization

[462] Lederman, D., Maloney F.W. and Servén, L. *Lessons from NAFTA for Latin America and the Caribbean*. The World Bank, 2005. http://siteresources.worldbank.org/DEC/Resources/BookNAFTAWorldBank.pdf.

[463] Scott, E.R., Salas, C., Campbell, B. and Jeff Faux, J. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper #173. P. 43. http://www.epi.org/publication/bp173/.

[464] In this sense, Mexico's unilateral agricultural reform measures phased out government subsidies and price controls in the agricultural sector that resulted in rising prices for tortilla, which are the essential staple for the Mexican traditional diet and a necessity for the poor. Therefore, the increase in prices affected more positively the poor than the middle and higher-income Mexicans. Moreover, Mexico reviewed its Agrarian Law, for which lands that had been granted to *ejidos* or community rural

measures and prompted growing competition. They comprised the removal of both State enterprises regarding agriculture, and staple price supports and subsidies.

Finally, these reforms coincided with the negotiations of NAFTA, and were continued also after its entry into force in 1994.

For these reasons, unilateral reforms in the agricultural sector make it harder to differentiate the effects of these reforms from those of NAFTA. When the agreement was proposed, one of the main reasons in its favor claimed by policymakers was that it would have improved economic conditions in Mexico and narrowed income inequality between Mexico and its northern partners.

Studies on the issue of economic convergence – which *«can be broadly defined as a narrowing of the disparities in the economic levels and the manufacturing performances of particular countries or their regions. The goal of the theory of economic convergence is to research and analyze the factors influencing the rates of economic growth and real per capita income in countries»*[465] – have reported that economic convergence in North America has not become reality.

A study by Blecker and Esquivel argues that the agreement did not manage to fulfill the promise of bridging the Mexico-US development gap. Moreover, it states that this was partially caused by the lack of stronger forms of regional integration or cooperation between Mexico and the United States[466]. The analysis claims that domestic policies in both countries – along with highlighting geographic and demographic realities – promoted the persistence in income inequalities. The authors also observe that neither Mexico nor the United States implemented complementary policies after NAFTA's entry into force that could have fostered a more successful regional integration. These policies might have interested education, more investments in border and transportation infrastructure and industrial policies.

Moreover, it has been noted that other improvements – for instance, greater security along the US and Mexican border after the September 11, 2001 terrorist attacks – have made it much more complicated for the movement of goods and

---

groups after the 1910 revolution achieved the right to privatize. This fostered a greater efficiency in the production processes, particularly in Northern states.

[465] Villarreal, M. A. and Fergusson, F.I. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 21. https://fas.org/sgp/crs/row/R42965.pdf.

[466] Blecker, R.A. and Esquivel, G. *NAFTA, Trade, and Development*. Working Paper 10-03, Center for US- Mexican Studies (San Diego), the Mexico Institute of the Woodrow Wilson Center (Washington DC), El Colegio de la Frontera Norte (Tijuana), and El Colegio de México (Mexico City), 2010, P. 1. http://www.cesifo-group.de/DocDL/forum4-10-focus3.pdf.

services across the border as well as for improving regional integration. They argue that the United States and Mexico could cooperate on the establishment of measures that support convergence and economic development in Mexico instead of increasing security and "building walls"[467].

The mentioned World Bank study of 2005 came to the main conclusion that NAFTA *«has helped Mexico get closer to the levels of development of its NAFTA partners»*[468]. According to the research, without the agreement Mexico's global exports would have been about 25% lower, while Foreign Direct Investment (FDI) would have been about 40% less.

Moreover, it is significant to note that the amount of time required for Mexican manufacturers to adopt US technological innovations was reduced by 50%. In this sense, the abovementioned study argues that *«trade can probably take some credit for moderate declines in poverty and has likely had positive impacts on the number and quality of jobs. However, NAFTA is not enough to ensure economic convergence among North American countries and regions. This reflects both limitations of NAFTA's design and, more importantly, pending domestic reforms»*[469].

Thus, the report concludes that NAFTA has benefitted Mexican economy and society, however still, this has not been sufficient to narrow the economic inequalities between Mexico and the United States.

Moreover, the report argues that Mexico needs to invest more in innovation, education, infrastructure, and in the quality of national institutions. It also affirms that income convergence between a Latin American country and the United States is limited because of the vast differences in the quality of domestic institutions, in the innovation processes of domestic firms, and in labor force's skills.

If, on the one hand, NAFTA positively affected wages and employment in some Mexican States, on the other, the wage gap within the country grew as a result of trade liberalization[470].

Another analysis also underlines that the ability of Mexico to develop economic conditions depends on its capacity to develop national institutions, adding that Mexican institutions did not improve substantially more than those of other Latin American countries since NAFTA was implemented.

---

[467] *Ivi*. P. 11.

[468] Lederman, Maloney, and Servén, *Lessons from NAFTA for Latin America and the Caribbean,* The World Bank, 2005. P. V. http://siteresources.worldbank.org/DEC/Resources/BookNAFTAWorldBank.pdf.

[469] *Ibidem*.

[470] *Ibidem*.

Measuring NAFTA's effects on the US economy

What have been the effects of NAFTA on the economy of the United States? According to Villarreal and Fergusson, the registered total net[471] effect of the agreement on the US economy proved to be relatively small. One of the main reasons of this is because, when NAFTA entered into force, the overall trade of the United States with both Canada and Mexico amounted to less than 5% of the US GDP[472]. In addition, since almost each economic consequence derived from the liberalization policy of US-Mexico trade, it is important to consider, according to the abovementioned authors, that bilateral trade between the United States and Mexico amounted to an even lower portion of GDP in 1994, that was 1.4%[473]. In this sense, in relation to the overall US economy, any changes in trade issues would not be expected to be that relevant.

A serious challenge in the assessment process of NAFTA would be to separate the effects resulted from the agreement itself from other factors. As a matter of fact, before NAFTA, US trade with the other two countries had already experienced growth. Thus, experts affirmed that it would have likely kept growing also without an accord. Hence, in a report of 2003, the Congressional Budget Office argued that it was rather complicated to specifically measure NAFTA's implications. Indeed, even if minimum, its evaluation registered an increase in the US annual GDP, as reported *«probably no more than a few billion dollars, or a few hundredths of a percent»*[474] (**Table 44**). In several sectors, trade-related consequences could have been greater, particularly in those industries – such as agriculture, textiles and apparel, and automotive –, more exposed to the elimination of tariffs and non-tariff trade barriers. NAFTA phased out Mexico's protectionist policies in the auto sector and it was essential in the integration of the motor vehicle industry in all three member countries. The sector witnessed some of the most considerable changes in trade after the agreement. Motor vehicles and motor vehicle parts rank first among leading exports to and imports from NAFTA partners (**Table 45**)[475].

---

[471] The total net stands for the balance between export and import.

[472] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 15. https://fas.org/sgp/crs/row/R42965.pdf.

[473] *Ibidem*.

[474] Congressional Budget Office of the United States, *The Effects of NAFTA on US-Mexican Trade and GDP*. May 2003. P. 14. https://www.cbo.gov/sites/default/files/108th-congress-2003-2004/reports/report_0.pdf.

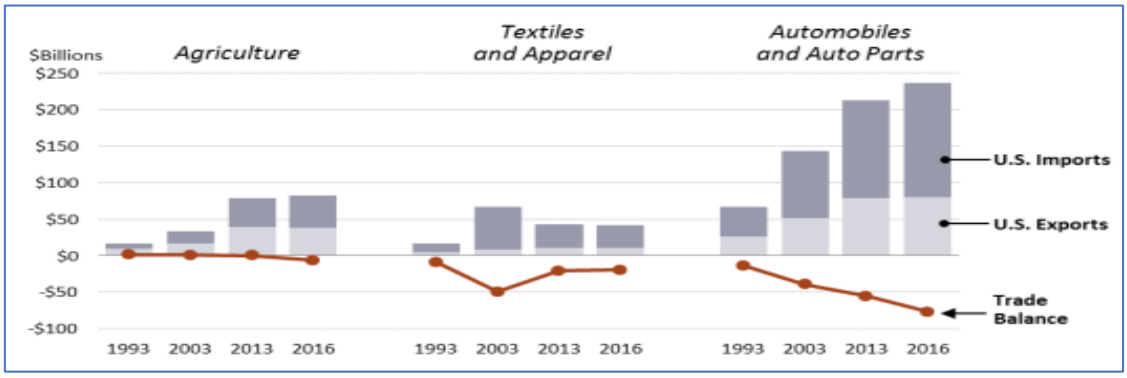
[475] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 11. https://fas.org/sgp/crs/row/R44981.pdf.

Table 44. US trade with NAFTA partners by major product category in 2016 (in USD billions).

	US Exports		*US Imports*	
NAFTA Partner	***Leading Items (NAIC 4-digit level)***	***Value***	***Leading Items (NAIC 4-digit level)***	***Value***
Canada	Motor Vehicles	25.9	Motor Vehicles	46.3
	Motor Vehicle Parts	21.0	Oil & Gas	43.2
	Petroleum & Coal Products	8.9	Motor Vehicle Parts	13.8
	Computer Equipment	7.8	Nonferrous (exc Alum) & Processing	9.4
	Other General Purposes Machinery	7.8	Aerospace Products & Parts	8.7
	All Other	194.6	All Other	156.8
	All Commodities	266.0	All Commodities	278.1
Mexico	Motor Vehicle Parts	19.8	Motor Vehicles	49.3
	Petroleum & Coal Products	16.7	Motor Vehicle Parts	46.0
	Computer Equipment	16.5	Computer Equipment	18.2
	Semiconductors & Electronic Components	12.0	Communications Equipment	14.5
	Electrical Equipment & Components (NESOI)	8.4	Audio & Video Equipment	12.5
	All Other	157.5	All Other	153.6
	Total exports to Mexico	231.0	Total Imports from Mexico	294.2

Source: Compiled by CRS using trade data from the US Census Bureau: Economic Indicators Division USA Trade Online.
Notes: The North American Industrial Classification System (NAICS) is the standard used by federal statistical agencies in classifying business establishments for the purpose of collecting, analyzing, and publishing statistical data related to the US business economy. In addition, the data for US exports to Canada are derived from import data compiled by Canada. The use of Canada's import data to produce US export data requires several alignments in order to compare the two series. The aggregate U. S. export figure is slightly larger." US Census Bureau, "US/Canada Data Exchange and Substitution," https://www.census.gov/ foreign-trade/reference/guides/tradestatsinfo.html#canada.
Abbreviation: NESOI acronym stands for Not Elsewhere Specified or Indicated.

Table 45. US trade with NAFTA partners in selected industries 1993/2016 (in USD billions).



Source: Compiled by CRS using data from the US International Trade Commission, US Department of Agriculture, International Trade Administration's Office of Textiles and Apparel.

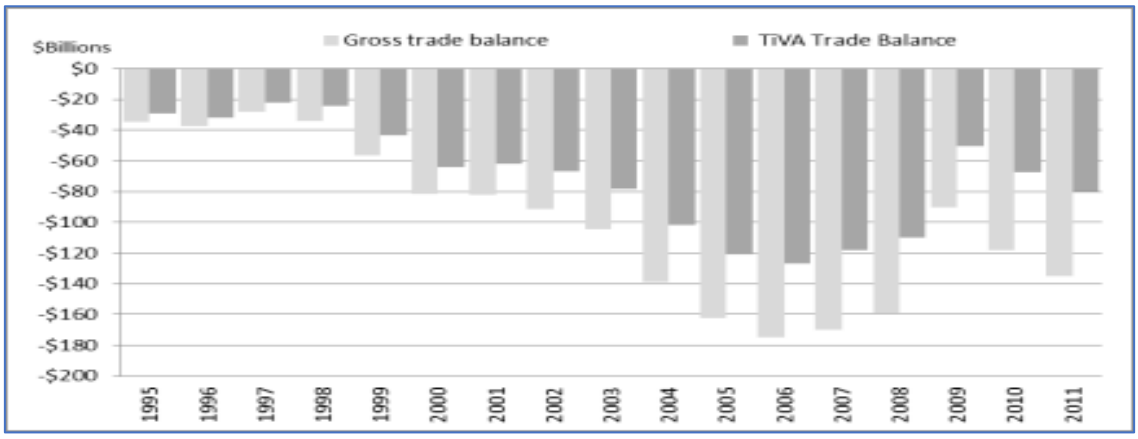
Moreover, also agricultural trade increased following the agreement, even though to a lesser extent than the motor vehicle industry. The trade balance in the agricultural sector has a much lower trade deficit. Trade evolutions by sector indicate that NAFTA gained many of the trade and economic benefits that supporters argued it would bring, even if there have been adjustment costs. However, it is quite hard to separate the effects of NAFTA to assess the impacts on trade in certain industries because also other factors affect trade, like economic development and monetary fluctuations[476].

[476] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 10. https://fas.org/sgp/crs/row/R44981.pdf.

In addition, attention should be paid to the fact that in their internal flow of the trade-production chain, many products acquire added value across the passages. International trade's conventional measures do not always correspond to the flows of goods and services within the context of global production chains. For instance, some experts in auto trade assert that auto parts and components may cross the borders of NAFTA countries *«as many as eight times before being installed in a final assembly plant in a NAFTA country. Traditional trade statistics include the value of the parts every time they cross the border and count the value multiple times»*[477].

As a matter of fact, the Organization for Economic Co-operation and Development (OECD) and the World Trade Organization (WTO) elaborated a Trade In Value Added (TIVA) database, which displays indicators offering guidance of domestic and foreign value added content of gross exports by an exporting industry. Moreover, these data *«provide a more detailed picture of the location where value is added during the various stages of production. US trade with Canada and Mexico is diverse and complex since a final good sold in the market could have a combination of value added from all three countries, or from other trading partners»*[478]. The most recent TIVA data available (2011) for both trade in goods and services suggest that the conventional measurement counts the overall US trade deficit (goods and services included) with NAFTA partners at $135 billion, while the TIVA methodology counts the deficit at $79.8 billion (**Table 46**)[479].

Table 46. US total trade and value added balances with NAFTA countries (1995/2011, in USD billions).



Source: Compiled by CRS using data from the Organization for Economic Co-operation and Development (OECD)/World Trade Organization (WTO) Trade in Value Added (TIVA) 2016 indicators.
Notes: Data are the most recent available and include trade in goods and services. Totals in this figure may differ from USITC data cited in other sections of this report because of differences in methodology used by different sources.

[477] *Ibidem*.
[478] *Ibidem*.
[479] *Ivi*. P. 10.

On the other hand, reports by the US International Trade Commission (USITC) on the impact of NAFTA stressed how difficult is to separate the effects deriving from the agreement from those originating by other factors. The USITC, in a study completed in 2003, argued that US GDP witnessed an increase between 0.1% and 0.5% upon full implementation of the accord[480].

A more recent USITC report of June 2016 on the issue of economic implications of trade accords carried out by the Trade Promotion Authority, found out that, in a general extent, NAFTA caused a significant growth in the volume of trade in all three member countries, as well as a modest increase in US welfare and almost no adjustment on US aggregate employment[481]. Moreover, another data reported is the reduction of US wages in some sectors and States, whilst in other countries they experienced an increase. Notwithstanding, other reports by the US International Trade Commission proved how, to a broad extent, *«the NAFTA preference margins had essentially no effect on real wages in the United States of either skilled or unskilled workers»*[482].

As far as US industries and supply chains, several experts have attributed to NAFTA the credit for supporting US manufacturer industries – particularly the US automotive one – in extending their global competitiveness by means of a greater economic integration in North America and a development process of supply chains. As Hufbauer and Schott explained, *«the growth in auto trade owes both to Mexican domestic reforms and NAFTA liberalization. Mexico has attracted substantial investment from the United States, Japan, and Germany, increasing its auto production from 1.1 million units in 1993 to 1.8 million in 2002 (…) Mexican auto trade in 2003 was five times greater than in 1993; the auto sector accounted for 22 percent of Mexico's total exports in 2003. Much of the trade increase can be attributed to specialization, as parts manufacturers and assembly plants have been reoriented to take advantage of economies of scale»*[483].

Therefore, *«supply lines for finished vehicles routinely cross national boundaries, as parts and assembly work is performed wherever it is most efficient. In Canada and the United States, this process was far along when NAFTA came into force, but it has*

---

[480] USITC. *The Impact of Trade Agreements: Effect of the Tokyo Round, US-Israel FTA, US-Canada FTA, NAFTA, and the Uruguay Round on the US Economy*. Publication 3621, August 2003. P. 32. https://www.usitc.gov/publications/332/pub3621.pdf.

[481] United States International Trade Commission. Economic Impact of Trade Agreements Implemented Under Trade Authorities Procedures, 2016 Report. P. 255. https://www.usitc.gov/publications/332/pub4614.pdf.

[482] *Ivi*. P. 259.

[483] Hufbauer, G.C. and Schott, J.J. *NAFTA Revisited: Achievements and Challenges*. Institute for International Economics, October 2005. PP. 20-21.

deepened in the NAFTA decade. While international supply lines are a boon to efficiency, reliance on just-in-time manufacturing processes makes the industry very sensitive to border disruptions»[484].

By reducing tariffs in a certain sector, not only prices in that sector will be affected, but also prices in industries purchasing intermediate inputs from that sector. According to a study of the National Bureau of Economic Research, the relevance of these direct and indirect implications is often underestimated. The study, in fact, argues that these connections offer significant trade and welfare gains from free trade agreements. Thus, disregarding these input-output connections might overlook potential commercial benefits[485]. A great part of trade relations between the United States and its NAFTA partners developed in the framework of production sharing, since producers in each country cooperate to create products. As underlined by the authors, trade expansion has culminated in the establishment of a supply relationship of a vertical kind, particularly along the US and Mexican borders[486].

The flow of intermediate inputs elaborated in the United States and then exported to Mexico and the streams of return of finished goods made the US-Mexico border region considerably more important as a manufacturing site[487]. In this sense, US manufacturing sector, including automotive industries, appliances, electronics and machinery, counts on the support of Mexican manufacturers. According to a study conducted by the National Bureau of Economic Research[488] mentioned by Villarreal and Fergusson[489], the 40% of the content of US imports from Mexico and the 25% of the content from Canada have a US origin. Comparatively, US imports from China registered only 4% of US content.

In brief, if pre-NAFTA and post-NAFTA periods are taken into account, according to **Table 47**, the real GDP growth (annual average) would have been positive only in the case of Canada; the exports growth would have been slightly positive in the case of Mexico; *inter alia* as far as the unemployment rate (annual average) is

---

[484] *Ivi*. P. 21.

[485] Caliendo, L. and Parro, F. *Estimates of the Trade and Welfare Effects of NAFTA*, National Bureau of Economic Research, November 2012, PP. 1-5. http://faculty.som.yale.edu/lorenzocaliendo/ETWENAFTA.pdf.

[486] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 16. https://fas.org/sgp/crs/row/R42965.pdf

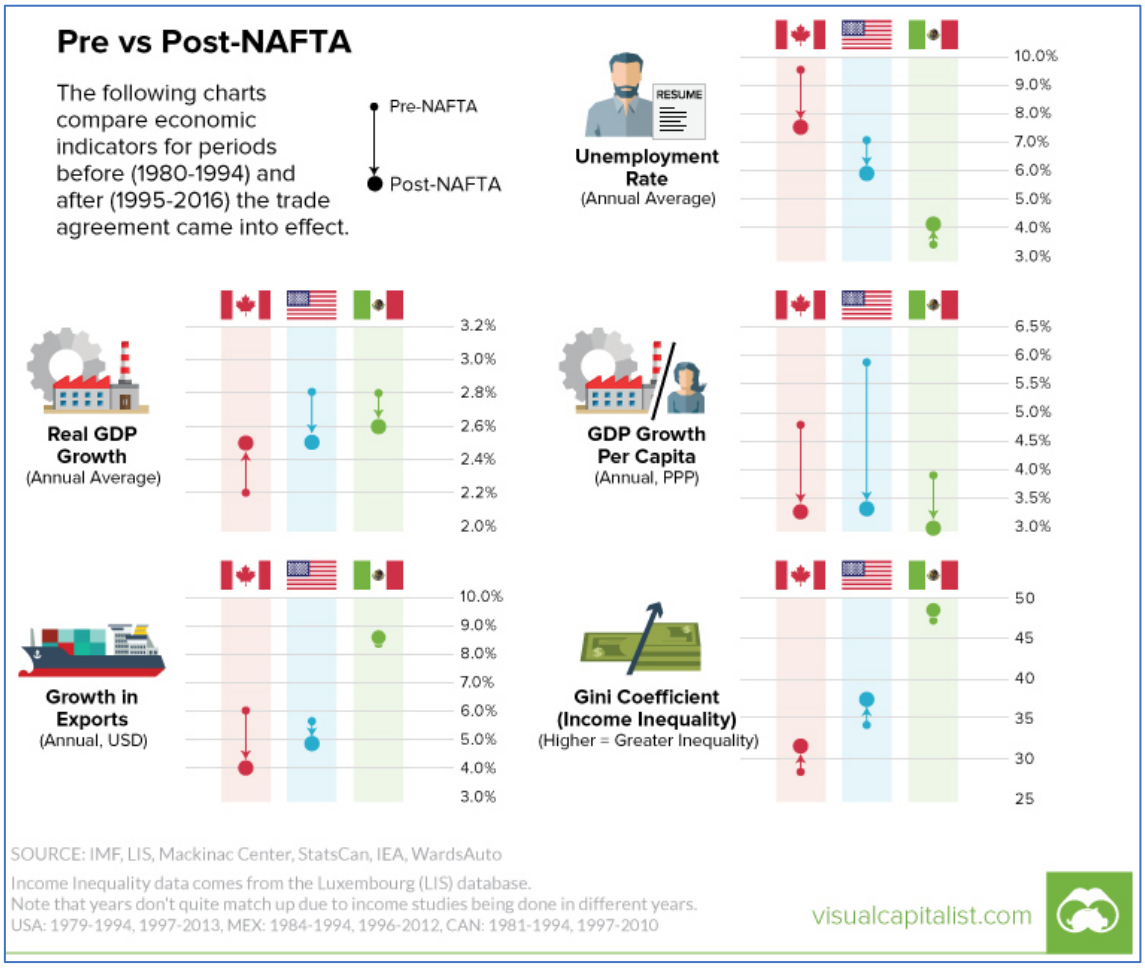
[487] *Ibidem.*

[488] Koopman, R., Powers, W. and Wang Z., Wei, S.J. *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*. National Bureau of Economic Research, Working Paper 16426, Cambridge, MA, September 2010. https://www.bea.gov/about/ pdf/NBER%20working%20paper_1.pdf.

[489] Villarreal, M. A. and Fergusson, I.F. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 16. https://fas.org/sgp/crs/row/R42965.pdf

concerned; whereas, the GDP growth per capita (on annual average at Purchasing Power Parities) would have been negative for all three member countries; finally, in this sense, the Gini Coefficient, which measures inequality rates (the higher the rate is, the greater is inequality), would register an increase of disparities. In this sense, as Shaiken has pointed out, if, on the one hand, expanded trade can bring significant benefits, on the other, a more in-depth analysis at the numbers portraits a *«more complex, troubling picture»*[490]. In fact, if considered exclusively as a trade deal, the agreement *«has been an undeniable success story for Mexico, ushering in a dramatic surge in exports (...) But if the purpose of the agreement was to spur economic growth, create jobs, boost productivity, lift wages, and discourage emigration, then the results have been less clear-cut. The key issue isn't simply the growth in trade – important as it is for all three countries involved – but more importantly the character of that trade»*[491].

Table 47. Economic indicators pre- (1980/1994) and post-NAFTA (1995/2016).



[490] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. P. 37. https://clas.berkeley.edu/research/trade-nafta-paradox.
[491] *Ibidem*.

DID CHINA CRASH THE NAFTA PARTY?
THE ECONOMIC SECTORS MOST UNDER "THREAT"

A much more problematic insight – as well as concerned[492] – of the evolution of NAFTA has been offered by Enrique Dussel Peters and Kevin P. Gallagher[493], for whom 2001, year in which China joined the WTO, marks a shift in trade relations among the three partners of the agreement and the Asia's giant. In 2000, China was not yet among the top five trading partners for Mexico (**Table 48**)[494] and, in 1999, still ranked at the fourth position as far as trade with the United States (**Table 49**)[495].

Table 48. Top trading partners of Mexico, 1994/2000.

Mexico					
	1	***2***	***3***	***4***	***5***
1994	United States	Japan	Germany	Canada	Spain
2000	United States	Canada	Japan	Germany	Republic of Korea

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

Table 49. Top trading partners of the United States, 1993/1999.

United States					
	1	***2***	***3***	***4***	***5***
1993	Canada	Japan	Mexico	United Kingdom	Germany
1999	Canada	Mexico	Japan	China	Germany

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).

However, as **Tables 50**[496], **51**[497] and **52**[498] underline, already in 2007, China became the first supplier of imported goods from the United States – overtaking Canada –, while its imports from Canada and Mexico have progressively risen.

[492] See also: Dussel Peters, E. (Coord.) *La relación México-China. Desempeño y propuestas para 2016-2018*. Universidad Nacional Autónoma de México; Cámara de Comercio de México en China; Centro de Estudios China-México; Unión de Universidades de América Latina y el Caribe. Mexico. 2016. http://dusselpeters.com/CECHIMEX/LarelacionMexicoChina.pdf; Dussel Peters, E., Hearn, A.H., Shaiken, H. *China and the New Triangular Relationships in the Americas. China and the Future of US-Mexico Relations*. Center for Latin American Studies, University of Miami; Center for Latin American Studies, University of California, Berkeley; Centro de Estudios China-México, Facultad de Economía, Universidad Nacional Autónoma de México. Mexico. 2013. http://clas.berkeley.edu/sites/default/files/shared/docs/papers/China%20and%20the%20New%20Triangular%20Relationships%20in%20the%20Americas-%20China.pdf; and Dussel Peters, E. (Coord.) *La inversión extranjera directa de China en América Latina: 10 estudios de caso*. Red Académica de América Latina y el Caribe sobre China; Unión de Universidades de América Latina y el Caribe; Universidad Nacional Autónoma de México; Red Académica de América Latina y el Caribe sobre China; Centro de Estudios China-México. Mexico. 2014. http://www.dusselpeters.com/73.pdf.

[493] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american -trade.

[494] *Ivi*. P. 87. Revised by the Author.

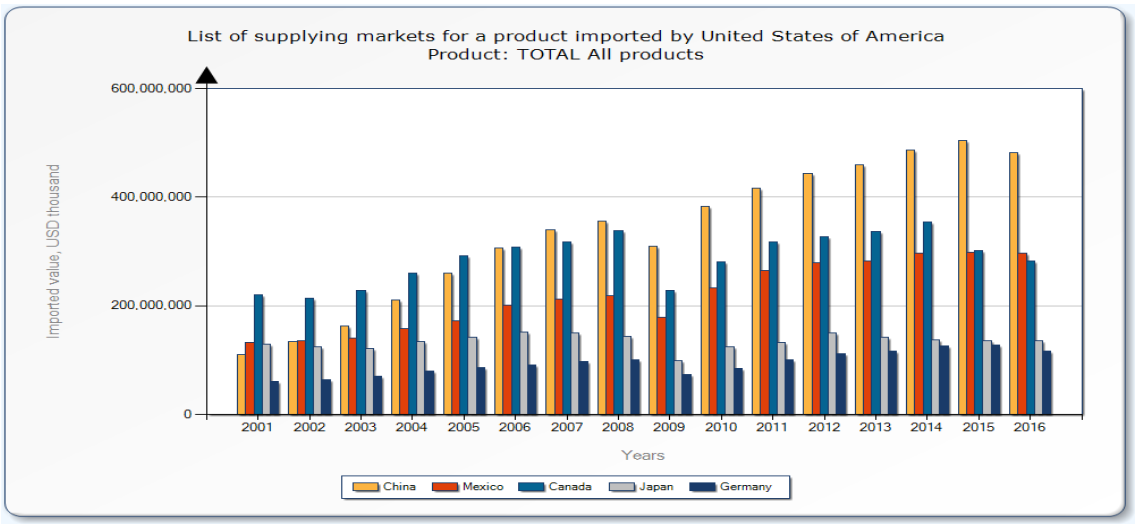
[495] *Ibidem*. Revised by the Author.

[496] Revised by the Author.

[497] *Ibidem*.

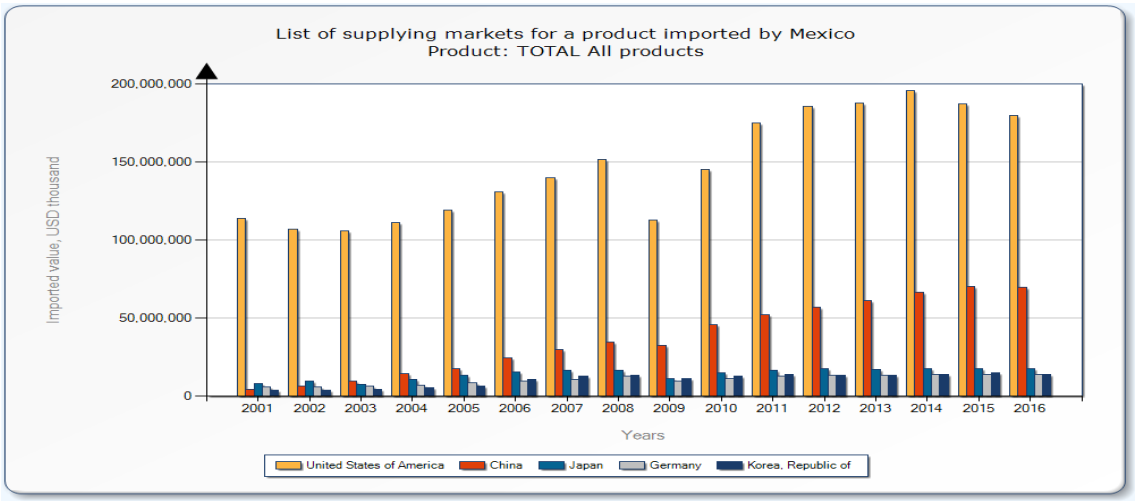
[498] *Ibidem*.

Table 50. List of supplying markets for products imported by US (2001/2016).



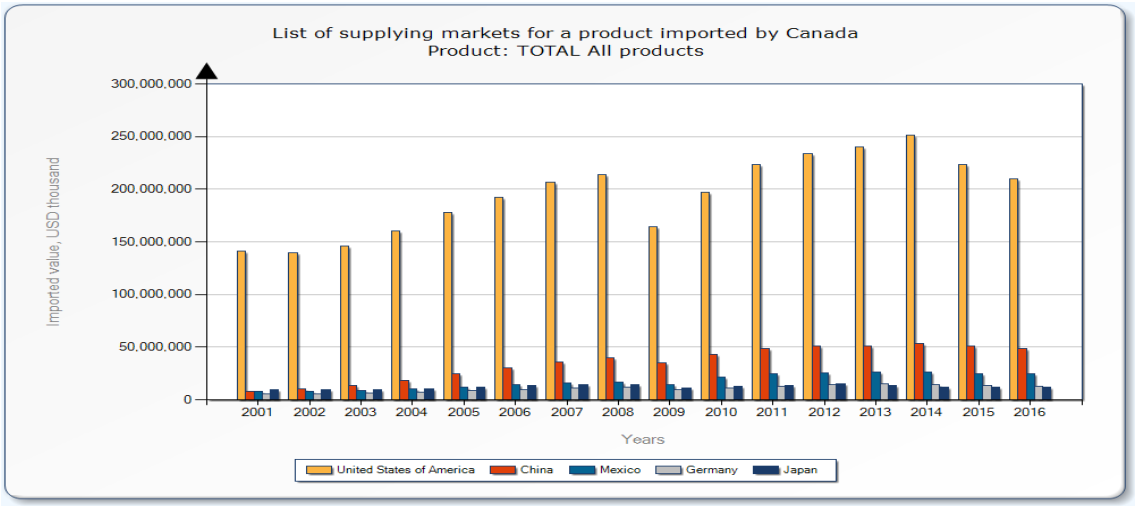
Sources: ITC, UNCTAD, WTO trade in services database based on Organisation for Economic Co-operation and Development (OECD) statistics.

Table 51. List of supplying markets for products imported by Mexico (2001/2016).



Sources: ITC, UNCTAD, WTO trade in services database based on Organisation for Economic Co-operation and Development (OECD) statistics.

Table 52. List of supplying markets for products imported by Canada (2001/2016).



Sources: ITC, UNCTAD, WTO trade in services database based on Organisation for Economic Co-operation and Development (OECD) statistics.

This trend has prompted Shaiken to argue how, while Mexico was having a large trade surplus with the United States, it had a growing trade deficit with China that *«went from barely registering – Mexico didn't even publish the data separately in 1990 – to taking off in the new millennium. In fact, China emerged as the second-largest trading partner of both the United States and Mexico by 2009»*[499].

On the contrary, in **Tables 53**[500] and **54**[501], are highlighted the changes in absolute terms in imports and exports by the United States of merchandize and services, registered in the same timeframe 2001/2016, with the corresponding trade balances, highlighting in this sense the "weight" of China.

Table 53. List of importing/supplying markets for merchandize exported/imported by United States of America, and balances (in USD millions).

List of importing markets for products exported by United States of America (in US Dollar millions)																
	Exported value in years															
Importers	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***
Canada	163,7	160,8	169,5	189,1	211,4	230,2	248,4	260,9	204,7	249,2	281,2	292,6	300,7	312,4	280,6	266,8
Mexico	101,5	97,5	97,5	110,8	120,0	134,1	136,5	151,5	129,0	163,7	198,3	215,9	226,1	240,2	235,7	229,7
China	19,2	22,1	28,4	34,7	41,8	55,2	65,2	71,5	69,6	91,9	104,1	110,5	121,7	123,7	116,1	115,6
List of supplying markets for products imported by United States of America (in US Dollar millions)																
	Imported value in years															
Exporters	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***
China	109,4	133,5	163,3	210,5	259,8	305,8	340,1	356,3	309,5	383,0	417,3	444,4	459,1	486,3	504,0	481,5
Mexico	132,8	136,1	139,7	157,8	172,5	200,5	212,9	218,1	178,3	232,3	265,1	280,0	283,1	296,9	299,2	296,8
Canada	220,1	213,9	227,6	259,7	291,9	307,7	317,5	339,1	227,6	280,4	317,9	327,5	337,1	354,2	301,9	283,0
List of partners markets for a product commercialized by United States of America																
	Balance in value in years															
Partners	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***	***2008***	***2009***	***2010***	***2011***	***2012***	***2013***	***2014***	***2015***	***2016***
Canada	-56,4	-53,1	-58,1	-70,6	-80,4	-77,5	-69,1	-78,2	-22,9	-31,2	-36,7	-34,9	-36,4	-41,8	-21,4	-16,2
Mexico	-31,3	-38,6	-42,2	-47,0	-52,4	-66,4	-76,4	-66,5	-49,3	-68,6	-66,8	-64,1	-57,1	-56,6	-63,4	-67,1
China	-90,1	-111,4	-134,8	-175,8	-218,0	-250,6	-274,9	-284,8	-240,0	-291,1	-313,2	-333,9	-337,4	-362,6	-388,0	-365,9

Sources: ITC, UNCTAD, WTO trade in services database based on Organisation for Economic Co-operation and Development (OECD) statistics.

The spiralling of imports from China, not only by the United States, but also by Mexico and Canada has occurred at the expense of US exports to the other two countries' markets of NAFTA. Since the US market has become more open, both Mexico and China have gained momentum. China and Mexico – they write – have very similar profiles as far as exports is concerned, and, for some time, have been rivaling for share of the US market in low-skilled manufactures[502].

[499] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkley. Spring 2014. P. 38. https://clas.berkeley.edu/research/trade-nafta-paradox.
[500] Revised by the Author.
[501] *Ibidem*.
[502] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 86. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

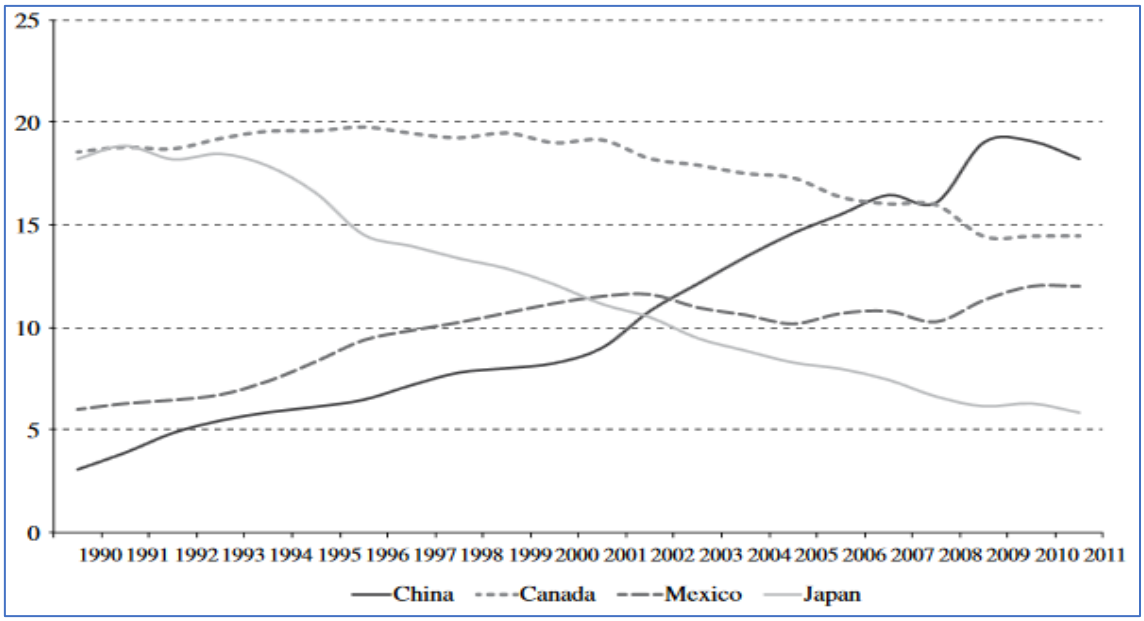
Table 54. List of importing/supplying markets for services exported/imported by United States of America, and balances (in USD millions).

List of importing markets for services exported by United States of America (in US Dollar millions)											
	Exported value in years										
Importers	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Canada	32,8	37,9	42,7	45,4	43,5	53,1	58,3	61,9	62,9	62,0	56,4
Mexico	22,5	23,8	25,0	26,2	22,9	24,6	26,4	28,2	29,9	30,2	31,5
China	8,7	10,6	13,1	15,8	17,1	22,5	28,4	33,0	37,5	44,5	48,4
List of supplying markets for services imported by United States of America (in US Dollar millions)											
	Imported value in years										
Exporters	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Canada	22,6	23,9	25,7	26,0	23,7	27,4	30,5	31,1	30,8	30,3	29,0
Mexico	14,4	14,9	15,3	15,9	14,0	14,0	14,7	15,4	17,3	19,9	21,9
China	6,9	10,1	11,8	10,9	9,6	10,6	11,8	13,0	13,9	14,0	15,1
List of partner's markets for services commercialized by United States of America (in US Dollars millions)											
	Balance in value in years										
Partners	*2005*	*2006*	*2007*	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
Canada	10,2	13,9	17,0	19,4	19,8	25,8	27,8	30,8	32,1	31,7	27,4
Mexico	8,1	8,9	9,6	10,3	8,9	10,6	11,8	12,7	12,6	10,4	9,6
China	1,8	0,4	1,3	4,9	7,5	11,9	16,7	20,0	23,6	30,5	33,3

Sources: ITC, UNCTAD, WTO trade in services database based on Organisation for Economic Co-operation and Development (OECD) statistics.

Table 55[503] highlights that the market share of Mexican products in the United States was rising until, in 2002, it achieved 11.6% just the following year of China joining the WTO.

Table 55. United Stated: share of total imports (1990/2011; in %).



Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United States International Trade Commission, 2011.

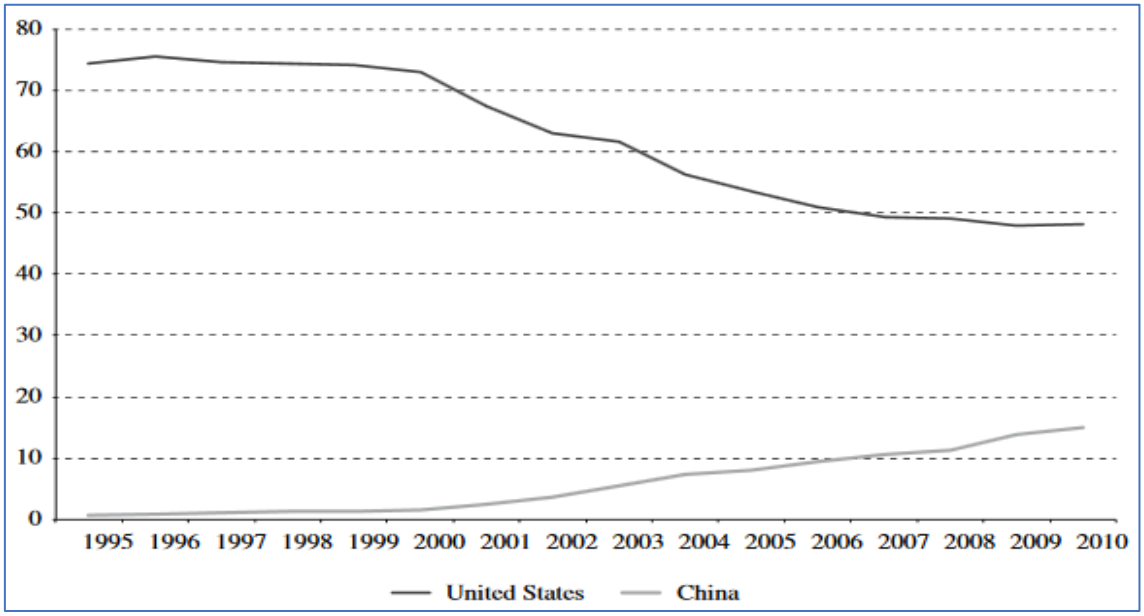
In 2003, China's share jumped to 12.1% and since then has continued to increase. In 2010, China accounted for 19.1% of United States overall imports, whereas Mexico's share was 12.1%. Although less sharply, the United States is losing share

[503] *Ivi*. P. 87.

in the Mexican market, whereas, on the contrary, China is indeed gaining[504]. Throughout the first five years after NAFTA's implementation, the United States owned almost 75% of Mexican import markets, but that share declined to 48% in 2009. As a matter of fact, China has gained share of the market, although still covering a relatively limited portion of Mexican imports.

As displayed in **Table 56**[505]**,** in 2000, China had less than 0.75% of the Mexican market, but had gained 15.13% of that market by 2010. As data will later show, in some sectors the trend is even more severe.

Table 56. Mexico: imports from China and the United States (1995/2010; % share of total).



Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of World Trade Atlas, 2011.

Furthermore, **Table 57**[506] presents the top 20 Mexican exports to the United States and the top 20 US exports to Mexico in 2000: this year was chosen by Dussel Peters and Gallagher both because it represents a benchmark before China entered the WTO and because it was a high point for trade between the United States and Mexico.

On the one hand, China's share in the top 20 exports to the United States climbed from 6.22% in 2000 to 19.42% in 2009, on the other, Mexico's share wavered from 16.61% to 16.06% in the same period. Meanwhile, the US share in its top 20 exports to Mexico collapsed from 72% in 2000 to 41.54% in 2009, whereas China's one skyrocketed from 1.09% in 2000 to 17.83% in 2009[507].

[504] *Ivi*. P. 86.
[505] *Ivi*. P. 88.
[506] *Ivi*. PP. 88-89.
[507] *Ivi*. P. 106.

Table 57. Mexico and the United States: main exports in 2000.

		Top 20 United States exports to Mexico		*Top 20 Mexican exports to the United States*
1	S2-776	Thermionic, microcircuits, transistors, valves, etc.	S2-781	Passenger motor vehicles (excluding buses)
2	S2-784	Motor vehicle parts and accessories, nes	S2-333	Crude petroleum and oils obtained from bituminous minerals
3	S2-772	Electrical apparatus for making and breaking electrical circuits	S2-764	Telecommunication equipment, nes; parts and accessories, nes
4	S2-699	Manufactures of base metal, nes	S2-752	Automatic data processing machines and units thereof
5	S2-893	Articles, nes of plastic materials	S2-931	Special transactions, commodity not classified according to class
6	S2-778	Electrical machinery and apparatus, nes	S2-773	Equipment for distribution of electricity
7	S2-764	Telecommunication equipment, nes; parts and accessories, nes	S2-782	Lorries and special purposes motor vehicles
8	S2-773	Equipment for distribution of electricity	S2-784	Motor vehicle parts and accessories, nes
9	S2-583	Polymerization and copolymerization products	S2-761	Television receivers
10	S2-713	Internal combustion piston engines, and parts thereof, nes	S2-772	Electrical apparatus for making and breaking electrical circuits
11	S2-781	Passenger motor vehicles (excluding buses)	S2-821	Furniture and parts thereof
12	S2-334	Petroleum products, refined	S2-778	Electrical machinery and apparatus, nes
13	S2-749	Non-electric parts and accessories of machinery, nes	S2-713	Internal combustion piston engines, and parts thereof, nes
14	S2-752	Automatic data processing machines and units thereof	S2-842	Men's and boys' outerwear, textile fabrics not knitted or crocheted
15	S2-874	Measuring, checking, analysis, controlling instruments, nes, parts	S2-759	Parts, nes of and accessories for machines of headings 751 or 752
16	S2-642	Paper and paperboard, precut, and articles of paper or paperboard	S2-843	Women's, girls', infants' outerwear, textile, not knitted or crocheted
17	S2-771	Electric power machinery, and parts thereof, nes	S2-771	Electric power machinery, and parts thereof, nes
18	S2-759	Parts, nes of and accessories for machines of headings 751 or 752	S2-874	Measuring, checking, analysis, controlling instruments, nes, parts
19	S2-728	Other machinery, equipment, for specialized industries; parts nes	S2-716	Rotating electric plant and parts thereof, nes
20	S2-931	Special transactions, commodity not classified according to class	S2-762	Radio-broadcast receivers

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United Nations Commodity Trade Statistics Database (COMTRADE).
Abbreviation: NES stands for Not Elsewhere Specified.

«Does China represent a threat to North American trade?», ask Dussel Peters and Gallagher[508]. In order to understand to what extent, at a more specific sectoral level, Chinese firms are outcompeting their Mexican and United States counterparts, Dussel Peters and Gallagher analyzed this issue using a methodology developed by Lall and Weiss (2005). These authors have been observing the evolutions in China and Latin America and the Caribbean's export shares in both the world and the US markets. In addition, the research aims at looking for evidence of grown Chinese competition in sectors in which the penetration of Chinese exports is deepening as the penetration of exports from Latin America and the Caribbean is declining.

Table 58[509] defines different categories of competitive interaction between China and other countries in export markets. In this sense, as China's share in the US market increases, the share of Latin America and the Caribbean decreases. This,

[508] *Ivi*. P. 89.
[509] *Ivi*. P. 90.

according to the authors, represents a "direct threat" from China that a region is experiencing. Similarly, if the shares of both China and Latin America and the Caribbean rise, but China's share is increasing at a faster pace, this would be the case of a "partial threat" from China that the region is experiencing.

Table 58. Matrix of competitive interactions between China and other countries in export markets.

		China's export market shares	
		Rising	Falling
		A. No threat	C. Reverse threat
Other countries' export market shares	Rising	Both China and the other country have rising market shares and the latter is gaining more than China	No competitive threat from China. The threat is the reverse, from the other country to China
		B. Partial threat	
		Both are gaining market share but China is gaining faster than the other country	
		D. Direct threat	E. Mutual withdrawal: no threat
	Falling	China gains market share and the other country loses; this may indicate causal connection unless the other country was losing market share in the absence of Chinese entry	Both parties lose market shares in export markets to other competitors

Source: Sanjaya Lall and John Weiss. *China's competitive threat to Latin America: an analysis for 1990–2002*, Oxford Development Studies, vol. 33, No. 2, Taylor & Francis, 2005.

Moreover, **Table 59**[510] represents the outcomes measured by Lall and Weiss 2005 methodology. To understand these estimates the authors chose to look at trade between 2000 – the year prior China's entry into the WTO – and 2009. The analyses were conducted taking into consideration 118 sectors covering all trade[511] for the economies of the United States and Mexico. Market shares and the percentage point changes in market share have been calculated for the years 2000 and 2009 for each sector. Again, when shares of the market for the United States or Mexico collapse in a sector in which China is gaining, this pattern is classified as "direct threat". On the other hand, in case the market shares of the United States or Mexico rise, although at a slower pace than China, this is called a "partial threat". The 96% of US manufacturing exports to Mexico, which amounts to 62% of US overall exports to the country aforesaid, are under "threat" from China, either direct or partial.

[510] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 90. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

[511] Disaggregated at the three-digit level using the United Nations Commodity Trade Database (COMTRADE) classification system.

Table 59. The "threat" posed by China in Mexican and United States markets (%).

		Direct	Partial	Total
United States	Percentage of manufactures exports to Mexico	96	0	96
	Percentage of total exports to Mexico	62	0	62
Mexico	Percentage of manufactures exports to United States	52	29	81
	Percentage of all exports to the United States	36	20	56

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), 2011; and Sanjaya Lall and John Weiss, *China's competitive threat to Latin America: an analysis for 1990–2002.* Oxford Development Studies, vol. 33, No. 2, Taylor & Francis, 2005.

As Dussel Peters and Gallagher underlined, *«it is interesting to note in this case that none of the exports are experiencing a partial threat, rather all are considered to be under direct threat»*[512]. As far as Mexico, the 81% of Mexican manufactures exports and the 56% of Mexican overall exports to the United States are under "threat" from China. Even in this case, the 52% of Mexican exports to the United States is under "direct threat", whereas the 29% is under "partial threat".

The only sector where Mexico is not threatened by China or otherwise is gaining market share against China is the one concerning cars, trucks and related parts and accessories. According to the authors, the reason of this has to be found on the fact that such goods are physically heavy to be transported from China and the North American auto sector benefits from protection under NAFTA. As far as overall exports of Mexico, the 36% are under "direct threat", whilst the 20% are under partial threat from China. Differently from Mexico, China is not an exporter of petroleum or other commodities to the United States, which is relevant to clarify why its total export share is not as significant.

As Dussel Peters and Gallagher described, in 2013 there were 53 sectors in Mexico in which the United States was losing share of the market, while China was gaining, hence appearing to let Mexico gain efficiency as well as more competitiveness in US markets. Nonetheless, in these 53 sectors, which constitute the 49% of Mexico's overall exports to the United States, the United States is losing share of the market to China in the Mexican market, whereas Mexico is losing share of the market to China in the US market. **Table 60**[513] represents these 53 sectors under "triple threat". Examining, on the one hand, the United States and China in the Mexican market, for these considered 53 sectors, the US share in the Mexican market averaged 69% in 2000.

[512] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 90. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

[513] *Ivi.* PP. 91-92.

Table 60. The "triple threat" posed by China (in %).

	Products	Change in the US exports to Mexico (2000-2009)	Change in Chinese exports to Mexico (2000-2009)	Change in Mexican exports to the US (2000-2009)
1	Synthetic fibres suitable for spinning	-20.5	13.4	-14.1
2	Other man-made fibres for spinning, and waste	-2.6	8.0	-7.1
3	Alcohols, phenols, etc., and their derivatives	-11.1	1.4	-1.2
4	Soap, cleansing and polishing preparations	-8.8	0.9	-5.9
5	Fertilizers, manufactured	-7.0	5.4	-0.04
6	Regenerated cellulose; derivatives of cellulose; vulcanized fibre	-19.0	3.2	-0.3
7	Pesticides, disinfectants	-1.0	2.8	-3.7
8	Miscellaneous chemical products (NES)	-11.0	2.5	-0.3
9	Manufactures of leather or of composition leather (NES); etc.	-36.9	8.4	-7.6
10	Furskins, tanned or dressed; pieces of furskin, tanned or dressed	-45.8	1.5	-0.6
11	Cotton fabrics, woven (not including narrow or special fabrics)	-21.3	11.2	-6.0
12	Fabrics, woven, of man-made fibres (not narrow or special fabrics)	-5.7	9.0	-1.0
13	Knitted or crocheted fabrics (including tubular, etc., fabrics)	-13.1	15.8	-4.0
14	Tulle, lace, embroidery, ribbons, trimmings and other small wares	-30.0	9.4	-4.6
15	Made-up articles, wholly or chiefly of textile materials (NES)	-44.3	25.9	-8.0
16	Floor coverings, etc.	-19.7	3.2	-0.4
17	Pottery	-9.1	46.7	-1.9
18	Universals, plates, and sheets, of iron or steel	-13.5	1.9	-1.9
19	Tube, pipes and fittings of iron or steel	-12.5	11.3	-1.7
20	Nails, screws, nuts, rivets, etc., of iron, steel or copper	-28.6	8.9	-0.9
21	Cutlery	-19.4	11.5	-0.9
22	Household equipment of base metal (NES)	-26.8	28.5	-9.8
23	Manufactures of base metal (NES)	-29.6	14.9	-1.5
24	Steam boilers and auxiliary plant; and parts thereof (NES)	-5.1	9.0	-0.4
25	Rotating electric plant and parts thereof (NES)	-16.2	15.6	-12.2
26	Civil engineering, contractors' plant and equipment and parts (NES)	-12.3	2.5	-0.2
27	Food-processing machines (non-domestic) and parts thereof (NES)	-11.3	1.9	-1.2
28	Non-electric parts and accessories of machinery (NES)	-22.4	8.3	-2.7
29	Office machines	-51.1	35.0	-8.1
30	Parts (NES) of and accessories for machines of headings 751 or 752	-60.3	53.4	-4.8
31	Television receivers	-28.4	27.2	-11.3
32	Radio-broadcast receivers	-2.8	8.0	-9.1
33	Gramophones, dictating machines and other sound recorders	-42.2	53.4	-4.5
34	Telecommunication equipment (NES); parts and accessories (NES)	-43.6	37.0	-2.5
35	Electric power machinery, and parts thereof (NES)	-51.5	36.7	-7.0
36	Equipment for distribution of electricity	-27.6	15.7	-16.8
37	Electro-medical and radiological equipment	-16.2	5.1	-1.4
38	Passenger motor vehicles (excluding buses)	-26.8	0.3	-2.0
39	Trailers, and other vehicles, not motorized (NES)	-9.0	6.7	-2.0
40	Railway vehicles and associated equipment	-31.3	7.2	-16.4
41	Furniture and parts thereof	-32.4	18.3	-4.5
42	Travel goods, handbags etc., of leather, plastic, textile, others	-22.6	20.6	-2.4
43	Men's and boy's outerwear, textile, not knitted or crocheted	-47.9	8.7	-5.9
44	Women's, girls', infants' outerwear, textile, not knitted or crocheted	-66.7	3.0	-9.9
45	Outerwear knitted or crocheted, not elastic nor rubberized	-61.4	5.0	-7.6
46	Under-garments, knitted or crocheted	-72.7	0.5	-13.1
47	Clothing accessories, of textile fabrics (NES)	-45.6	14.1	-5.7
48	Articles of apparel, clothing accessories, non-textile, headgear	-57.2	38.1	-0.7
49	Footwear	-8.2	9.5	-0.7
50	Meters and counters (NES)	-13.7	6.4	-5.1
51	Measuring, checking, analysis, controlling instruments (NES), parts	-26.1	5.7	-4.1
52	Photographic and cinematographic supplies	-4.2	1.0	-3.6
53	Baby carriages, toys, games and sporting goods	-26.7	34.1	-1.5

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of United Nations Commodity Trade Statistics Database (COMTRADE), 2011. *Abbreviation*: NES acronym stands for Not Elsewhere Specified.

By 2009, that share had decreased to 43%, meaning a 26-percentage points reduction in only nine years. For instance, in 2000 the United States had 68% of the Mexican market for synthetic fibres, whereas China held only 0.1% of that market. However, by 2009, the US share had collapsed by 20 percentage points, whilst China had augmented its share by almost 14 percentage points.

Similarly, in 2000, the United States was the supplier of Mexico for the 60.8% of its office machine and computer imports and for the 70% of the peripheral parts for those machines. By 2009 those shares had fell 51 and 60 percentage points, respectively. By the same year, the United States accounted for only 10% of the Mexican import market in each.

On the contrary, in 2000, China had 13% of the office machine import market and 5% of the parts market in Mexico, whereas, by 2009, it held 48% and 58% of the markets thereto, respectively. The United States was leading the 60% of Mexico's telecommunications market in 2000, although it lost 44 percentage points of market share, accounting for only 16% of the market in 2009.

In 2000, the United States was the supplier of 90% of all Mexican imports of base metals manufactures, even though that percentage suffered a drop of 30 percentage points in 2009, when China augmented its share in the Mexican market from 0% to 15%. As Dussel Peters and Gallagher argue, the fact that the United States is losing market share to China in the Mexican market indicates that export-oriented firms operating in Mexico may have the occasion for efficiency and productivity gains. The United States is probably losing ground due to the cheaper costs of Chinese imports compared to their United States counterparts. To the extent that Chinese exports to Mexico constitute factors of production to Mexican companies, *«firms in Mexico should be able to export at a more competitive price»*[514].

Nonetheless, for the same 53 sectors in which the United States is losing market share to China, Mexico is, in its turn, losing market share to China in the United States market. In 2000, Mexico accounted to an average of 14% of the US import market for these sectors, however, in 2009, that average collapsed to 9%.

Going back to the example of the synthetic fibre sector, in 2000 Mexico held 15% of the US import market, but, in 2009, that share suffered a drop of 14 percentage points, to just 1%. Moreover, in 2000, Mexico was supplying the United States with 9% of its computer and office machine imports, and 11% of the peripheral parts

[514] *Ivi.* P. 91.

for those machines. On the other hand, those quotas fell respectively by 9 and 5 percentage points by 2009, accounting for approximately 1% and 2%, of the US import market, respectively. Even in telecommunications sector, Mexico is losing ground in the United States market. As previously mentioned, data show that NAFTA has experienced at least two phases since its entry into force: from 1994 to 2000 – in which economic integration strengthened in terms of trade and investments – and from 2001 to 2010 – in which the integration process had to deal with the arrival of China on the scene, to which has followed its powerful rise in trade. As a matter of fact, trade between Mexico and the United States dropped from 81.03% of its total trade in 1999 to 63.95% in 2010, mostly because of the decline in Mexico's imports (from 74.15% to 48.10% of total imports for the same period), even though its share of exports to the United States also decreased by almost 9%[515]. In order to understand these evolutions, two specific value-added chains in Mexico that were expected to generate remarkable performance as part of NAFTA, are analyzed by Dussel Peters and Gallagher in the context of the agreement and the country's relations with the United States[516].

- *The yarn-textile-garment chain in the NAFTA context*

The yarn-textile-garment has been one of the fastest changing chains worldwide over the past decades. In the past ten years, the trends found in this sector involve *«the increasing saturation of garments in developed countries; the deepening of full packaging processes in which suppliers are increasingly responsible for manufacturing costs (…); increasing product differentiation, including those meeting ethical and ecological standards; the growing influence over and control of the chain by retailers; a dramatic shortening of production and delivery times; and stiff global competition affecting prices»*[517]. As a result, the existence and improvement of a local supplier system is crucial to face these challenges. In the early twenty-first century, the yarn-textile-garment chain, controlled by its clients and buyers, seemed to live in a more liberal period in comparison with recent decades, if we consider *«the end of the Multifibre Arrangement (MFA) in 2005, the marked reduction of public interventions (in terms of tariff and non-tariff barriers and government subsidies) and the concentration of support instruments in the textile*

[515] *Ivi.* P. 93.
[516] *Ivi.* PP. 93-105.
[517] *Ivi.* P. 94.

and accessories industry, and, to a lesser degree, in the clothing industry»[518]. Moreover, there has been a rapid "reorientalization" of this chain. If, on the one hand, countries like China, India, Bangladesh and Pakistan – among others – significantly increased their quotas of global production and trade during the first decade of the twenty-first century, on the other, developed countries have suffered a continuous drop in production and trade since the 1980s. For instance, in the case of the United States, textiles and apparel held 1.1 million jobs in 2000; however, by 2008, that amount had more than reduced by half, and indeed was expected to decrease by a further 22.6% by 2016.

In Mexico, the yarn-textile-garment chain represents one of the symbols of global and NAFTA integration, and is characterized by several distinctive features. On the one hand, there are substantial differences between segments that make use of the *maquiladora* industry and the rest. The levels of imported production as a proportion of total production are higher for the chain than for all other areas of manufacturing: 33.1% for the yarn-textile-garment chain and 38.2% for the textile sector. In 2003, foreign trade held 51% of output and 60% of the apparel sector. Notwithstanding the high level of integration in the global market, the chain presents a deep structural weakness: its high component of net imports. As far as *maquiladora* industry – domestic content for the whole economy – manufacturing, the yarn-textile-garment chain and the textile sector, it was 0.3%, 3.1%, 4.7% and 15.7%, respectively. This structure is the outcome of complicated incentives linked to temporary imports to be exported[519].

On the other hand, the chain distinguishes itself for paying taxes on the output that are 45% higher than in the entire Mexican economy – for the apparel sector, taxes were 63% higher –, for payments per employee – 23% lower than the entire economy, except for the textile sector –, and for being particularly sensitive in the creation of employment, as a result of import substitution. In fact, a 10% growth in final demand caused by import substitution would generate the creation of 17,000 jobs in the chain, especially in the garment sector. As Dussel Peters and Gallagher affirmed, *«only 5 of 75 activities in the entire economy would generate more employment than the yarn-textile-garment chain»*[520].

Taking into considerations the growing orientation towards foreign trade of the

[518] *Ivi*. PP. 94-95.
[519] *Ivi*. P. 95.
[520] *Ibidem*.

yarn-textile-garment chain, what are the main characteristics in terms of production, employment, trade and integration in the US market and its relationship with China?

Firstly, in 2009, the yarn-textile-garment chain held 0.9% and 5% of Mexico's overall and manufacturing gross value added, respectively. The chain showed strong cyclical evolution during the first NAFTA stage (1994-2000) and the decrease of GDP and employment indicators since then. In terms of GDP, if, on the one hand, manufacturing has retrieved slowly since 2005 (in ten years its GDP increased by only 7%), on the other, the chain's gross value added as a proportion of the total was lower than before NAFTA's implementation. In addition, it reduced by more than one quarter in 2010 compared with 2000. This performance, which is also a consequence of productivity growth rates and new forms of industrial organization, had a particularly strong impact on employment rates. As a matter of fact, during the decade from 2000 to 2010, Mexico's manufacturing sector lost almost one million jobs[521] – a quarter of total manufacturing employment – meanwhile, since 2000 and despite its initial gains from 1994 to 2000, the yarn-textile-garment chain has lost almost half of its jobs. These significant losses have been especially pronounced in the garment section. In 2009, the entire chain held more than half a million jobs.

Secondly, from 1995 to 2010, *«the 69.76% of Mexican exports from the yarn-textile-garment chain were in the apparel segment, followed by textiles (9.6%), yarn (8.97%) and other accessories (12.40%)»*[522]. Mexico has experienced diverse dynamics of yarn-textile-garment before and after 2000, with an average annual growth rate of exports of 20.7% for the 1995-2000 period, and -5.4% for the 2000-2010 period. From 1995 to 2010, the United States accounted for 90.6% of Mexican yarn-textile-garment chain exports. Such a difference in the performance is particularly striking for the garment segment. Moreover, quite surprising is the fact that, in 2006, Mexico's trade balance in the chain became negative resulting from a fall in apparel exports since 2001 and an increase in imported inputs.

Thirdly, taking into consideration the high concentration of Mexican yarn-textile-garment chain exports to the United States, several factors point out the growing disintegration of the regional industrial organization of the chain in the NAFTA

[521] *Ibidem*.
[522] *Ibidem*.

area. The yarn-textile-garment exports of Mexico to the United States have significantly rose during the 1990s and dropped thereafter, increasing by an average annual rate of 30.7% in 1990-2000 period and then shrinking by 4.4% in 2000-2010. Mexico's share of United States overall imports in the chain reached its peak in 1999 with 13.27%, and then dropped continuously to 6.51% in 2010.

Nonetheless, in the same period, China's share extended from 12.41% to 42.1%. Moreover, other two aspects are equally relevant, according to Dussel Peters and Gallagher. The first one is the import/export coefficient of the United States which highlights that Mexico and Central America are the leading consumers of the United States yarn-textile-garment chain, in contrast with the rest of the world and China. In other words, Mexico not only is a main exporter to the United States, but also is the country with the highest US value added in its exports, which mirrors a significant degree of regional integration. The second one, also as a result of NAFTA, is the fact that Mexico still is entitled of huge tariff incentives, having paid, in the period from 2000 to 2010, only the 4.62% of the tariffs paid on all United States yarn-textile-garment imports. In this chain, tariffs are rather significant and those paid by Asian countries are much higher than those paid by Mexico (**Table 61**)[523].

Table 61. The United States: yarn-textile-garment chain imports (1990/2010).

	Share of total imports				
	1990	2000	2010	1990-2000	2000-2010
China	11.44	12.02	42.10	13.07	27.13
Viet Nam	0.00	0.06	4.80	0.04	3.28
Mexico	2.98	13.22	6.51	9.34	8.45
India	3.17	3.85	2.48	3.77	4.48
Indonesia	2.64	3.11	1.68	2.97	3.36
Total imports	100.00	100.00	100.00	100.00	100.00
	Import/export coefficient (percentages)				
China	5.498	20.518	25.329	10.070	26.956
Viet Nam	...	6.093	95.909	3.043	91.020
Mexico	309	754	783	674	732
India	10.398	25.542	10.849	14.323	26.933
Indonesia	16.005	28.242	24.579	17.729	38.757
Total imports	1.289	1.774	3.122	1.513	2.461
	Tariffs on imports (total = 100)				
China	92.66	105.24	118.45	99.23	114.14
Viet Nam	...	371.4	5.09	316.41	137.48
Mexico	85.76	3.38	2.16	14.29	4.62
India	86.12	109.69	8.78	101.99	102.71
Indonesia	124.88	159.46	19.39	147.27	163.39
Total imports	100	100	100	100	100

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of data from the United States International Trade Commission (USITC), 2011.

[523] *Ivi.* P. 96.

Fourthly, since Mexico is experiencing growing competition in the United States market, production of supplies – fabric and textile accessories – has dropped, especially in the case of synthetic fibres – such as polyester and rayon –, whereas wool and cotton products continue to be rather competitive and have not been replaced by Asian and Chinese products yet.

Finally, in qualitative terms, Mexican businesses explicitly called for a modernization of NAFTA. The framework of regional integration of the agreement is outdated, since it was conceived at the beginning of the 1990s and based on the industrial organization of the late 1980s, which clearly does not exist today. As a matter of fact, much of the textile and accessories producers have left the region, whilst Asia has become the main global producer of these goods. Furthermore, the United States has granted substantial benefits to other countries with which it has established free trade agreements that are not part of NAFTA.

Hence, from this business perspective, rules of origin and other legal requirements of the agreement are more and more outdated and impossible to fulfil, and the US authorities have elaborated several annual instruments to overcome these regional limitations. However, *«the current NAFTA framework and these annual incentives to enable certain products, which would otherwise fail to comply, to meet rules of origin requirements have weakened the regional and Mexican yarn-textile-garment chain, since firms cannot depend on monthly and annual decision-making for long-term operations and strategies»*[524].

- *The autoparts-automobile chain in the NAFTA context*

As far as the auto sector is concerned, the agreement eliminated Mexico's protectionist ordinances and played a decisive role in the integration of the automotive industry in all three partners countries. As a matter of fact, this sector has registered some of the most important changes in trade due to the agreement[525]. An emblematic example is given by Mexico. In 2014, Shaiken observed how Mexico was, at that time, the world's eighth largest auto producer: *«autos play a defining economic role in Mexico as well, accounting for 2.7 percent of GDP and 579,000 jobs (…) The sector was responsible for $88 billion in exports or*

[524] *Ivi*. P. 98.

[525] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P.99. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

almost 30 percent of total manufacturing exports in 2012. Under NAFTA, the auto industry in Mexico has grown rapidly, and it is in the midst of an unprecedented expansion. Mexico assembled over three million vehicles in 2013 – more than Canada – and exported over 80 percent of them, most to the United States»[526]. Moreover, *«Mexico exported $44.8 billion in auto parts to the United States»*[527] in 2013, *«more than Japan, Germany, and Korea combined»*[528].

As previously explained, NAFTA measures provided a gradual removal of tariffs, non-tariff barriers to trade, and rules of origin. The agreement fostered protection of intellectual property rights, undertook less severe government procurement practices, and removed performance requirements on investors from other NAFTA countries. In this sense, US auto producers' companies – like *Ford Motor Company* for example – frequently count on parts coming from the United States, Mexico and Canada for the final assembly stage of a motor vehicle. Northern American auto producers can make use of components produced in another NAFTA country to assemble the parts. These, then, are dispatched to another NAFTA partner, in which they face assembly process into a proper vehicle which is then sold in any of the NAFTA countries. Estimates show that autos produced in North America sold in the United States have a national content that ranges from 47% to 85%.

As a matter of fact, following NAFTA's implementation, US trade in vehicles and auto components underwent a rapid and substantial growth. Between 1993 and 2016, US auto exports to Mexico increased 262% while imports increased 765%. Hence, Mexico has gradually become a more and more essential trading partner as far as the motor vehicle market is concerned.

Moreover, in the same timeframe, Mexico's involvement in US overall trade in motor vehicles rose, whereas Canada and other countries' participation diminished. Indeed, in 2016, Mexico was the leading supplier of automotive goods for the United States, accounting for 30% – thus $96.0 billion – of total imports of US motor vehicle and auto components. On the other hand, in the same year, Canada gained the second position, with the 19% – $60.7 billion – of US overall imports in motor vehicles and auto parts. As **Table 62**[529] shows.

---

[526] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. P. 40. https://clas.berkeley.edu/research/trade-nafta-paradox.
[527] *Ibidem*.
[528] *Ibidem*.
[529] Angeles Villarreal, M. and Ian F. Fergusson, F.I. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. P. 18. https://fas.org/sgp/crs/row/R42965.pdf.

Table 62. US trade in motor vehicles and parts in 1993 and 2016 (in USD billions).

	1993			2016			% change 1993/2016	
	Exports	Imports	Total	Exports	Imports	Total	Exports	Imports
Mexico								
Vehicles	0.2	3.7	3.9	4.6	49.7	54.3	2,222%	1,242%
Parts	7.3	7.4	14.7	22.5	46.3	68.9	209%	526%
Total	7.5	11.1	18.6	27.2	96.0	123.2	262%	765%
Canada								
Vehicles	8.2	26.7	34.9	26.1	46.7	72.7	218%	75%
Parts	18.2	10.3	28.5	26.4	14.0	40.5	45%	36%
Total	26.4	37.0	63.4	52.5	60.7	113.2	99%	64%

Source: Compiled by CRS using trade data from the USITC at http://dataweb.usitc.gov. For 2016, "vehicles" consists of items under the North American Industrial Classification System (NAICS) number 3361 and "parts" consists of items under NAIC number 3363. The NAICS is the standard used by Federal statistical agencies in classifying business establishments for the purpose of collecting, analysing, and publishing statistical data related to the US business economy.

Nonetheless, according to the US Congress and the Canadian industry sources (**Table 63**)[530], if trade balance in this sector is considered, data appear less flattering – with the only exception of data on trade of parts between the United States and Canada, which compensate the negative one of vehicles.

Table 63. NAFTA: trade balances in motor vehicles and parts (1993/2016 in USD billions).

Bi-lateral Trade	1993	2016	Change	% Change
U.S. with Canada				
Vehicles	-$18.5	-$20.6	-$2.1	
Parts	$7.9	$12.4	$4.5	
Total	-$10.6	-$8.2	$2.4	23%
U.S. with Mexico				
Vehicles	-$3.5	-$45.1	-$41.6	
Parts	-$0.1	-$23.8	-$23.7	
Total	-$3.6	-$68.9	-$65.3	-1814%
Canada with Mexico				
Vehicles	-$0.7	-$4.8	-$4.1	
Parts	-$0.9	-$3.9	-$3.0	
Total	-$1.6	-$8.7	-$7.1	-444%

Sources: US Congressional Research Service, The North American Free Trade Agreement, May 2017; Industry Canada Trade Date On-Line - Statistics Canada.

Moreover, as highlighted by the following figure (**Table 64**)[531], the delocalization of assembly plants seems to have benefitted Mexico at the expense of Canada and the United States, whereas, overall, vehicles assembly plants have lowered in the context of NAFTA. According to Dussel Peters and Gallagher, the autoparts-automobile was one of the first chains that started transferring segments of its value chain at international level.

[530] UNIFOR-UAW Statement On Auto And The Re-Negotiation Of NAFTA, https://uaw.org/unifor-uaw-statement-auto-re-negotiation-nafta/ (cited on 5 December 2017).
[531] *Ibidem*.

Table 64. NAFTA: light vehicle assembly plants (1994/2016).

	1994	2005	2016	Change 1994-2016
Canada	14	13	10	-4
Mexico	9	11	17	+8
United States	59	62	49	-10
NAFTA	82	86	76	-6

Source: Ward's Automotive

In addition, unlike the yarn-textile-garment chain, this chain is also producer-driven. It has growingly regionalized due to consumer preferences, tariff considerations and public sector interventions, capable to foster local and national production and companies. Moreover, the chain has been characterized by:

> *«(i) the formation of "modules" that can be transferred;*
>
> *(ii) significant ecological, environmental and efficiency concerns and standards that have generated a new dynamic of innovation and competition in hybrid and electric vehicles; and*
>
> *(iii) massive mobilization of national resources to enhance domestic production, particularly since the 2007-2008 international crisis»*[532].

Many international evolutions are significant to understand the specific industrial organization in the NAFTA area and its relationship with China.

Firstly, there have been deep international readjustments of the autoparts-automobile chain over the past few decades (**Table 65**)[533].

Table 65. Share of international automobile output (1961/2010, in %).

	1961	1971	1981	1991	1999	2000	2005	2008	2009	2010
United States	48.5	32.5	22.8	15.4	23.2	21.9	18.0	12.3	9.3	10.0
United Kingdom	8.8	6.6	3.5	3.5	3.5	3.1	2.7	2.3	1.8	1.8
Italy	6.1	6.4	4.6	4.6	3.0	3.0	1.6	1.5	1.4	1.1
Germany	15.8	14.5	13.7	13.3	10.1	9.5	8.7	8.6	8.4	7.6
France	8.7	10.2	9.5	9	5.7	5.7	5.3	3.6	3.3	2.9
Mexico	...	0.6	1.3	2	2.8	3.3	2.5	3.1	2.5	3.0
Japan	2.2	14.1	25.4	27.6	17.6	17.4	16.2	16.4	12.9	12.4
China	...	...	...	0.2	3.3	3.5	8.6	13.3	22.4	23.5
Spain	0.5	1.7	3.1	5.5	5.1	5.2	4.1	3.6	3.5	3.1
Brazil	0.9	1.3	1.5	2	2.4	2.9	3.8	4.6	5.2	4.7
Republic of Korea	...	...	0.3	3.3	5.1	5.3	5.6	5.4	5.7	5.5
India	0.2	0.2	0.2	0.5	1.5	1.4	2.5	3.3	4.3	4.6
Total world output (millions of vehicles)	11.391	26.453	27.407	35.287	56.259	58.374	66.482	70.527	61.715	77.610

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of data from the International Organization of Motor Vehicle Manufacturers (OICA), 2011.

[532] Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 98. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

[533] *Ivi*. P. 99.

If, on the one hand, the United States has lost important market share, falling from levels of around 50% of global production in the 1960s, to 15% in the first half of the 1990s, and to 10% in 2010, on the other, Japan's output has increased until the 1990s to levels above 25% and fell steadily after that, to reach 12.9% in 2010.

Notwithstanding, a group of emerging countries including Brazil, China, India, Mexico and the Republic of Korea significantly fostered their production to account for more than 40% in 2010. Moreover, China, whose share of output in the first half of the 1990s was less than 1%, became the main global producer in 2009 and accounted for 23.5% of overall production in 2010. In this sense, Dussel Peters and Gallagher defined it as *«probably one of the most outstanding cases in the history of automobiles»*[534]. Mexico, however, intensified its share in the 1990s to 3.3% in 2000-2001, but saw its participation slip back to 3% by 2010. The United States has not only suffered from a significant drop in sales of new vehicles, going from more than 17 million units in the 2000-2006 period to 10.6 million in 2009 and 11.5 million in 2010, but also from a huge penetration of Asian brands in overall US imports, which amounted for more than 35% in 2010.

Secondly, these regional trends have strengthened since the global crisis in 2008-2009: while vehicle production was decreasing and the average annual growth rates for the European Union, the United States, Japan and the world as a whole, were -5.1%, -5.5%, -8.8% and 4.7%, respectively, China presented an average annual growth rate of 40.1% for the 2008-2010 period. Only a few emerging countries, such as India and Mexico with average annual growth rates accounting for 23.1% and 4.0%, respectively, either recovered quickly after the crisis or did not suffer any fall in production.

Thirdly, even though companies based in Japan, the United States and Europe continued to lead in 2009 – heading the overall vehicle production –, 21 Chinese companies rank among the world's major 50 automobile producers. Moreover, although none of them is among the top 10 producers, they are already beginning to edge into the top 20.

What are the main patterns for the autoparts-automobile chain in Mexico compared to the United States and NAFTA? As underlined by Dussel Peters and Gallagher, in 2009, Mexican automotive market and its segments constituted 2.7% of total GDP and 16% of manufacturing production. In addition, it was the

[534] *Ibidem.*

manufacturing sector that recovered most quickly after the global recession in 2008-2009 in terms of production, exports and employment.

Moreover, the 1994-1995 crisis and the launch of NAFTA characterized a turning point in the adjustment towards export orientation. The abovementioned **Table 65** illustrates how vehicle production almost doubled during the first stage of NAFTA (1994-2000), although it remained relatively steady in the 2006-2010 period, with a sharp contraction during the crisis and a rapid recovery in 2010.

The Mexican autoparts-automobile chain is the outcome of a long history of incentives, which involved the adoption of five decrees between 1962 and 1993 – the last of which aimed to achieve certain levels of value added in Mexico –, as well as technological measures and requirements related, among other purposes, to trade balance. With NAFTA, regional rules of origin dominate Mexico's industrial organization: the regional content value (calculated on the basis of either the transaction value or the net cost), established under article 401 of NAFTA, entitles regional production to benefit from tariff reductions. Since 2002, the value-added level has been substituted by regional rules of origin with the aim of preventing foreign companies from using Mexico as an export platform to the United States[535]. However, Mexico has its own regulations to promote competitive advantages for the autoparts-automobile chain and several later decrees dating up to 2010[536].

According to Dussel Peters and Gallagher, the autoparts-automobile chain in Mexico presents a set of specific features[537]. Firstly, in Mexico this chain is composed of four major segments[538], and none of the 18 assembly firms in the first segment is Mexican. The segment of automotive parts and components comprises about 1,000 national and foreign manufacturers, of which 345 are top level firms.

Secondly, the autoparts-automobile chain is paradigmatic for Mexico, because it has severely changed towards exports. Moreover, differently from the structure that had in the 1980s – that changed with the signing of the agreement –, this chain in Mexico is deeply integrated with the one of the United States, to such an extent

[535] Hufbauer, G. C. and Schott, J. J. *NAFTA Revisited: Achievements and Challenges*. Institute for International Economics, 2007. P. 369.

[536] In general, Mexican legislation envisages compliance requirement with a series of measures by new manufacturers of vehicles – even though not for autoparts and accessories – weighing up to 8,864 kg: *«(i) To manufacture at least 50,000 units; (ii) To invest in Mexico at least US$ 100 million in fixed assets for automotive production; (iii) To establish agreements with distributors of vehicles; (iv) For new manufacturers without previous production in Mexico, in addition to items (i)-(iii), exceptional permission is granted for importing vehicles with zero ad-valorem tariff rates during the first three years following installation of a new manufacturer for 10% of production. This criteria continues even after the first three years of production».* See Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. P. 100. https://www.cepal.org/ en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

[537] *Ibidem*.

[538] That are: assemblers, larger components and subassembly, parts and components and raw materials.

that Dussel Peters and Gallagher affirmed that *«we could refer to a regional autoparts-automobile chain with regional models, inputs, products and processes»*[539]. Notwithstanding, domestic market has not substantially recovered and, during the 2008-2010 period, it still presented levels well below those of the early 2000s.

Thirdly, the autoparts-automobile chain has recovered more and more significance in Mexico's foreign trade, holding the 28% of exports and 17% of imports in 2010, with an annual trade surplus above US$ 20 billion since 2006, making it the Mexican chain with the largest trade surplus. Exports from the autoparts and components segment have grown significantly and accounted for 57% of the chain's exports during the 1995-2010 period.

Fourthly, a country by country analysis demonstrated that, although 93% of Mexico's autoparts-automobile chain exports were headed to the United States and Canada during the period 1995-2010, the proportion of US imports from Mexico dropped substantially. The US share reached the 76% in the mid-1990s and decreased to below 50% by 2009. In other words, according to the authors, the United States has experienced a notable loss in market share in Mexico.

If considering the crucial importance of the United States for Mexican autoparts-automobile chain trade, **Table 66**[540] shows its profound integration between Mexico and the United States.

Table 66. US imports from selected countries in the autoparts-automobile chain (1990/2010).

		1990	1995	2000	2005	2008	2009	2010	1990-2010	Growth rate 1990-2010
					Share (percentages)					
1	Japan	36.68	30.48	24.13	21.91	23.85	21.40	22.81	25.27	3.2
2	Canada	33.87	36.15	32.61	29.64	22.94	22.64	26.26	30.31	4.4
3	Mexico	8.03	14.96	20.55	18.42	21.06	24.29	21.32	18.57	11.0
4	Germany	9.27	7.44	9.61	11.54	11.35	10.42	10.47	10.05	6.4
5	Republic of Korea	2.08	1.86	3.07	4.88	4.94	5.36	5.43	3.76	10.9
6	China	0.11	0.52	0.85	2.30	3.82	4.65	3.13	1.76	24.9
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	5.7
					Effective tariff (paid by total imports = 100)					
1	Japan	12.37	9.50	4.73	5.84	186.61	189.71	174.12	7.14	
2	Canada	150.25	166.53	157.68	143.37	3.45	2.86	2.69	159.87	
3	Mexico	154.81	45.23	10.61	7.47	7.66	7.52	8.44	26.01	
4	Germany	144.12	168.81	210.41	192.29	177.29	175.39	212.14	181.99	
5	Republic of Korea	156.43	173.12	209.82	195.81	182.50	201.56	183.50	184.09	
6	China	183.81	240.64	217.08	195.50	201.17	272.36	235.58	204.59	
	Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

Source: prepared by Dussel Peters, E. and Gallagher, P.K., on the basis of data from the United States International Trade Commission (USITC), 2011.

[539] *Ivi*. P.100.
[540] *Ivi*. P. 104.

Since NAFTA's implementation, Mexico has established itself as the major importer from the United States. Moreover, while Mexican autoparts-automobile chain imports accounted barely for 8% in 1990, by 2010 Mexico was ranking at the third position for autoparts-automobile chain exporter to the United States (21.32%), after Canada and Japan. China, that held only 0.11% of US imports from this chain in 1990, has registered the highest average annual growth rate, that is 24.9% in 1990-2010, of the primary exporters to the United States, with exports being at 3% of the United States total in 2010.

Furthermore, Mexico has considerable tariff benefits thanks to NAFTA, having only Canada paying lower tariffs than Mexico. For instance, in 2010, China paid a tariff that was 38 times higher than the one paid by Mexico. While the average tariff rate in the same year was relatively low – with China paying on average 3.29% –, due to small profit margins this difference can play a crucial role in final firm-level decision-making.

Five points to discuss

Finally, according to Dussel Peters and Gallagher, five points are important to be highlighted:

i. the 2008-2010 crisis had severe impact on the autoparts-automobile chain in North America and Mexico, and it has been the most profound since comparative information started to be collected. Moreover, in 2009, the production of 1.6 million units in Mexico fell by 28.9%, whereas employment decreased by 21.3% between August 2007 and January 2010.

ii. Mexico started a remarkable recovery plan early in 2010, thus exports, trade and investments, except for domestic market, all experienced a dramatic increase.

iii. US companies in Mexico are by far the largest producers and exporters. *General Motors*, *Chrysler* and *Ford* – also called as the "big three" – held more than 60% prior to NAFTA's implementation and then 52.4% in 2009.

iv. In 2000-2010, Mexico's autoparts-automobile chain attracted more than US$ 10 billion in Foreign Direct Investment (FDI) and is a key player thanks to the knowledge it has gained over many decades of economic

activities, new forms of local firms' organization and bonds with higher education and initiatives to ensure plants in 17 Mexican States with infrastructure and urban services.

v. Mexico's export evolution has been particularly strong in the autoparts and components segment, sector in which it has been the main exporter to the United States since 2000 (32.83% of total US autoparts imports in 2010). In the autoparts segment Mexico has kept its leading position in items such as bodies and parts, chassis and drivetrain parts, electrical components, engines and parts, while China has become the main exporter of tyres and tubes. Meanwhile, in the automobile segment Mexico ranks at the third position (with 15.13% in 2010), after only Japan (27.56%) and Canada (26.58%)[541].

As underlined by the two authors, *«unlike the yarn-textile-garment chain, the autoparts-automobile chain is at an advanced stage of integration in the NAFTA region. While the former has already been losing ground in the region, and particularly in the United States, autoparts-automobile chain integration between Mexico and the United States has continued. The latter trend is also reflected in Mexico's large share in United States imports and the continuing expansion of FDI from United States firms in Mexico»*[542]. However, there are also many regional patterns that might in the short term create scenarios similar to the trends seen in the yarn-textile-garment chain from 2001. First, NAFTA production heavily dropped in 2008-2010, while production by Asia and China seems to be relentless in the medium run. Second, in addition to the financial and technological crisis of the "big three" in 2008-2010, they have been losing considerable market share in Mexico, as the United States has in overall imports of autoparts-automobile chain. Hence, the chain not only has shrunk in absolute terms in the NAFTA region, but it has also been surpassed by its competitors from Asia and China.

The *maquiladora* kind of development

As a report of Public Citizen's Global Trade Watch pointed out, *«overall, there has been a shift from formal, wage- and benefit-earning employment to informal, non-*

[541] *Ivi*. PP. 104-105.
[542] *Ivi*. P. 105.

wage- and benefit-earning employment under NAFTA. Even formal employment has shifted to carrying fewer benefits than it did prior to the pact's passage»[543]. The employment rate in *maquiladoras*, where wages are almost 40% lower than those paid in heavy non-*maquila* manufacturing, increased during the first six years of NAFTA. A study of the EPI explained that *«maquiladora industry primarily produces metal and equipment products, electronics and textiles, as well as steel, paper and printing, clothing, and plastic products. For example, in 2002, of the 47.9% of total industrial exports generated by the maquiladora sector, metal and machinery products account for 39.8 percentage points of the total and textiles and garments represent 4.3 percentage points. The rest (approximately 3.8% of total exports) is shared by the remaining industries»*[544].

Maquiladoras represent the major component of the Mexican non-agricultural economy[545]. According to Salas, between 1980 and 1993, the overall manufacturing sector grew by almost 100,000 jobs, of which 40,000 were in *maquiladora* activities. Between 1991 and 2000, manufacturing grew by 2.7 million jobs, a significant number of which – 800,000 jobs – resulted from *maquiladora* activities. However, some experts have also pointed out that *«the maquiladora industry grew due to trade and not due to NAFTA»*[546]. Anyway, it can be calculated that between 1994 and 1999, this sector grew by 500,000 jobs[547]. However, since 2001, hundreds of factories and jobs in this sector have been displaced, as China joined the WTO and Chinese sweatshop exports gained global market share: *«despite apparently counting on the advantage of NAFTA to stimulate exports to the United States, between 2000 and 2003, the evolution of the export sector was very weak. This contrasts with the performance of Chinese manufactured goods, which increased rapidly after China joined the World Trade Organization (WTO) in 2001. (…) In 1987, Mexico's share of US exports was more than triple that of China (1.6% versus 5%). By 2004, China's exports to the US were 26% larger than Mexico's»*[548].

Moreover, with the 2000 stagnation, total manufacturing employment began to

---

[543] Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*, February 2014, p. 22. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[544] Salas, C. *Between Unemployment and Insecurity in Mexico: NAFTA Enters Its Second Decade*, in Scott, E.R., Salas, C. and Campbell, B. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper 173, September 28, 2006. P. 39. https://secure.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.

[545] *Ivi*. P. 44.

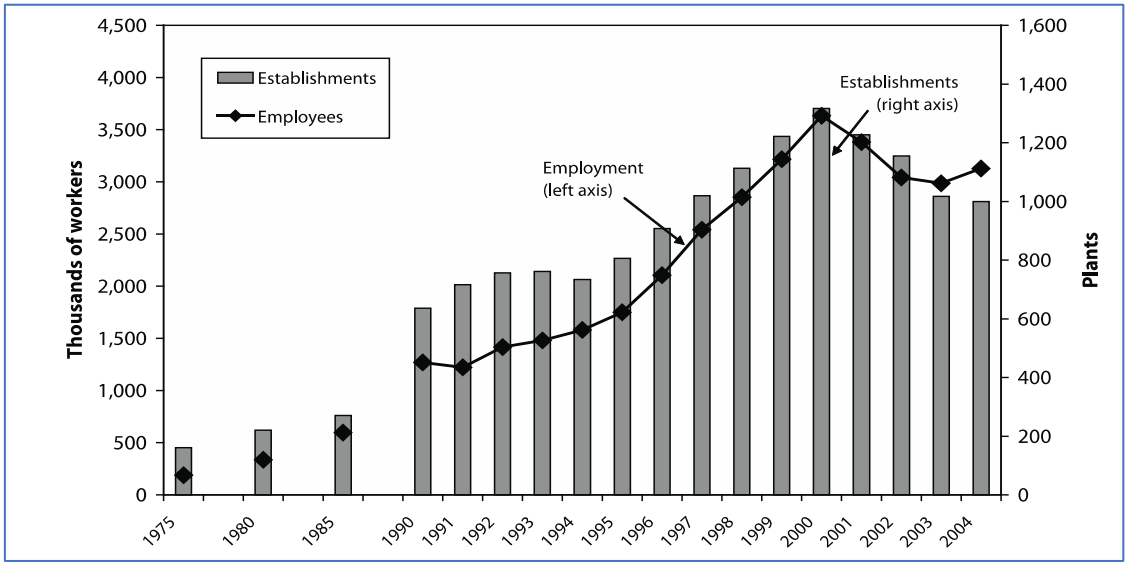
[546] *Ibidem*.

[547] *Ibidem*.

[548] *Ivi*. P. 40.

decrease, especially in the *maquiladora* sector. In this context, as shown by **Table 67**[549], *«although manufacturing employment recovered slightly in 2004, there were still 180,000 fewer jobs in this sector than there were in the peak year of 2000»*[550].

Table 67. *Maquila* employment and number of establishments.



Source: INEGI, Economic Data Bank and NAFIN, Mexican Economy in Numbers.

Several significant issues arise in regard to the type of employment provided in manufacturing in general and in the maquiladora sector in particular. Wages in the *maquiladora* sector are almost 40% lower than those paid in heavy non-*maquila* manufacturing[551]. In fact, maquiladoras can be considered actual "sweatshops" made by young women working for only 50 cents per hour, for up to ten hours a day, six days a week[552]. Nonetheless, more recently, some experts consider that *«NAFTA has started to drive changes in this structure. Some maquiladoras are improving the conditions for their workers, along with increasing their wages. Some skilled workers in garment maquiladoras are paid as much as $1 to $2 an hour and work in modern, air-conditioned facilities»*[553].

Furthermore, since 2000, the number of *maquiladora* companies has declined, which is the result of various companies leaving the country to go to other countries with wages even lower than those in Mexico[554]. As a matter of fact, a

[549] *Ivi*. P. 44.
[550] *Ibidem*.
[551] *Ibidem*.
[552] "Maquiladoras: Mexican Factory Assembly Plants for the US Market", *ThoughtCo*, June 30, 2017. https://www.thoughtco.com/maquiladoras-in-mexico-1435789 (cited on 5 December 2017).
[553] *Ibidem.*
[554] Salas, C. *Between Unemployment and Insecurity in Mexico: NAFTA Enters Its Second Decade*, in Scott, E.R., Salas, C. and Campbell, B. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper 173, September 28, 2006. P. 44. https://secure.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.

study of 2004 showed that *«productivity in the maquiladora sector is stagnant, and its average technological base is weak. From this it can be inferred that the maquiladora sector is stuck in a trap of low productivity growth, reduced skills, and sustained by low wages»*[555].

Finally, Rosenberg also suggested that *«the use of maquiladora manufacturing plants, then, is a decided benefit to foreign-owned corporations, but a mixed blessing to the people of Mexico. They offer job opportunities to many people in an environment where unemployment is an ongoing problem, but under working conditions that would be considered substandard and inhumane by much of the rest of the world. NAFTA, (…) has caused slow improvement in conditions for laborers, but changes to NAFTA may well spell a reduction in opportunities for Mexican workers in the future»*[556]. This failing in delivering promises of NAFTA have resulted in a severe weakening of the social fabric in Mexico, thus contributing to the massive instability and violence that has afflicted the country over recent years[557].

Sure enough, NAFTA itself cannot be considered as the only and direct cause of the enormous problems afflicting Mexico. Indeed, other factors certainly exert great influence: one example is the widespread corruption in all the areas of public life, which represents a cancer that corrodes Mexican institutions from the inside, and it cannot be blamed on the agreement.

However, it is significant how the United States, committed in the promotion of the free trade area of North America, is well aware of the risks that are threatening the accord itself. Proof of this is a 2008 Pentagon report warning that Mexico *«bear[s] consideration for a rapid and sudden collapse. (…) the government, its politicians, police, and judicial infrastructure are all under sustained assault and pressure by criminal gangs and drug cartels. How that internal conflict turns out over the next several years will have a major impact on the stability of the Mexican state. Any descent by the Mexico into chaos would demand an American response based on the serious implications for homeland security alone»*[558].

Moreover, according to the latest news of January 10, 2018, the US State Department issued a travel warning advising Americans to avoid five Mexican

---

[555] *Ivi*. P. 45.

[556] "Maquiladoras: Mexican Factory Assembly Plants for the US Market", *ThoughtCo*, June 30, 2017. https://www.thoughtco.com/maquiladoras-in-mexico-1435789.

[557] Public Citizen's Global Trade Watch. *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. P. 22. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

[558] US Joint Forces Command. *The Joint Operating Environment: Challenges and Implications for the Future Joint Force*. USJFC report, 2008. P. 36. http://www.dtic.mil/doctrine/concepts/joe/joe_2008.pdf.

States – Sinaloa, Colima, Michoacán, Guerrero on the Pacific coast, and Tamaulipas on the eastern Gulf – contending that *«violent crime, such as homicide, kidnapping, carjacking, and robbery, is widespread (…),* [basically] *putting the regions at the same level of danger as war-torn Syria, Yemen, and Somalia»*[559]. As a matter of fact, estimates have calculated tens of thousands of victims of criminal violence over the past several years.

The US-Mexico-China gap

In this context, Mexico is taking part in a very tough competition, for several reasons. Firstly, throughout most of the post-NAFTA period, Mexico has had higher wage rates than China – even though this gap has narrowed and there is no definitive data for China in recent years. In 1996, labor payoff costs in Mexico were $3.05 (in USD) per hour and increased to $5.59 by 2002.

On the other hand, in 2002, the hourly compensation cost for China was $0.73 (in USD) per hour. Even if these data are not completely relatable because of differences in their construction, they still indicate a huge gap in dollar terms. This, in fact, is what matters for export or import-competing industries. By 2009, the gap was still rather wide: $1.74 for China *versus* $6.36 for Mexico[560]. This implies it was not easy to compete based on wages. Secondly, China fulfilled a commitment to a competitive exchange rate throughout the 2000s, actually fixing it against the dollar or (since 2005) a basket of currencies[561].

By contrast, the Mexican Central Bank *«has had, as the IMF notes, "a firm commitment to exchange rate flexibility"»*[562]. This is to say that the Mexican Central Bank raised or lowered interest rates as required to reach its target inflation rate, fixed at 3%, letting the exchange rate to float: *«this means that Mexico's exchange rate was for most of the past two decades unlikely to be competitive with China's, which further worsens Mexico's cost disadvantage. The Mexican Central Bank's form of rigid inflation targeting also adds a large element of unpredictability to the exchange rate, which has a negative impact on foreign direct investment; foreign*

[559] "The US Has Issued Its Highest 'Do Not Travel' Warning for 5 Mexican States", *Time*, 11/1/2018. http://time.com/5098354/us-mexico-travel-warning-violence/ (cited on 13 January 2018).
[560] Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. P. 17. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.
[561] *Ibidem*.
[562] *Ibidem*.

investors will find it difficult to know how much their assets or output will be worth internationally in the future»[563].

As the CEPR report underlines, over the past few years, the Mexican peso has considerably depreciated against the US dollar, while China's currency has experienced a general mild appreciation since 2007[564]. In this context, *«the combination of a rapidly depreciating peso (with relatively little wage growth) in Mexico and rising labor costs in China has narrowed the gap in labor costs between the two countries»*[565]. Nonetheless, the study also added: *«it is not yet clear how much difference these changes will make going forward in the competition between Mexico and China in US markets. The Mexican peso is difficult to predict, since its value depends on monetary policy decisions by both the Mexican Central Bank that are unrelated to exchange rate policy; and by decisions of the US Federal Reserve, as well as by speculation on international markets»*[566].

In this sense, according to Shaiken, there is a similarity between the Unites States and Mexico, even though their economies are very different. These similarities stand on sharp income inequality, slow growth, high unemployment rates, and persistent underemployment.

These issues, he said, *«are exacerbated by a troubling paradox: rising productivity combined with falling real wages. As a result, much of the economic gain has flowed to the top as workers and communities have faced downward pressure on wages and working conditions»*[567].

Moreover, if, on the one hand, this disconnection between productivity and wages arose as a crucial issue during the NAFTA debate, on the other, it currently fuels a growing concern in several countries throughout the world, including the United States, about the devastating impact of economic inequalities.

In the case of Mexican manufacturing productivity, added Shaiken, between 1994 and 2010, it increased by almost 80% under the agreement, whilst real hourly compensation – wages and benefits – dropped by nearly 20%.

As a matter of fact, according to him, this data underestimated the productivity/wage disconnect. Indeed, *«wages in 1994, the base year, were already*

---

[563] *Ibidem*.
[564] *Ibidem*.
[565] *Ibidem*.
[566] *Ibidem*.
[567] Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkley. Spring 2014. P. 38. https://clas.berkeley.edu/research/trade-nafta-paradox.

30 percent below their 1980 level despite significant increases in productivity during this period. Although they are producing more, millions of Mexican workers are earning less than they did three decades ago»[568].

In this context, economists usually argue that the reason why wages are low has to be found in low productivity, thus wage rates are directly proportional to productivity rates.

Nonetheless, as far as Mexico is concerned, low wages exist regardless of consistent gains in manufacturing productivity. Surely, low wage rates exist due to several factors, from government policies to globalization, even though a key point is the lack of labor rights in the export sector[569].

Therefore, this gap between productivity and wages has the consequence to low purchasing power, which in turn depresses consumer demand and curbs economic growth.

In addition, this disconnection in Mexico encourages the lowering on wages even in the United States, thus playing a role in the US wage/productivity gap that started in the mid-1970s[570]. In fact, between 1947 and the early 1970s, strong unions established a close connection between increasing productivity and higher wages, with the whole economy benefitting. But as union strength began to decline, the US gap between wage and productivity widened and wages stagnated. To what extent this issue has to deal with NAFTA, Shaiken answered with these lines: *«a key question during the NAFTA debates in 1993 was whether Mexican and US wages would harmonize upwards or be pulled downwards by the agreement. Proponents argued that expanding trade alone would lift all boats, while critics maintained that effective labor standards were essential to ensure that everyone would benefit»*[571].

[568] *Ivi*. P. 39.
[569] *Ibidem*.
[570] *Ivi.* P.40.
[571] *Ibidem*.

CHAPTER FIVE

WHAT'S NEXT FOR NAFTA?
ISSUES AT STAKE IN THE NEGOTIATION PROCESS

After having dealt with the debate between supporters and opponents, analysed the performance of such a complex treaty like NAFTA, and discussed about the impact of China joining the WTO on the agreement, I will go through the current debate on the renegotiation process of the agreement.

During the last primary race for electing the presidential candidates in 2016, NAFTA has been severely criticized by both the then Republican candidate Donald Trump and by the Democratic candidate Bernie Sanders.

In this sense, critics focused on the negative consequences of the treaty on the wages of the white working class in the states of the so-called Rust Belt – those states between New England and Midwest, such as Pennsylvania, Michigan, Ohio, Indiana and Wisconsin –, in which a relative majority of the population is employed in industries that guarantee – or at least used to guarantee – high salaries, even without having high levels of education[572]. On the one hand, according to Sanders, the adoption of the agreement had triggered dismissals or salaries' reduction for this section of the population, hit by an accord which exclusively benefits huge businesses as a result of the relocation of production in Mexico[573]. On the other, Trump built his criticism on the fact that benefits of NAFTA are – according to him – not equally distributed, but in favour of Canada and Mexico, preventing the United States to export as easily. As a matter of fact, in April 2016, Trump defined NAFTA as *«a total disaster for the United States that literally emptied our states of our manufacturing and our jobs»*[574]. Moreover, two months later, in his speech titled "Declaring American Economic Independence" he argued that, at the centre of the loss of millions and millions of jobs, lie two trade deals: on the one hand, there is NAFTA, and on the other there is China's entry in the WTO. In this context, after having defined the former *«the worst trade deal in*

[572] "L'impatto politico ed economico del NAFTA sugli Stati Uniti", *Il Caffè Geopolitico*, 19/5/2017. https://www.ilcaffegeopolitico.org/55113/limpatto-politico-ed-economico-del-nafta-sugli-stati-uniti (cited on 28 December 2017).
[573] *Ibidem*.
[574] "Transcript: Donald Trump's Foreign Policy Speech", *The New York Times*, 27/4/2016. https://www.nytimes.com/2016/04/28/us/politics/transcript-trump-foreign-policy.html (cited on 28 December 2017).

history»[575] and the latter *«the greatest jobs theft in history»*[576], he affirmed that *«trade reform, and the negotiation of great trade deals, is the quickest way to bring our jobs back»*[577]. Furthermore, he accused politicians to *«have aggressively pursued a policy of globalization – moving our jobs, our wealth and our factories to Mexico and overseas»*[578]. In fact, he blamed globalization for having made the financial elite – who donate to politicians – very wealthy, although simultaneously, leaving millions of workers with nothing but poverty and uncertainty. *«This is the consequence»*, he explained, *«of a leadership class that worships globalism over Americanism»*[579]*.* Additionally, he claimed that taxing, regulating and restricting American companies to death and, at the same time, allowing foreign countries that cheat to export their goods to the United States without paying taxes, has led to an economy that is more dependent on foreign countries than ever before. For this reason, he proclaimed, time has come *«to declare US economic independence once again»*[580].

In this sense, during his presidential campaign, Trump had already announced NAFTA revision or even cancellation, promising to *«immediately renegotiate the terms of that agreement to get a better deal for our workers (…) If they do not agree to a renegotiation, then I will submit notice under Article 2205 of the NAFTA agreement that America intends to withdraw from the deal»*[581]*.*

Notwithstanding, the intention to renegotiate NAFTA appears to be guided mainly by tactical considerations: to satisfy an electorate that feels threatened, other than damaged, by the economic and commercial globalization. Rightly or wrongly, Trump's electoral base detests NAFTA, thus it must be renegotiated[582].

Allies, but to what extent?

In this context, President Trump has found an *«unlikely ally»*[583] in his efforts to revise NAFTA in civil-society groups, union leaders and left-wing politicians that

[575] Trump, D.J. *Declaring American Economic Independence*. 26/6/2016. https://assets.donaldjtrump.com/DJT_DeclaringAmericanEconomicIndependence.pdf.
[576] *Ibidem*.
[577] *Ibidem*.
[578] *Ibidem*.
[579] *Ibidem*.
[580] *Ibidem*.
[581] "Full transcript: Donald Trump's jobs plan speech", *Politico*, 28/06/2016. https://www.politico.com/story/2016/06/full-transcript-trump-job-plan-speech-224891 (cited on 28 December 2017).
[582] Maronta, F. *Rinegoziare il Nafta? Buona fortuna, Mr. Trump*, in La potenza del Messico. Limes. 8/2017. P. 218.
[583] "Bernie Sanders Tells Trump to Keep His Promise on Nafta", *Bloomberg Politics*, 13/12/2017. https://www.bloomberg.com/news/articles/2017-12-13/bernie-sanders-to-trump-on-nafta-for-once-keep-your-promise (cited on 28 December 2017).

oppose almost everything Trump has done so far. Nonetheless, it is rather clear how the reasons driving Trump and these groups to revise the terms of the accord are diametrically opposite. According to social actors and the abovementioned politicians, US-led trade deals must not give priority to the interests of big corporations over those of the people of North America. In other words, corporations cannot be allowed to write the rules. Thus, it is in this sense that pressures are interesting the White House to ensure it does not give in to the demands of big business groups, which – they claim – aim to further benefit from the renegotiation at the expense of workers.

Nevertheless, the Trump administration seems to want to maintain in force the system of official corporate trade advisors that ensures special access to business interests, leaving the public and Congress out[584].

In this regard, *The Washington Post* carried out an investigative report titled "Industry voices dominate the trade advisory system", founding that *«there are 566 private sector trade advisors that can look at US trade proposals and comment on them and that 85 percent represent industry or trade association groups»*[585].

Hence, it appears evident that huge companies play a significant role in writing the ground rules, so much as to define that *«NAFTA is largely governed by corporations, not governments accountable to their citizenries»*[586] as *«NAFTA's dirtiest little secret»*[587].

Bernie Sanders' perspective

According to the democratic Senator Bernie Sanders, who has been *«an outspoken critic of trade deals in his campaign for president»*[588] in 2016, *«poorly designed trade deals are one of the factors that have hurt US manufacturing communities in recent decades and led to greater inequality between haves and have-nots»*[589], thus devastating lives, cities and towns. Although trade cannot be the only explanation

[584] "What Will Trump Deliver on Trade?", *The American Prospect*, 10/5/2017. http://prospect.org/article/what-will-trump-deliver-trade (cited on 28 December 2017).
[585] *Ibidem*.
[586] *Ibidem*.
[587] *Ibidem*.
[588] "Bernie Sanders Tells Trump to Keep His Promise on Nafta", *Bloomberg Politics*, 13/12/2017. https://www.bloomberg.com/news/articles/2017-12-13/bernie-sanders-to-trump-on-nafta-for-once-keep-your-promise (cited on 28 December 2017).
[589] "Bernie Sanders Pushes Donald Trump to Stay Strong In NAFTA Negotiations", *Huffpost*, 14/12/2017. http://www.huffingtonpost.ca/2017/12/13/bernie-sanders-pushes-donald-trump-to-stay-strong-in-nafta-negotiations_a_2330678 2/ (cited on 28 December 2017).

for that, still it is *«an important part of the decline an important part of the decline of the middle class* [in] *America»*[590].

Moreover, at a rally for the *#ReplaceNafta* movement in Washington in December 2017, Senator Sanders stated: *«when Donald Trump campaigned for president, he promised that he was going to stop corporations from shifting American jobs to Mexico (…) For once in your life, keep your promises»*[591].

As a matter of fact, Senator Sanders strongly believes in the necessity to *«fundamentally rewrite NAFTA»*[592], expressing support for *«hardball US negotiating positions like increased Buy American protections, and he wants to go even farther than Trump and not just water down the investor-state dispute mechanism in Chapter 11 but end it entirely. He also wants Trump to go farther on labour standards and to end incentives to outsource jobs»*[593] and to work with the administration to achieve in overhaul the agreement.

Alternative proposals

As a matter of fact, to get the revised NAFTA approved, Trump will likely need votes from the left. This means courting organizations which oppose much of Trump's agenda, such as his views on climate change and bank regulations included.

In this context, civil society groups, such as Citizens Trade Campaign – a coalition of labor, environmental, religious, family farm and consumer organizations united in the pursuit of social and environmental justice in trade policy – have addressed President Trump a letter with some of the major changes necessary to an improvement of the agreement. In it, they underlined that *«the rubric for assessing a NAFTA renegotiation is clear: does it put the needs of people and the planet over corporate profits? Does it support – not undermine – good jobs, public health and a more stable climate? If your administration fails to achieve these fundamental goals, or delivers yet another corporate-favoring deal that threatens such priorities, we will*

[590] *Ibidem*.

[591] "Should President Trump pull out of NAFTA?", *Tylt*. https://thetylt.com/politics/nafta-president-donald-trump (cited on 28 December 2017).

[592] "Bernie Sanders Pushes Donald Trump To Stay Strong In NAFTA Negotiations", *Huffpost*, 114/12/2017. http://www.huffingtonpost.ca/2017/12/13/bernie-sanders-pushes-donald-trump-to-stay-strong-in-nafta-negotiations_a_23306782/ (cited on 28 December 2017).

[593] *Ibidem*.

oppose it at every step»[594]. Therefore, according to the Citizens Trade Campaign, NAFTA must be replaced with an agreement involving the major points reported in the following table, and a renegotiation that does not include these changes *«would certainly not be "a lot better" for working people»*[595].

The major changes issued by Citizens Trade Campaign are summarized as follows (**Table 68)**[596].

Table 68. Citizen Trade Campaign proposals for NAFTA renegotiation.

➢ *«Eliminate rules that incentivize the offshoring of jobs and that empower corporations to attack democratic policies in unaccountable tribunals»*, such as ISDS.
➢ *«Defend jobs and human rights by adding strong, binding and enforceable labor and environmental standards to the agreement's core text and requiring that they are enforced».* In this sense, the new accord *«must create a fair playing field by requiring the agreement go into effect only upon each participating country adopting, maintaining, implementing – and enforcing – domestic laws that provide the labor rights and protections included in the International Labor Organization's Core Conventions and policies that fulfill the Paris climate agreement and other core multilateral environmental agreements».* Moreover, these obligations should be enforceable by an independent dispute settlement and subject to the same sanctions used to implement the commercial provisions of the agreement. In this sense, market access should be subject to confirmation that labor and environmental commitments are enforced, which means that there must be «*sustained evidence that conditions on the ground have improved and withdrawal of trade benefits for backsliding. In addition, the deal must tax imported products made under highly climate-polluting conditions».*
➢ *«Overhaul NAFTA rules that harm family farmers and feed a destructive agribusiness model»*. According to Citizens Trade Campaign, it is a fact that the agreement has devastated rural communities in the United States and Canada, as well as forced millions of Mexican farmers and farmworkers to abandon their lands, considerably fueling migration. Furthermore, the agribusiness model fostered by NAFTA has concentrated wealth produced in a handful of food processing and trading companies, exhausting natural resources, polluting water and the climate, leaving *«taxpayers to pick up the tab for agribusinesses' failure to pay farmers above-cost-of-production prices»*. In this sense, agriculture paradigm should be modified in order to achieve balanced trade that fosters fair and sustainable food supplies and rural economies: «a*ll nations must have the right to democratically establish domestic farm policies that ensure that farmers are paid fairly for their crops and livestock, as well as to establish other farm and food policies, such as inventory management, strategic food reserves, import surge protections and other anti-dumping mechanisms, that protect farmers, workers and consumers».*
➢ *«End NAFTA rules that threaten the safety of our food. NAFTA has enabled a flood of food imports that has overwhelmed food safety inspectors, contributing to a rise in food-borne illnesses».* In this sense, any deal that replaces NAFTA should require *«imported food to meet domestic food safety standards, include enhanced border inspection requirements. And, it must require country-of-origin labeling for meat and other food products, so consumers can make informed choices, and must otherwise affirm countries' rights to require mandatory food labeling regimes to inform consumers».*

[594] Citizen Trade Campaign: https://www.citizenstrade.org/ctc/wp-content/uploads/2017/01/CTC-PEOTUS-Trade-Letter-011317 .pdf
[595] *Ibidem*.
[596] *Ibidem*.

➢	*«Eliminate NAFTA rules that drive up the cost of medicines».* In this regard, in order to increase access to affordable medicines, NAFTA's existing intellectual property protections should be removed and *«no new measures included that would go beyond the existing World Trade Organization Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), which is already in effect in all NAFTA member countries. Instead, public health protections should be included that enable the United States and other countries to promote the human right to health and ensure access to medicine for all».*
➢	*«Eliminate NAFTA rules that undermine job-creating programs like Buy American*». It should require the elimination of NAFTA's procurement chapter in order to restore pro-worker and pro-environment policies and ensure that every country has the freedom to choose how to spend its own tax funds.
➢	*«Add strong, enforceable disciplines against currency manipulation to ensure a fair playing field for job creation».* Therefore, the United States should work with Mexico and Canada to create common procedures so that they *«can confront currency manipulation around the world»* and these rules *should «be included in trade agreements' core texts»*, while domestic US legislation should be enacted to implement automatic corrective actions, rather than simply inducing reports or discussions.
➢	*«Strengthen "rules of origin" and stop transshipment so as to create jobs and reinforce labor and environmental standards».* In fact, *«a NAFTA replacement deal must require 90 percent of a product's value come from a NAFTA nation for it to qualify and must include stronger rules to stop "transshipment" cheating on the rules of origin».*
➢	*«Require imported goods and services to meet domestic safety and environmental rules».* According to Citizens Trade Campaign, all NAFTA provisions in this respect should be replaced by a simple rule: *«imported products and services must meet the same standards as domestic products and services, and all service providers — domestic or foreign — must equally comply with a country's environmental, land use, safety, privacy, transparency, professional qualification and consumer access policies to ensure high-quality products and services, as well as high-quality jobs».*
➢	Finally, *«add a broad protection for environmental, health, labor and other public interest policies* [including] *a broad "carve-out" that exempts non-discriminatory domestic policies from all of the deal's rules, providing a strong deterrent and an early defense against any challenges».*

Reality beyond rhetoric

In this framework, also the position of important liberal economists like the 2008 Nobel Prize in Economic Sciences, Paul Krugman, deserves to be highlighted. When he was asked whether he was worried about Trump's rhetoric on international trade or he believed on the American threat to withdraw from NAFTA or to go to a trade war with China, he replied that withdrawing from NAFTA would be a huge issue if it came true, which is probably the reason why it will not happen. Moreover, he added that the point on NAFTA is not so much who are the beneficiaries. Krugman believes that the United States benefits from NAFTA, however the most important point is that, at present, a Mexican and a US

manufacturing industry do not exist, but what does exist is a North American manufacturing industry, an extremely integrated system of sectors in which goods are transported from one place to another and the different parts of a vehicle are produced all over the continent, so that dismantling this system would mean talking about an enormous overturn at the level of the whole sector, triggering the closing of numerous factories and the opening of new ones. In brief, according to Krugman, it would be a massively expensive move to overturn NAFTA for real. This explains why the sector is terrified from this perspective[597].

However, the threat to withdraw from the agreement made by President Trump should not be underestimated, as many contend. The potential cost of such actions could be very significant for the US economy[598], as the economist Fred Bergsten affirmed, underling the strong economic ties of the United States with Mexico and Canada. For example, the agreement has played a fundamental role in the development of supply chains throughout North America, especially in the automotive sector. Several North American producers work together as one integrated production region from cities in Canada, through the United States, and into many regions of Mexico. Labor-intensive parts can be manufactured in Mexico, where production costs are lower, while more complex parts are made in the United States. As a matter of fact, Thomas Klier, an economist of the Federal Reserve Bank of Chicago, affirmed that *«under NAFTA's common market, a supply chain of automotive assembly lines and parts makers has developed over the past 20 years, stretching some 2,500 miles, from Toronto through Detroit and the US Midwest and south to the Mexican border states. This auto alley employs more than 1.5 million people; and though it encompasses three countries, it functions as one integrated production region»*[599].

Hence, new tariffs or trade barriers may disrupt these manufacturing chains, which could cause an increase in costs for US consumers and likely make goods and services produced across North America less competitive in foreign markets. In this regard, on the one hand, advocates of revisited restrictions on trade argue that they would take back a share of global production to the United States.

---

[597] "Il premio Nobel Krugman: 'Trump non ha alcun merito sull'economia e i Bitcoin sono un'enorme bolla'", *Business Insider Italia*, 27/12/2017. https://it.businessinsider.com/il-premio-nobel-krugman-trump-non-ha-alcun-merito-sulleconomia-e-i-bitcoin-sono-unenorme-bolla/ (cited on 28 December 2017).

[598] Bergsten, F. *Mexico and the NAFTA Renegotiations*. Wilson Center, Webcast. August 15, 2017. https://www.wilsoncenter.org/event/mexico-and-the-nafta-negotiations (cited on 28 December 2017).

[599] "Trump Threatens to Undo NAFTA's Auto Alley", *Bloomberg*, 26/1/2017. https://www.bloomberg.com/news/articles/2017-01-26/trump-threatens-to-undo-nafta-s-auto-alley (cited on 28 December 2017).

On the other, opponents contend that they could trigger thousands of job losses in all three countries. Winners would be countries like Germany, South Korea and Japan, since auto producers might move their factories from Mexico to their homelands or even elsewhere[600].

In this sense, any upheaval to the economic relationship could have side effects on investment, employment, productivity sectors, and North American competitiveness. Moreover, Mexico and Canada could consider applying retaliatory tariffs on US exports if the United States decided to withdraw, while maintaining those already existing and seeking new FTAs without the United States[601].

Furthermore, from a larger strategic standpoint, the outcome of the renegotiations has implications for US trade policy and the relationship with US FTA partners. The Trump administration has affirmed it will revise and potentially renegotiate other existing FTAs, while pursuing new bilateral ones. In this sense, the outcomes of the renegotiation of NAFTA could mark the future direction of trade policy under the Trump administration and whether it will pursue bilateral agreements with TPP signatories or relaunch US negotiations on the US-EU Transatlantic Trade and Investment Partnership (TTIP)[602].

What is more, at sake there is also the overarching relationship with Canada and Mexico. Since the beginning of the NAFTA negotiation process in the early 1990s, US relations with its North American partners have always been close. In addition, since 2005, the three partners have also commit themselves to foster cooperation on economic and security matters through several attempts, mostly by taking part in trilateral summits known as the North American Leaders' Summits, which started under the administration of George W. Bush in 2005. The Obama administration committed in bilateral efforts with Canada and Mexico and developed the accomplishments of working groups formed under previous summits[603].

Therefore, the outcome of NAFTA renegotiations may affect those improvements made over the past decade on security, competitiveness, and other issues of mutual interest. As a matter of fact, Mexican officials have stated that if the Trump

---

[600] *Ibidem*.

[601] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 33. https://fas.org/sgp/crs/row/R44981.pdf.

[602] Akhtar, I.S. and Jones, V.C. *Transatlantic Trade and Investment Partnership (TTIP)*. Congressional Research Service. February 4, 2014. https://fas.org/sgp/crs/row/R43387.pdf.

[603] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 33. https://fas.org/sgp/crs/row/R44981.pdf.

administration undertakes trade policies that are against Mexican interests, their government may reconsider cooperation in other areas of interests, such as migration and security[604].

As well as some scholars, large companies are divided on the opportunity to revise NAFTA. The American Chamber of Commerce, in accordance with the Canadian and Mexican ones, have adopted a quite neutral position, subject to the dispute settlement mechanism that must remain unchanged and that the treaty must continue to be trilateral. There are no options for the substitution of the existing accord with two bilateral treaties. The reason of the first position is likely to be understood: the then Clinton administration, caving in to the pressure of the industry lobby, imposed an arbitral system which permits companies to sue governments of the member States for trade disputes. This gives considerable negotiating power to big corporations compared to its own and other governments on trade issues.

As far as the defence of the trilateral nature of the treaty, it conveys the already transnational character of the value chains of many businesses in the three countries, with the great American manufacturing at the centre. Indeed, it is the manufacturing sector the one that pressures more on the renegotiation of NAFTA. For a long time, large American producers have underlined how the treaty is no longer up with the technological developments of the recent years. In fact, back in 1993, the confidentiality of trade secret was largely entrusted to lockboxes and security guards. Nowadays, it is handed over to servers and hackers. Similarly, electronic trade did not exist and the *cloud computing* had still to come. In this regard, big companies demand stricter norms on intellectual property and patents, but also the softening of the strict standards of Canada, seen as non-tariffs barriers, and more protection to foreign investors.

The point is that, on the issue of patents, data and investments, American producers do not have significant problems with Canada and Mexico.

Moreover, this is also the main argument of the automotive industry, which agrees with the President on demanding the necessity for stricter clauses on currency manipulation by trade partners – China, first of all.

Even the United Auto Workers – one of the largest American labor union that

[604] Seelke, C.R. *Mexico: Background and US Relations*. Congressional Research Service. March 30, 2016. https://fas.org/sgp/crs/row/R42917.pdf.

represents workers in the United States (including Puerto Rico) and Canada – expressed its support towards the modernization of NAFTA, but also showed willingness to cooperate with President Trump for this purpose[605]. In June 2017, the Trump administration provided a possibility to submit public comments to the US trade office on this issue. As a matter of fact, the UAW and other 557 among individuals, organizations or corporations took advantage of this opportunity. The Legislative Director of UAW, Josh Nassar, wrote that *«since NAFTA, our trade surplus with Mexico has vanished and hundreds of thousands of US jobs have been lost. Most of these job losses have been in manufacturing»*[606].

The problem, in this sense, is the minimum percentage of components made in the US that a vehicle must have in order to be considered *made in* USA, Canada or Mexico. NAFTA sets this value at 62.5%[607], which seems to be too low for trade unions, but not for producers[608]. For this reason, what could emerge is a conflict between Trump's electors and their employers.

Another potential problem for the President is represented by big agricultural businesses. For them, in fact, NAFTA is good just the way it is. Job losses did not affect those huge US companies that export to Mexico soy, corn and corn syrup in significant quantities, being one of the main global producers of this products.

Mexican and Canadian perspectives

Actually, the numbers we have seen in the previous chapters may suggest that, who benefited the most from NAFTA was not Mexico. If anything, being the most backward country among the other partners, it should have grown more and at a faster pace. In this sense, why has Trump taken a shot towards NAFTA, pointing at it as the cause of the loss of millions of jobs and substantial industrial capacity at the hands of the Mexicans? The answer may be because Mexico has gained a fair

---

[605] "UAW wants to join Trump in effort to crush NAFTA", *USA Today*, 10/11/2016. https://www.usatoday.com/story/money/cars/2016/11/10/uaw-united-auto-workers-donald-trump-nafta-north-american-free-trade-agreement /93600032/ (cited on 28 December 2017).

[606] "Unions urge worker-friendly NAFTA re-do; industry urges 'do no harm'", *Detroit Free Press*, 12/6/2017. http://www.freep.com/story/money/cars/2017/06/13/what-auto-industry-wants-out-nafta-renegotiation/388782001/ (cited on 28 December 2017).

[607] See: NAFTA – A Guide, 1998, Customs and Borders Protection *"The NAFTA rules of origin for automotive products are based on a tariff change alone or a tariff change and a regional value-content requirement. The Agreement requires that the regional value content for these products be calculated using the net cost method. The regional value-content requirement for autos and light vehicles, and their engines and transmissions, will be 50 percent under the net cost method when the agreement enters into force; this percentage will be increased to 62.5 percent over an eight-year transition period."*

[608] "Trump's push for American-made could disrupt NAFTA supply chains and raise consumer prices", *Los Angeles Times*, 28/2/2017. http://www.latimes.com/business/la-fi-nafta-rules-origin-20170228-story.html (cited on 28 December 2017).

share. Mexico has expressed its willingness to modernize NAFTA, setting its own negotiating objectives, which serve as the basis for Mexico's position at the talks[609]. Indeed, the Mexican government stated that *«it was important to meet the ambitious timeline to sign a new deal before Mexico's next president takes office at the end of 2018»*[610], because, in the words of Mexico's Economic Minister Ildefonso Guajardo, *«if we continue negotiations (longer) they will be part of the debate in the campaign. And you know how it is, when you politicize things, it is not the best ingredient to get things done»*[611].

Villarreal and Fergusson wondered what impact, if any, bilateral trade relations would have on the 2018 Mexican elections and pointed out that some observers are concerned that *«Mexicans may elect leftist populist Andrés Manuel López Obrador, who would be less inclined to continue close bilateral cooperation, if they feel that other candidates would not adequately defend Mexico's sovereignty vis-á-vis the United States. Lopez Obrador's opponents denounce him as a populist who would seek socialist policies that would set back trilateral economic cooperation. Already he has said that if he wins he will review and possibly revise oil contracts signed after Mexico's major energy reforms of 2013, which may affect US investors»*[612].

The Mexican Economic Ministry stated that *«our objective is to have an expedited negotiation that maintains the benefits that we have achieved during the lifespan of NAFTA, but which at the same time serves as a platform for the modernization of the treaty (…) Mexico will seek to retain unimpeded access for goods and services in the NAFTA region, promote greater integration of North American labor markets and establish rules of origin to guarantee NAFTA's regional benefits»*[613].

Heading South, US NAFTA negotiating objectives include seeking provisions on anticorruption policies, such as the criminalization of government corruption. The Mexican public sector may support efforts to address corruption, a top concern among the population and a barrier to investment in the country. Some Mexican

---

[609] "Mexico Sets Out NAFTA Goals Ahead of Renegotiation Talks: Document", *Reuters*, 1/8/2017. https://www.reuters.com/article/us-usa-trade-mexico/mexico-sets-out-nafta-goals-ahead-of-re-negotiation-talks-document-idUSKBN1AH4VW (cited on 28 December 2017).

[610] "Mexico's Guajardo Sees 60 Percent Chance of Ending NAFTA Talks This Year", *Reuters*, 9/8/2017. https://www.reuters.com/article/us-latam-summit/mexicos-guajardo-sees-60-percent-chance-of-ending-nafta-talks-this-year-idUSKBN1AO2LI (cited on 28 December 2017).

[611] *Ibidem*.

[612] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 34. https://fas.org/sgp/crs/row/R44981.pdf. See also: "Mexican Presidential Hopeful Lopez Obrador Says He Would Revise Oil Contracts", *Reuters*, 5/9/2017. https://www.reuters.com/article/us-mexico-politics/mexican-presidential-hopeful-lopez-obrador-says-he-would-revise-oil-contracts-idUSKCN1BH0AQ (cited on 28 December 2017).

[613] "Mexico Sets Out NAFTA Goals Ahead of Renegotiation Talks: Document", *Reuters*, 1/8/2017. https://www.reuters.com/article/us-usa-trade-mexico/mexico-sets-out-nafta-goals-ahead-of-re-negotiation-talks-document-idUSKBN1AH4VW (cited on 28 December 2017).

officials have stated that the government is willing to address anticorruption provisions in the negotiations, but it is not clear how this would be addressed in an FTA. Similarly, while Mexican workers may support a discussion of the need for Mexican businesses to raise wages, the government considers that a matter of domestic policy that should not be discussed in the agreement[614].

On the one hand, some analysts are concerned that, if the Trump administration implements protectionist trade measures, such as tariffs or quotas in the renegotiation, bilateral cooperation and close economic linkages could be undermined.

On the other, several experts contend that Mexico's aim to develop a mutually beneficial working relationship with the Trump administration is difficult but achievable[615]. The outcome of the negotiations could have significant implications for bilateral relations with Mexico. A few days before the fourth round of NAFTA talks, Mexico accused US President Trump of *«spoiling for a "protectionist war" with proposals aimed at balancing trade* [adding that] *«an end to NAFTA would mark a breaking point in US-Mexican relations and affect bilateral cooperation in other areas»*[616]. Nonetheless, although it might appear that major problems are found with Mexico, actually, they emerge with Canada, which, thanks to specific clauses included in the treaty, still imposes tariff barriers on poultry and dairy products. Moreover, differently from the United States, Canada applies the precautionary principle on GMOs and pesticides.

In April 2017, Canada's Prime Minister Justin Trudeau, during an interview to *Bloomberg News*, claimed that *«the US has a 400-million-dollar dairy surplus with Canada, so it is not Canada that is the challenge here (…) Let's not pretend we are in a global free market when it comes to agriculture. Every country protects – for good reasons – its agriculture industry. We have a supply management system that works very well in Canada (…) We are going to engage in a thoughtful fact-based conversation on how to move forward in a way that both protects our consumers and our agriculture producers»*[617].

---

[614] Villarreal, M.A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 35. https://fas.org/sgp/crs/row/R44981.pdf

[615] *Ivi*. P. 34.

[616] "US Businesses Fear NAFTA Doomed; Mexico Warns of Consequences", *Reuters*, 10/10/ 2017. https://www.reuters.com/article/us-trade-nafta/u-s-businesses-fear-nafta-doomed-mexico-warns-of-consequences-idUSKBN1CF0WV (cited on 28 December 2017).

[617] "Dairy protected 'for good reason,' Trudeau says; Trump calls Canada's actions a 'disgrace'", *CBC News*, 20/4/2017. http://www.cbc.ca/news/politics/trudeau-bloomberg-dairy-trump-1.4077625 (cited on 28 December 2017).

Moreover, the Canadian government promised also to defend timber industry, whose raw material grows in public soil and has a special fiscal regime.

At first sight, American agricultural opposition does not seem a major problem for Trump. However, in view of the mid-term elections, or even more of the next presidential election, the importance of States like Iowa and Florida, with a great agricultural tradition, cannot be ignored.

Not less problematic appears the unwillingness of the energy sector to any chance of NAFTA revision. US oil and gas producers found in Mexico a sort of Eldorado. Half of crude oil refined there comes from US oil wells. Furthermore, Mexican federation has become the main importer of gas provided by hydraulic fracturing techniques, which, in a five years' time, have subverted the energy global market. In addition, within the next ten years, the largest American oil and gas corporation, the *Exxon Mobil*, promised to invest 300 million dollars in the Mexican fuel distribution[618].

Moreover, if, on the one hand Canada's demands outmatch negotiation availabilities, on the other, Mexico seems more accommodating. Its priority, indeed, is to keep the access open to the US market and investments. The government of Enrico Peña Nieto may have the intention to preserve the current version of the rule of origin to avoid that a restrictive revision could undermine national industry.

Tensions and conflicts within the US government

The renegotiation of NAFTA seems a process neither easy, nor short. The complex nature of the issue and its conflicting interests, make the task of the White House to identify clear objectives and unilaterally accepted by the parts even more difficult. Moreover, the arrangements of the renegotiation are still not clear. In charge of this procedure are Wilbur Ross, the new US Secretary of Commerce, Peter Navarro, economist and Assistant to the President, Director of Trade and Industrial Policy, and Director of the White House National Trade Council – a newly created entity in the executive branch of the US federal government –, and Robert Lightizer, US current Trade Representative.

[618] "Exxon says to open gas stations in Mexico, invest $300 million", *Reuters*, 17/5/2917. https://www.reuters.com/article/us-exxon-mobil-mexico/exxon-says-to-open-gas-stations-in-mexico-invest-300-million-idUSKCN18D1XR (cited on 28 December 2017).

What has emerged by the *media* throughout last year is that there would have been a fight in the White House over President Trump's trade agenda, since top advisors question how far the United States should go in enacting the America First trade policies the President has promised to implement.

On one side are Peter Navarro – who thinks of himself *«as a kind of bricklayer in the president's effort to build a protective wall around US workers and industries»*[619] and runs the Office of Trade and Manufacturing Policy – and Robert Lighthizer – in charge of leading the negotiation of the agreement –. On the other side, there are the so-called moderate voices, including the head of the National Economic Council Gary Cohn; the Treasury Secretary Steven Mnuchin; Chief of Staff John F. Kelly; and the National Security Advisor, Lt. Gen. H. R. McMaster[620].

In this sense, as affirmed by the press, *«tensions over the direction of White House trade policy have risen in recent weeks with the growing possibility that the nearly 25-year-old Nafta agreement will crumble entirely»*[621].

When Navarro came to the White House, the *media* reported he brought with himself several written trade actions ready to be signed by the President, including the directive to begin withdrawing from NAFTA. Notwithstanding, *«according to interviews with current and former government officials and others familiar with the deliberations who declined to be named because they were not authorized to speak publicly»*[622], his initial attempt to abandon the agreement was blocked by Cohn, as well as his two subsequent attempts.

Furthermore, in September 2017, Kelly called Navarro into a meeting with Cohn and told him that his whole operation would have moved to the National Economic Council. Thus, Navarro now has to report to Cohn, and is required to copy Cohn on all emails. In this context, this issue reflects a *«larger dispute inside and outside the White House over the path of American trade policy in an era of globalization, where capital and jobs can move freely across borders»*[623].

One of the benchmarks of Trump's candidacy was his commitment in rebuilding the trading system by eliminating existing deals and charging tariffs to protect American workers. Nonetheless, speaking tough on trade *«has proved easier than*

---

[619] "Peter Navarro: A 'Bricklayer' Of Trump's Protectionist Wall", *NPR Politics*, 3/5/2017. https://www.npr.org/2017/05/03/526621048/peter-navarro-a-bricklayer-of-trumps-protectionist-wall (cited on 28 December 2017).

[620] "Trump's America First Trade Agenda Roiled by Internal Divisions", *The New York Times*, 20/10/2017. https://www.nytimes.com/2017/10/20/us/politics/trumps-america-first-trade-agenda-roiled-by-internal-divisions.htm (cited on 28 December 2017).

[621] *Ibidem*.

[622] *Ibidem*.

[623] *Ibidem*.

enacting policies that would disrupt the global rules that businesses and economies have been built around. Cohn, along with frequent allies like Mr. Mnuchin and Mr. Kelly, has argued that abandoning trade pacts and raising tariffs would hurt American businesses, the economy and relations abroad»[624].

As affirmed by former senior trade advisor to the Trump campaign and chairman of the Coalition for a Prosperous America, Dan DiMicco, *«I don't think there's an effort to marginalize Peter, I think there's an effort to marginalize President Trump's national strategy of putting America first»*[625].

Navarro is reported to be now one of the few remaining supporters of a nationalist trade policy[626]. Stephen Miller, Trump's senior advisor, and Lighthizer seem to be now Navarro's main allies on trade matters. Commerce Secretary Wilbur Ross has also been an ally, particularly in pushing for tougher steel import restrictions[627].

The ability of pro-trade supporters in the White House has suggested a willingness by President Trump to distance, at least temporarily, from some of his threatening rhetoric of his campaign. Therefore, they seem to have succeeded in convincing President Trump that trade deals can be used at their own advantage in other geopolitical and economic contexts: according to Fabrizio Maronta, *Limes*' editor, the driving force to reconsider NAFTA, already there with former President Barack Obama and strengthened with current President Trump, originated especially from the willingness to set a precedent politically and legally binding with a view on other trade agreements, bilateral or multilateral, particularly involving Asian countries and Europe. Therefore, Maronta adds, it is transoceanic trade on which the big American industry is fighting the real battle, and it aims to use Trump to set standards in its own favour for a new trade liberalization cycle, subsequent the current protectionist phase[628].

As a matter of fact, the objectives for a NAFTA renegotiation issued by the Trump administration represent only general guidelines, disclosing President Trump's intentions. The threats made during the presidential campaign are absent, and the aims indicate the US government's willingness to reach a deal that benefits all the parties. What is stressed, is the main goal for the United States to improve the trade balance and reduce the trade deficit through an increase in total trade. If that

---

[624] *Ibidem*.
[625] *Ibidem*.
[626] *Ibidem*.
[627] *Ibidem*.
[628] Maronta, F. *Rinegoziare il Nafta? Buona fortuna, Mr. Trump*, La potenza del Messico. Limes. 8/2017. P. 218.

were the case, the announced super protectionist lines evoked by Trump would be inevitably mitigated within the context of a negotiation, in which parties seek to find an equilibrium among the different needs. However, if Trump goes down this route, it is possible that he also has to face a consensus crisis with his own electorate, to whom he promised to *"Make America Great Again"* at any cost, even withdrawing from NAFTA, after having pulled out from the TPP. Lost that *fil rouge* with its own social base of the past Republican electoral campaign, the political consequences for his presidency could be serious. Nonetheless, it must be noted that the White House can make use of the so-called *fast track* procedure – which ensures *carte blanche* during negotiations before presenting the final accord to Congress with a voting process that does not admit chance for amendments – until June 30, 2018[629]. In this way, he could attempt to play the negotiation card until that date, to then say, "take it or leave it" both to partner countries and to US Congress. Crucial issues for Congress in the renegotiation of NAFTA are how best to adjust and update it, as well as its economic impact and broader strategic aspects. Therefore, some lawmakers have expressed concern that the Trump administration's statements on trade may jeopardize North American trade relations – especially regarding Mexico –, and hopes for a positive result to the negotiations, so that it would foster relations with NAFTA partners through a modernized agreement. On the other hand, other lawmakers have raised concerns about specific topics of the agreement to be revised, including TPP-like measures to modernize NAFTA[630].

Preparing the ground for the renegotiation

On March 1, 2017, the Office of the US Trade Representative (USTR) released the President's *National Trade Policy Agenda for 2017*. It constitutes the first formal and written declaration of the Trump administration on the priorities and objectives of trade policy. The general principles of its trade policy *«will be to expand trade in a way that is freer and fairer for all Americans»*[631]. As stated in the

[629] "Kill Nafta? It's Not as Easy as Trump Might Think", *Bloomberg*, 14/11/2017. https://www.bloomberg.com/news/articles/2017-11-14/kill-nafta-it-s-not-as-easy-as-trump-might-think-quicktake-q-a (cited on 28 December 2017).
[630] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 31. https://fas.org/sgp/crs/row/R44981.pdf.
[631] Office of the United States Trade Representative (USTR). *The President's Trade Policy Agenda for 2017.* P. 1. https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/Chapter%20I%20%20The%20President%27s%20Trade%20Policy%20Agenda.pdf.

Agenda, in order to *«increase economic growth, promote job creation in the United States, promote reciprocity with our trading partners, strengthen our manufacturing base and our ability to defend ourselves, and expand our agricultural and services industry exports»*, it will be necessary to focus *«on bilateral negotiations rather than multilateral negotiations – and by renegotiating and revising trade agreements when our goals are not being met»*[632]. In order to succeed in these objectives, the new elected administration displayed four main priorities that intended to pursue. As a matter of fact, the fourth one focused on the negotiation of new and better trade deals. Since the late 1980s, among the agreements that were signed by the United States, there is NAFTA, the Uruguay Round Agreements that created the WTO, China's 2001 Protocol of Accession to the WTO, and many other trade agreements. Consequently, all these together have framed the phenomenon of globalization, which *«establishes the rules and conditions that govern US trade and investment»*[633]. Behind the promises made year after year that this system would have led to a stronger economic growth and greater opportunities for American workers and business, some US trade policies and agreements have actually brought prosperity, in particular through an increase in export possibilities. Nevertheless, this growth affected only *some* segments of US economy. Not only the results have not lived up to expectations, but also, they portray an alarming situation. For this purpose, the administration intends *«to work with the Congress to lower taxes, reduce regulations, increase funding for infrastructure, and take other steps to stimulate US economic growth»*[634].

Thus, at the end of March 2017, the White House opened a ninety-days period of discussion and consultations with Congress and, under President's directions, the USTR Robert Lighthizer announced the intentions to start the renegotiation, proving to be anxious to initiate as soon as possible what has been called *«a geographic transition»*[635]: the return in the United States of production chains planted in Mexico, as a guarantee of economic reindustrialization.

Hence, on July 17, 2017, the Office of the United States Trade Representative released the document with the specific guidelines for the renegotiation of

---

[632] *Ibidem*.
[633] *Ibidem*.
[634] *Ibidem*.
[635] "'Concessions' ahead for Mexico, Canada in NAFTA talks later this year: US commerce secretary", *BNN*, 8/3/2017. http://www.bnn.ca/concessions-ahead-for-mexico-canada-in-nafta-talks-later-this-year-u-s-commerce-secretary-1.691104 (cited on 28 December 2017).

NAFTA[636]. As a result, the objectives summarized below are the outcome of this period of meetings with Congress, advisory committees, other agencies, and members of the public. In this sense, the new Agreement should continue to eliminate barriers to American exports: *«this includes the elimination of unfair subsidies, market-distorting practices by state owned enterprises, and burdensome restrictions of intellectual property. The new NAFTA will be modernized to reflect 21st century standards and will reflect a fairer deal, addressing America's persistent trade imbalances in North America. It will ensure that the United States obtains more open, equitable, secure, and reciprocal market access, and that our trade agreement with our two largest export markets is effectively implemented and enforced»*[637].

The specific objectives listed by the US government for the renegotiation cover the following topics: Trade in Goods, included Industrial and agricultural; Sanitary and Phytosanitary Measures (SPS), Customs, Trade Facilitation, and Rules of Origin, Technical Barriers to Trade (TBT), Good Regulatory Practices, Trade in Services, Including Telecommunications and Financial Services, Digital Trade in Goods and Services and Cross-Border Data Flows, Investment, Intellectual Property, Transparency, State-Owned and Controlled Enterprises, Competition Policy, Labour, Environment, Anti-Corruption, Trade Remedies, Government Procurement, Small- and Medium-Sized Enterprises, Energy, Dispute Settlement, General Provisions, and Currency.

In the trade in goods area, as reported, the main objective is to improve the US trade balance and reduce trade deficit with NAFTA partners. In this regard, President Trump and some of his officials believe that trade deficits are disastrous to the US economy. One of them is Peter Navarro, who stated that trade deficits negatively affect GDP and strongly believes that the reduction of trade deficit is one of four key factors necessary to obtain GDP growth[638]. He also contends that trade deficits transfer wealth to other countries and that *«tough, smart negotiations is a way to increase net exports – and boost the rate of economic growth»*[639].

Moreover, after the second round of NAFTA talks of September, the USTR Robert

---

[636] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[637] *Ibidem*.
[638] "Why the White House Worries About Trade Deficits", *The Wall Street Journal*, 5/3/2017. https://www.wsj.com/articles/why-the-white-house-worries-about-trade-deficits-1488751930 (cited on 28 December 2017).
[639] *Ibidem*.

Lighthizer stated that he wanted to negotiate an agreement *«that's going to pass the Congress»*[640] but also that *«in the final analysis I want the (trade) deficit to come down and I want American workers and farmers and ranchers to be better off. That's kind of what I view (as) my mission»*[641].

Other critics of the agreement claim that US free trade agreements have contributed to trade deficits growth with several trade partners[642]. Economists generally argue that it is not possible to use trade agreement provisions to decrease the deficit because *«trade imbalances are determined by underlying* macroeconomic[643] *fundamentals»*[644].

Furthermore, on the one hand, according to several economists, *«a final, and much more constructive, alternative would be to try to use the NAFTA renegotiation to strengthen the Mexican economy and thus boost its imports from the United States (and everywhere else)»*[645]*.* A strengthening of Mexican economy *«would probably also lead to appreciation of the peso, which would further improve US competitiveness. Mexico could agree to implement more expansionary fiscal and monetary policies»*[646]. At the same time, *«faster growth could be fostered by maximizing the freedom of trade (in services as well as goods) between the two countries and writing new rules to promote that objective. The best "new NAFTA" to meet the new goals might thus be an updated and expanded "old NAFTA" to complete the goals to which the three countries committed themselves a quarter century ago»*[647].

On the other hand, other economic experts argue that FTAs may have implications on the composition of trade among trade partners, although having limited impact on the overall share of trade deficit[648]. They contend that trade balances are *«incomplete measures of the comprehensive nature of economic relations between the United States and its trading partners, and note that trade imbalances are determined by macroeconomic fundamentals and an imbalance between savings and*

---

[640] "US Trade Rep Says in NAFTA Talks He Keeps Trump's Views in Mind", *Reuters*, 6/9/2017. https://www.reuters.com/article/us-trade-nafta-lighthizer/u-s-trade-rep-says-in-nafta-talks-he-keeps-trumps-views-in-mind-idUSKCN1BG31X (cited on 28 December 2017).
[641] *Ibidem*.
[642] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 13. https://fas.org/sgp/crs/row/R44981.pdf.
[643] In italics in the original text.
[644] Bergsten, C. F. *Trade Balances and the NAFTA Renegotiation*. Peterson Institute for International Economics. Policy Brief. June 2017. P. 2. https://piie.com/system/files/documents/pb17-23.pdf.
[645] *Ibidem*.
[646] *Ibidem*.
[647] *Ibidem*.
[648] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 13. https://fas.org/sgp/crs/row/R44981.pdf.

investment in the economy»[649]. However, in this respect, it is not clear how the Trump administration would consider reducing the trade deficit through the renegotiation.

The renegotiation process

Therefore, on August 16, 2017, USTR Robert Lighthizer, Canadian Foreign Affairs Minister Chrystia Freeland, and Mexican Secretary of the Economy Ildefonso Guajardo initiated the first round of renegotiation talks in Washington, DC. After the conclusion of these first talks, they announced that the three governments were committed to *«an accelerated and comprehensive negotiation process that will upgrade our agreement and establish 21st century standards to the benefit of our citizens»*[650]. Additionally, they agreed to hold seven rounds of negotiations talks at three-week intervals through December 2017, with the final text of the agreement released after the negotiation process is concluded.

Furthermore, NAFTA parties have agreed that the exchanged information within the negotiations – like the negotiating text, proposals made by each party, and any other materials in relation with the content of these talks – must remain confidential[651].

As far as industrial goods are concerned, the aim of the renegotiation is to:

- *«Maintain existing reciprocal duty-free market access for industrial goods and strengthen disciplines to address non-tariff barriers that constrain US exports to NAFTA countries;* [and] *existing duty-free access to NAFTA country markets for US textile and apparel products and seek to improve competitive opportunities for exports of US textile and apparel products while taking into account US import sensitivities.*
- *Promote greater regulatory compatibility with respect to key goods sectors to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation where appropriate»*[652].

---

[649] *Ibidem*.

[650] Office of the USTR. *Trilateral Statement on the Conclusion of NAFTA Round One*. Press Release, August 20, 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/trilateral-statement-conclusion (cited on 28 December 2017).

[651] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. At summary. https://fas.org/sgp/crs/row/R44981.pdf.

[652] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 4. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.

As far as agricultural goods, the purpose is to:

- *«Maintain existing reciprocal duty-free market access for agricultural goods.*
- *Expand competitive market opportunities for US agricultural goods in NAFTA countries, substantially equivalent to the competitive opportunities afforded foreign exports into the US market, by reducing or eliminating remaining tariffs.*
- *Seek to eliminate non-tariff barriers to US agricultural exports including discriminatory barriers, restrictive administration of tariff rate quotas, other unjustified measures that unfairly limit access to markets for US goods, such as cross subsidization, price discrimination, and price undercutting.*
- *Provide reasonable adjustment periods for U. S. import sensitive agricultural products, engaging in close consultation with Congress on such products before initiating tariff reduction negotiations.*
- *Promote greater regulatory compatibility to reduce burdens associated with unnecessary differences in regulation, including through regulatory cooperation where appropriate*»[653].

In Sanitary and Phytosanitary Measures (SPS), measures expect to:

- *«Provide for enforceable SPS obligations that build upon WTO rights and obligations, including with respect to science based measures, good regulatory practice, import checks, equivalence, and regionalization, making clear that each country can set for itself the level of protection it believes to be appropriate to protect food safety, and plant and animal health in a manner consistent with its international obligations.*
- *Establish a mechanism to resolve expeditiously unwarranted barriers that block the export of US food and agricultural products;* [and] *new and enforceable rules to ensure that science-based SPS measures are developed and implemented in a transparent, predictable, and non-discriminatory manner.*
- *Improve communication, consultation, and cooperation between governments to share information and work together on SPS issues in a transparent manner, including on new technologies.*
- *Provide for a mechanism for improved dialogue and cooperation to address SPS issues and facilitate trade where appropriate and possible»*[654].

In customs and trade facilitation sector, objectives are to:

[653] *Ibidem*.
[654] *Ivi*. P. 5.

- *«Build on and set high standards for implementation of WTO agreements involving trade facilitation and customs valuation.*
- *Increase transparency by ensuring that all customs laws, regulations, and procedures are published on the Internet as well as designating points of contact for questions from traders.*
- *Ensure that, to the greatest extent possible, shipments are released immediately after determining compliance with applicable laws and regulations and provide for new disciplines on timing of release, automation, and use of guarantees.*
- *Provide for streamlined and expedited customs treatment for express delivery shipments, including for shipments above any de minimis threshold. Provide for a de minimis shipment value comparable to the US de minimis shipment value of $800.*
- *Ensure that NAFTA countries administer customs penalties in an impartial and transparent manner, and avoid conflicts of interest in the administration of penalties.*
- *Provide for automation of import, export, and transit processes, including through supply chain integration; reduced import, export, and transit forms, documents, and formalities; enhanced harmonization of customs data requirements; and advance rulings regarding the treatment that will be provided to a good at the time of importation.*
- *Provide for both administrative and judicial appeal of customs decisions;* [and] *for electronic payment of duties, taxes, fees, and charges imposed on or in connection with importation or exportation;* [and] *for the use of risk management systems for customs control and post-clearance audit procedures to ensure compliance with customs and related laws;* [and] *for disciplines on the use of customs brokers, preshipment inspection, and the use of reusable containers.*
- *Establish a committee for Parties to share information and cooperate on trade priorities with a view to resolving inconsistent treatment of commercial goods»*[655].

As pointed out by Villarreal and Fergusson, considering the enormity and frequency of US trade with NAFTA trading partners, more updated customs

[655] *Ivi*. P. 5-6.

provisions in the agreement could have a large effect on companies engaged in trilateral trade[656]. As far as rules of origin is concerned, which – as explained in the Introduction – help ensure that the benefits of the agreement are granted only to goods manufactured by NAFTA's member countries, the Trump administration has announced that it would demand stricter measures. Indeed, in the USTR's negotiating objectives, it is stated that the administration would:

- *«Update and strengthen the rules of origin, as necessary, to ensure that the benefits of NAFTA go to products genuinely made in the United States and North America.*
- *Ensure the rules of origin incentivize the sourcing of goods and materials from the United States and North America.*
- *Establish origin procedures that streamline the certification and verification of rules of origin and that promote strong enforcement, including with respect to textiles.*
- *Promote cooperation with NAFTA countries to ensure that goods that meet the rules of origin receive NAFTA benefits, prevent duty evasion, and combat customs offences»*[657].

However, by distinguishing goods made in the United States from those made in North America, the administration may request a higher rate of US content in goods in order to obtain NAFTA benefits. This may become a controversial issue with Canada and Mexico, because the accord does not differentiate between US and North American content[658]. Some experts underline that tightening up these measures would be expensive for consumers and create inefficiencies for businesses, making goods manufactured within North America less competitive in global export markets. They also claim that *«it is cumbersome to comply with complex rules of origin that may add to trade costs. They argue that these additional administrative costs could lead businesses not to take advantage of NAFTA tariff preferences, and rather to import products through most favored nation (MFN) tariffs. In particular, this could be true for small businesses since they lack knowledge on the NAFTA certification system. Some Mexican officials say that a US proposal on tightening the rules of origin could lead to a stalemate in the negotiations»*[659].

As far as Technical Barriers to Trade (TBT), the administration would:

[656] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 29. https://fas.org/sgp/crs/row/R44981.pdf.
[657] *Ivi*. P. 6.
[658] *Ivi*. P. 13.
[659] *Ibidem*.

- *«Require NAFTA countries to apply decisions and recommendations adopted by the WTO TBT Committee that apply, inter alia*[660]*, to standards, conformity assessment, transparency, and other areas.*
- *Include strong provisions on transparency and public consultation that require the NAFTA countries to publish drafts of technical regulations and conformity assessment procedures, allow stakeholders in other countries to provide comments on those drafts, and require authorities to address significant issues raised by stakeholders and explain how the final measure achieves the stated objectives.*
- *Ensure national treatment of conformity assessment bodies without conditions or limitations and encourage the use of international conformity assessment recognition arrangements to facilitate the acceptance of conformity assessment results.*
- *Establish an active TBT Chapter Committee that will discuss bilateral and third party specific trade concerns, coordination of regional and multilateral activities, regulatory cooperation, and implementing Good Regulatory Practices»*[661].

With regard to good regulatory practices, the objective is to reach commitments that can help market access and boost greater compatibility among US, Canadian, and Mexican regulations, including by:

- *«Ensuring transparency and accountability in the development, implementation, and review of regulations, including by publication of proposed regulations;*
- *Providing meaningful opportunities for public comment in the development of regulations;*
- *Promoting the use of impact assessments and other methods of ensuring regulations are evidence-based and current, as well as avoiding unnecessary redundancies; and*
- *Applying other good regulatory practices»*[662]*.*

The United States may demand to update NAFTA with arrangements to facilitate market access and foster greater compatibility among US, Canadian, and Mexican

[660] In italics in the original text.
[661] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 6-7. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[662] *Ivi*. P. 7.

regulations[663]: such commitments may supplement the objectives listed above.

In the trade in services area, the aim is to secure commitments from NAFTA countries to provide fair and open conditions for services trade through:

- *«Rules that apply to all services sectors, including rules that prohibit:*
  - *Discrimination against foreign services suppliers;* [and] *restrictions on the number of services suppliers in the market;* [and] *requirements that cross-border services suppliers first establish a local presence.*
- *Specialized sectoral disciplines, including rules to help level the playing field for US delivery services suppliers in the NAFTA countries; and*
- *Where any exceptions from core disciplines are needed, the negotiation, on a negative list basis, of the narrowest possible exceptions with the least possible impact on US firms»*[664].

Moreover, the aim is also to foster transparency and predictability of regulatory procedures in the three signatories' countries.

In the telecommunications sector, the administration moves to:

- *«Promote competitive supply of telecommunications services by facilitating market entry through transparent regulation and an independent regulator.*
- *Secure commitments to provide reasonable network access for telecommunications suppliers through interconnection and access to physical facilities and scarce resources.*
- *Establish provisions protecting telecommunications services suppliers' choice of technology»*[665].

As far as financial services sector is concerned, the aim is to:

- *«Expand competitive market opportunities for United States financial service suppliers to obtain fairer and more open conditions of financial services trade.*
- *Improve transparency and predictability in their respective financial services regulatory procedures.*
- *Ensure that the NAFTA countries refrain from imposing measures in the financial services sector that restrict cross-border data flows or that require the use or installation of local computing facilities»*[666].

---

[663] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 30. https://fas.org/sgp/crs/row/R44981.pdf.

[664] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 7-8. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.

[665] *Ivi*. P. 8.

[666] *Ibidem*.

In digital trade in goods and services and cross-border data flows, the aim is to:

- *«Secure commitments not to impose customs duties on digital products (e.g., software, music, video, e-books).*
- *Ensure non-discriminatory treatment of digital products transmitted electronically and guarantee that these products will not face government-sanctioned discrimination based on the nationality or territory in which the product is produced.*
- *Establish rules to ensure that NAFTA countries do not impose measures that restrict cross- border data flows and do not require the use or installation of local computing facilities;* [and] *to prevent governments from mandating the disclosure of computer source code»*[667].

As far as intellectual property rights provisions, the purpose is to:

- *«Promote adequate and effective protection of intellectual property rights, including through the following:*
    - *Ensure accelerated and full implementation of the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), particularly with respect to meeting enforcement obligations under TRIPS;* [and] *provisions governing intellectual property rights reflect a standard of protection similar to that found in US law.*
    - *Provide strong protection and enforcement for new and emerging technologies and new methods of transmitting and distributing products embodying intellectual property, including in a manner that facilitates legitimate digital trade.*
    - *Prevent or eliminate discrimination with respect to matters affecting the availability, acquisition, scope, maintenance, use, and enforcement of intellectual property rights.*
    - *Ensure standards of protection and enforcement that keep pace with technological developments, and in particular ensure that right holders have the legal and technological means to control the use of their works through the Internet and other global communication media, and to prevent the unauthorized use of their works.*
    - *Provide strong standards enforcement of intellectual property rights,*

[667] *Ivi*. P. 9.

including by requiring accessible, expeditious, and effective civil, administrative, and criminal enforcement mechanisms.

- *Prevent or eliminate government involvement in the violation of intellectual property rights, including cybertheft and piracy.*
- *Secure fair, equitable, and nondiscriminatory market access opportunities for United States persons that rely upon intellectual property protection.*
- *Respect the Declaration on the TRIPS Agreement and Public Health, adopted by the World Trade Organization at the Fourth Ministerial Conference at Doha, Qatar on November 14, 2001, and to ensure that trade agreements foster innovation and promote access to medicines.*
- *Prevent the undermining of market access for US products through the improper use of a country's system for protecting or recognizing geographical indications, including failing to ensure transparency and procedural fairness and protecting generic terms»*[668].

Measures to improve the issue of transparency are:

- *«Commit each Party to provide levels of transparency, participation, and accountability in the development of regulations and other government decisions that are comparable to those under US law with respect to federal statutes and regulations. In particular, seek commitments:*
  - *To promptly publish laws, regulations, administrative rulings of general application, and other procedures that affect trade and investment;*
  - *To provide adequate opportunities for stakeholder comment on measures before they are adopted and finalized;* [and] *a sufficient period of time between final publication of measures and their entry into force.*
- *Seek standards to ensure that government regulatory reimbursement regimes are transparent, provide procedural fairness, are nondiscriminatory, and provide full market access for United States products»*[669].

Objectives regarding State-Owned and Controlled Enterprises (SOE) are to:

- *«Define SOEs on the basis of government ownership or government control through ownership interests, including situations of control through minority shareholding.*
- *Retain the ability to support SOEs engaged in providing domestic public services.*

[668] *Ivi*. PP. 9-10.
[669] *Ivi*. P. 10.

- *Ensure that SOEs accord non-discriminatory treatment with respect to purchase and sale of goods and services;* [and] *that SOEs act in accordance with commercial considerations with respect to such purchases and sales;* [and] *that strong subsidy disciplines apply to SOEs, beyond the disciplines set out in the WTO Agreement on Subsidies and Countervailing Measures (SCM Agreement).*
- *Require that SOEs not cause harm to another Party through provision of subsidies* [and] *to the domestic industry of another Party via subsidized SOE investment.*
- *Ensure impartial regulation of SOEs, designated monopolies, and private companies.*
- *Provide jurisdiction to courts over the commercial activities of foreign SOEs (i.e., limited sovereign immunity).*
- *Allow Parties to request information related to the level of government ownership and control of a given enterprise, and the extent of government support.*
- *Develop fact-finding mechanism based on Annex 5 of the WTO SCM Agreement to help overcome the evidentiary problems associated with litigation on SOEs»*[670].

In this context, Villarreal and Fergusson suggested that a possible area for NAFTA renegotiations could involve discussions on SOEs to deal with issues similar to or beyond those negotiated in more recent FTAs, such as the TPP[671]. These could comprehend modernized measures to ensure that *«state-owned enterprises compete on a commercial basis, and that the advantages SOEs receive from their governments (such as unfair subsidies) do not have an adverse impact on American workers and businesses»*[672]. Moreover, renegotiations could bring potential commercial disadvantages to private sector companies from state-supported competitors that are granted preferential treatment[673].

As far as competition policy issues, it is intended to:

- *«Maintain rules that prohibit anticompetitive business conduct, as well as fraudulent and deceptive commercial activities that harm consumers.*

[670] *Ivi*. P. 11.
[671] Fergusson, I.F. and Williams, B.R. *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*. Congressional Research Service. June 14, 2016. https://fas.org/sgp/crs/row/R44489.pdf.
[672] USTR. *Updating the North American Free Trade Agreement (NAFTA)*. https://ustr.gov/sites/default/files/TPP-Upgrading-the-North-American-Free-Trade-Agreement-NAFTA-Fact-Sheet.pdf.
[673] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 29. https://fas.org/sgp/crs/row/R44981.pdf.

- *Establish or affirm basic rules for procedural fairness on competition law enforcement.*
- *Promote cooperation on competition enforcement-related matters»*[674].

As the following lines show, the labor sector involves numerous objectives that the administration wants to take forward, and they are to:

- *«Bring the labor provisions into the core of the agreement rather than in a side agreement.*
- *Require NAFTA countries to adopt and maintain in their laws and practices the internationally recognized core labor standards as recognized in the ILO Declaration*[675]*, including:*
    - *Freedom of association and the effective recognition of the right to collective bargaining;* [and] *elimination of all forms of forced or compulsory labor;* [and] *effective abolition of child labor and a prohibition on the worst forms of child labor;* [and] *elimination of discrimination in respect of employment and occupation.*
- *Require NAFTA countries to have laws governing acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health.*
- *Establish rules that will ensure that NAFTA countries do not waive or derogate from their labor laws implementing internationally recognized core labor standards in a manner affecting trade or investment between the parties;* [and] *do not fail to effectively enforce their labor laws implementing internationally recognized core labor standards and acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health laws through a sustained or recurring course of action or inaction, in a manner affecting trade or investment between the parties.*
- *Require that NAFTA countries take initiatives to prohibit trade in goods produced by forced labor, regardless of whether the source country is a NAFTA country.*
- *Provide access to fair, equitable, and transparent administrative and judicial proceedings.*

---

[674] *Ibidem*.

[675] *«The ILO Declaration on Fundamental Principles and Rights at Work of 1998 provides for freedom of association; effective recognition of the right to collective bargaining; elimination of all forms of compulsory or forced labor; effective abolition of child labor; and elimination of discrimination in respect of employment and occupation»*. Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 27. https://fas.org/sgp/crs/row/R44981.pdf.

- *Ensure that these labor obligations are subject to the same dispute settlement mechanism that applies to other enforceable obligations of the agreement.*
- *Establish a means for stakeholder participation, including through public advisory committees, as well as a process for the public to raise concerns directly with NAFTA governments if they believe a NAFTA country is not meeting its labor commitments.*
- *Establish or maintain a senior-level Labor Committee, which will meet regularly to oversee implementation of labor commitments, and include a mechanism for cooperation and coordination on labor issues, including opportunities for stakeholder input in identifying areas of cooperation»*[676].

Villarreal and Fergusson pointed out that the United States may demand to reinforce NAFTA provisions concerning the protection of worker rights by adopting these provisions from the Trans Pacific Partnership (TPP), which were agreed by all three NAFTA countries[677]. Indeed, these measures are in line with the negotiating objectives of the administration, even though NAFTA's objectives also call for *«initiatives to prohibit trade in goods produced by forced labor, regardless of whether the source country is a NAFTA country»*[678], as well as provisions to *«establish a means for stakeholder participation, including through public advisory committees, as well as a process for the public to raise concerns directly with NAFTA governments if they believe a NAFTA country is not meeting its labor commitments»*[679]. Moreover, concerns over NAFTA labor measures are usually discussed in the context of Mexico's record on worker rights. While Mexico has adopted labor laws and implemented constitutional reforms, the challenge has actually been to enforce those laws[680].

In the context of the TPP, *«the United States signed separate labor consistency plans with Vietnam, Malaysia, and Brunei* [that] *would have committed those countries to undertake specific legal reforms and implement other measures concerning worker rights»*[681]. Villarreal and Fergusson argue that some stakeholders may support

[676] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 12-13. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[677] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 27. https://fas.org/sgp/crs/row/R44981.pdf.
[678] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 12-13. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[679] *Ibidem*.
[680] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 27. https://fas.org/sgp/crs/row/R44981.pdf.
[681] *Ibidem*.

such a plan for Mexico together with a revised NAFTA, even though the United States could not negotiate it with Mexico in TPP. However, *«according to the USTR, Mexico had agreed to develop "parallel reforms" to make its labor laws consistent with TPP labor provisions in protecting collective bargaining and reforming its system for administering labor justice»*[682].

As far as environment is concerned, measures aim to:

- *«Bring the environment provisions into the core of the agreement rather than in a side agreement.*
- *Establish strong and enforceable environment obligations that are subject to the same dispute settlement mechanism that applies to other enforceable obligations of the agreement.*
- *Establish rules that will ensure that NAFTA countries do not waive or derogate from the protections afforded in their environmental laws for the purpose of encouraging trade or investment;* [and] *do not fail to effectively enforce their environment laws through a sustained or recurring course of action or inaction, in a manner affecting trade or investment between the parties.*
- *Require NAFTA countries to adopt and maintain measures implementing their obligations under select Multilateral Environment Agreements (MEAs) to which the NAFTA countries are full parties, including the Convention on International Trade in Endangered Species of Wild Fauna and Flora.*
- *Establish a means for stakeholder participation, including commitments for public advisory committees, and a process for the public to raise concerns directly with its government if they believe it is not meeting its environment commitments.*
- *Require NAFTA countries to ensure access to fair, equitable and transparent administrative and judicial proceedings for enforcing their environmental laws, and provide appropriate sanctions or remedies for violations of their environmental laws.*
- *Provide for a framework for conducting, reviewing, and evaluating cooperative activities that support implementation of the environment commitments, and for public participation in these activities.*
- *Establish or maintain a senior-level Environment Committee, which will meet*

[682] *Ibidem*.

regularly to oversee implementation of environment commitments, with opportunities for public participation in the process.

- *Combat illegal fishing, unreported, and unregulated (IUU) including by implementing port state measures and supporting increased monitoring and surveillance.*
- *Establish rules to prohibit harmful fisheries subsidies, such as those that contribute to overfishing and IUU fishing, and pursue transparency in fisheries subsidies programs.*
- *Promote sustainable fisheries management and long-term conservation of marine species, including sharks, sea turtles, seabirds and marine mammals.*
- *Protect and conserve flora and fauna and ecosystems, including through action by countries to combat wildlife and timber trafficking»*[683].

Villarreal and Fergusson have highlighted that the administration's negotiating points considerably tracks recent FTAs (South Korea, Panama, Peru, and Colombia), the 2015 TPA, and TPP[684]. Moreover, US negotiating points do not mention climate change policies, however Canada has suggested to integrate country commitments in support of the Paris Agreement and to prevent the weakening of climate change policies to attract investment[685]. In this context, this could be a contentious issue with the United States considering that President Trump announced his willingness to withdraw from the Paris Agreement[686].

Anti-corruption provisions aim at:

- *«committing each Party to criminalize government corruption, to take steps to discourage corruption, and to provide adequate penalties and enforcement tools in the event of prosecution of persons suspected of engaging in corrupt activities. In particular, by:*
  - *Requiring the adoption or maintenance of requirements for companies to maintain accurate books and records, which facilitate the detection and tracing of corrupt payments;*
  - *Encouraging the establishment codes of conduct to encourage high ethical standards among public officials; and*

[683] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 13-14. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[684] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 27. https://fas.org/sgp/crs/row/R44981.pdf.
[685] *Ibidem*.
[686] "Trump Will Withdraw US From Paris Climate Agreement", *The New York Times*, 1/6/2017. https://www.nytimes.com/2017/06/01/climate/trump-paris-climate-agreement.html (cited on 28 December 2017).

- *Requiring parties to disallow the deduction of corrupt payments for income tax purposes»*[687].

In Trade remedies objectives are to:

- *«Preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws.*
- *Eliminate the NAFTA global safeguard exclusion so that it does not restrict the ability of the United States to apply measures in future investigations.*
- *Eliminate the Chapter 19 dispute settlement mechanism.*
- *Seek a separate domestic industry provision for perishable and seasonal products in AD/CVD proceedings.*
- *Exclude state-owned enterprises as part of the domestic industry in AD/CVD proceedings.*
- *Facilitate the ability to impose measures based on third country dumping.*
- *Promote cooperation among the trade remedies administrators of the NAFTA countries, particularly with regards to the sharing of information that would improve the ability of administrators to effectively monitor and address trade remedies violations, such as through self-initiation.*
- *Strengthen existing procedures and create new procedures to address AD/CVD duty evasion, including the ability to conduct AD/CVD verification visits.*
- *Establish transparency and due process obligations reflected in US AD/CVD laws, regulations, and practice;* [and] *an early warning import monitoring system for agreed sensitive products from non-NAFTA countries»*[688].

In the investment sector objectives are to:

- *«Establish rules that reduce or eliminate barriers to US investment in all sectors in the NAFTA countries.*
- *Secure for US investors in the NAFTA countries important rights consistent with US legal principles and practice, while ensuring that NAFTA country investors in the United States are not accorded greater substantive rights than domestic investors»*[689].

As far as dispute settlement system is concerned, dispositions intend to:

- *«Encourage the early identification and settlement of disputes through consultation and other mechanisms.*

[687] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 14. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.
[688] *Ivi*. P. 14-15.
[689] *Ivi*. P. 9.

- *Establish a dispute settlement mechanism that is effective, timely, and in which panel determinations are based on the provisions of the agreement and the submissions of the parties and are provided in a reasoned manner.*
- *Establish a dispute settlement process that is transparent by:*
  - *Requiring that parties' submissions be made publicly available;* [and] *that hearings be open to the public;* [and] *that final determinations by a panel be made publicly available;*
  - *Ensuring that non-governmental entities have the right to request making written submissions to a panel;*
  - *Have provisions that encourage compliance with the obligations of the agreement»*[690].

The investor-state dispute settlement (ISDS) mechanism is a particularly discussed and controversial aspect in this regard. Senator Elizabeth Warren of Massachusetts, academic expert in law and economics, already assistant to the first Obama's presidency and influential figure within the Democratic Party, has named the ISDS as the clause everyone should oppose[691]. Since NAFTA, fifty-nine ISDS actions were registered as part of the agreement, and most of them after 2004[692]. Supporters of this mechanisms argue that ISDS plays an important role in the phasing out of investment barriers by protecting investors from discriminatory treatment.

What is more, they also contend that trade agreements do not keep governments from regulating in the public interest, as well as that ISDS arrangements are limited to pecuniary sanctions. Hence, advocates claim that ISDS cannot force governments to change their laws or regulations[693]. On the other hand, critics argue that companies make use of the ISDS mechanism for limiting governments' ability to regulate in the public interest – such as in environmental issues –, thus leading to *«"regulatory chilling" even if an ISDS outcome is not in a company's favor»*[694]. Until now, the United States has never lost a claim brought against it under ISDS in a US investment agreement. Notwithstanding the USTR's objectives

[690] *Ivi*. P. 17.
[691] "The Trans-Pacific Partnership clause everyone should oppose", *The Washington Post*, 25/2/2015. https://www.washingtonpost.com/opinions/kill-the-dispute-settlement-language-in-the-trans-pacific-partnership/2015/02/25/ec7705a2-bd1e-11e4-b274-e5209a3bc9a9_story.html? utmterm=.590b0649bcfd (cited on 28 December 2017).
[692] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 21. https://fas.org/sgp/crs/row/R44981.pdf.
[693] *Ivi*. P. 22.
[694] *Ibidem*.

for NAFTA renegotiation do not refer to ISDS, it is likely that USTR *«will attempt to renegotiate these commitments and include provisions from more recent FTAs or the negotiated TPP»*[695]. Furthermore, as mentioned above, the Trump administration wants to eliminate the Chapter 19 on dispute settlement mechanism. However, Canada and Mexico support its maintenance[696]. Canadian Prime Minister Trudeau has stated that *«a fair dispute resolution system was essential for any trade pact that the country signs, including a renegotiated NAFTA»*[697], whereas Senator Ernesto Cordero, a former finance minister, affirmed that *«Mexico's negotiators would be making a grave mistake if they gave up the dispute settlement mechanism during the negotiations»*[698].

On the other hand, supporters of Chapter 19 contend that it offers to exporters and domestic producers *«an effective and direct route to make their case and appeal the results of trade-remedy investigations before an independent and objective binational panel. This process is an alternative to judicial review of such decisions before domestic courts, (…) effective in providing for the efficient and impartial review of trade remedy determinations made by the investigating authorities of all three NAFTA partners»*[699].

Villarreal and Fergusson underline that *«some legal observers mention that the panel process has functioned mainly without difficulty, noting that there have only been major disagreements in a limited number of cases, and that dissents have been few. Critics mention, among other things, that there is effectively no appellate review process within the NAFTA dispute settlement system, and that the panels are generally composed of individuals who have little panel experience and may not be experts in the AD/CVD laws or in the legal system of the country whose determination is under review»*[700]. Furthermore, they also point out that, despite a deadline of 315 days for panel reviews, *«there have been years-long delays prior to the panel process, mostly due to difficulties in finding and agreeing on panelists for the binational panels. Some critics also allege that Chapter 19 decisions have created*

---

[695] *Ibidem*.

[696] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 26. https://fas.org/sgp/crs/row/R44981.pdf.

[697] "Mexico Congress Backs Motion Defending NAFTA Dispute Mechanism", *Reuters*, 26/7/2017. https://www.reuters.com/article/us-usa-trade-nafta-mexico/mexico-congress-backs-motion-defending-nafta-dispute-mechanism-idUSKBN1AB2UE (cited on 28 December 2017).

[698] *Ibidem*.

[699] "North American Free Trade Agreement", *NAFTANOW.org*. http://www.naftanow.org/dispute/default_en.asp (cited on 28 December 2017).

[700] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 26. https://fas.org/sgp/crs/row/R44981.pdf.

their own body of AD/CVD laws that national judges are encouraged to view as persuasive authority»[701].

In government procurement, measures aim at fostering opportunities for US firms to sell US merchandise and services into NAFTA countries, as well as implement fair, transparent, predictable, and non-discriminatory measures to regulate government procurement, including arrangements which reflects already existing US government procurement practices, *«such as:*

- *Publishing information on government procurement opportunities in a timely manner;*
- *Ensuring sufficient time for suppliers to obtain tender documentation and submit bids;* [and] *that procurement will be handled under fair procedures;* [and] *that contracts will be awarded based solely on the evaluation criteria specified in the notices and tender documentation; and*
- *Providing impartial administrative or judicial review authority to review challenges or complaints»*[702].

Moreover, the aim is to provide for the exclusion of sub-federal coverage (state and local governments) from the commitments negotiated and keep domestic preferential purchasing programs, *«such as:*

- *Preference programs for small businesses, women and minority owned businesses (which includes Native Americans), service-disabled veterans, and distressed areas;*
- *"Buy America" requirements on Federal assistance to state and local projects, transportation services, food assistance, and farm support; and*
- *Key Department of Defense procurement»*[703].

Furthermore, provisions focus on the preservation of *«broad exceptions for government procurement regarding:*

- *National security;* [and] *measures necessary to protect public morals, order, or safety;* [and] *Protecting human, animal, or plant life or health* [and] *intellectual property;* [and] *maintain ability to provide for labor, environmental, and other criteria to be included in contracting requirements»*[704].

Finally, one last aim on this matter is to continue to be able to provide for the

[701] *Ibidem*.
[702] *Ivi*. P. 15.
[703] *Ivi*. P. 16.
[704] *Ibidem.*

inclusion of labor, environmental, and other criteria in contracting requirements. As explained by Villarreal and Fergusson, advocates of expanded procurement opportunities in FTAs claim that *«the reciprocal nature of the government procurement provisions in FTAs allows US firms access to major government procurement market opportunities overseas. In addition, supporters claim open government procurement markets at home allow government entities to accept bids from partner country suppliers, potentially making more efficient use of public funds»*[705].

Nonetheless, other parties involved maintain that public procurement should primarily benefit domestic industries. As can be seen from the text of the renegotiation objectives, the Trump administration has considered to foster strong Buy American and Hire American policies in government procurement as a priority. US trade negotiating objective for government procurement in TPA[706] demands *«"transparency in developing guidelines, rules, regulations, and laws for government procurement," but does not address market access goals. USTR's NAFTA objectives largely echo these goals by stating general commitments, such as support for "predictable and nondiscriminatory rules" that ensure procurement "will be handled under fair procedures" and maintain existing exceptions, domestic preferential purchasing programs, and the ability to provide for labor, environmental, and other criteria in contracting requirements»*[707].

In this sense, since one of the major objectives of US negotiators is to increase market access to procurement contracts for US firms in the NAFTA countries, Villarreal and Fergusson note that *«USTR may try to fulfill this objective by seeking to negotiate the extension of procurement coverage to additional Mexican and Canadian federal entities, which may be contentious because it is not clear that Mexico or Canada would agree to such provisions»*[708].

Another opportunity might be found in negotiating more extensive subfederal coverage for procurement purposes but the USTR, to date, has specifically announced its intention to exclude subfederal coverage from negotiations. However, as Villarreal and Fergusson point out, *«it is still unclear, however, what new procurement opportunities the United States is willing to offer to Canada or*

[705] *Ivi*. P. 23.
[706] Trade Promotion Authority.
[707] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 24. https://fas.org/sgp/crs/row/R44981.pdf.
[708] *Ibidem*.

Mexico to obtain this new procurement access. Canada, in particular, is likely to demand widespread exemptions from Buy American policies»[709].

As far as Small- and Medium-Sized Enterprises (SME), the administration set out the following arrangements:

- *«Secure commitment by NAFTA countries to provide information resources to help small businesses navigate FTA requirements for exporting to the NAFTA markets.*
- *Cooperate on SME issues of mutual interest.*
- *Establish an SME Committee to ensure that the needs of SMEs are considered as the agreement is implemented in order for SMEs to benefit from new commercial opportunities»*[710].

Regarding the energy sector, the objective is to maintain and strengthen investment, market access, and state-owned enterprise rules which benefit both the production and transmission of energy, as well as foster North American energy security and independence, while supporting energy market-opening measures[711]. In the energy chapter included in the text of the agreement, the three parties pledged respect for their constitutions.

This fact was particularly significant for Mexico and its 1917 Constitution, which enshrined Mexican national ownership of all hydrocarbons resources. Within the context of NAFTA, *«the Mexican government reserved to itself strategic activities, including investment and provisions in such activities, related to the exploration and exploitation of crude oil and natural gas. Despite these exclusions from NAFTA, energy remains a central component of US-Mexico trade»*[712].

In this sense, as explained by Villarreal and Fergusson, during NAFTA renegotiations talks, *«the United States may seek to lock in Mexico's recent energy reforms, provide greater access to Mexico's oil sector, and enhance bilateral cooperation on energy production and security. Mexico also may seek to enhance NAFTA's energy chapter»*[713]. The 2013 Mexican reform for the energy sector aimed at transforming Mexico's state-owned oil company, PEMEX, in a *«state productive*

---

[709] *Ibidem*.

[710] Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. P. 16. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives.pdf.

[711] *Ibidem*.

[712] Seelke, C.R., Ratner, M., Villarreal, M.A. and Brown, P. *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*. September 28, 2015. P. 13. https://fas.org/sgp/crs/row/R43313.pdf.

[713] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 21. https://fas.org/sgp/crs/row/R44981.pdf.

company»[714], which refers to *«a company which is owned by the state and competes in the market like any other private company ruled by principles of private law. The aim of a state productive company is to generate economic value and increase the state's revenue. PEMEX has its own legal personality and assets as well as management and operational autonomy based on corporate governance»*[715].

As a matter of fact, *«the 2013 Mexican energy reform opened the energy sector to competition while keeping the ownership of Mexico's hydrocarbons under state control. In 2014, following this reform, new procurement rules for PEMEX were adopted, with the goal of making its procurement processes more efficient and effective»*[716]. Therefore, US industry groups are calling for the United States to use NAFTA's so-called ratchet mechanism with regard to the Mexican energy reforms, which would avoid the reforms from being reversed and grant protection to US investors[717].

As far as Canada, negotiators may address a so-called "proportionality" provision contained in the energy chapters of NAFTA[718]. This provision establishes that a domestic restriction on Canada's energy exports cannot reduce the proportion of exports delivered to the United States.

Moreover, the chapter also bans pricing discrimination between domestic consumption and exports to the United States. In this sense, some Canadians contends that this provision limits the ability of Canada to make energy policy decisions, thus the country may demand to change it[719]. Moreover, general provisions involve general exceptions which allow for the defense of legitimate US domestic objectives, including, among others, the protection of health or safety and essential security[720]. Finally, as far as currency, the aim is to *«ensure that the NAFTA countries avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage*[721]. In line with the administration's objectives, the US auto industry supports adding

---

[714] Organization for Economic Co-operation and Development (OECD). *Fighting Bid Rigging in Public Procurement: A Review of the Procurement Rules and Practices of PEMEX in Mexico*. 2016. P. 11-12. http://www.oecd.org/daf/competition/OECD-PEMEX-review-2016.pdf.

[715] *Ibidem.*

[716] *Ivi*. P. 9.

[717] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 22. https://fas.org/sgp/crs/row/R44981.pdf.

[718] Article 605: Other Export Measures. https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=1&secid=6ac38ba0-fdf1-4e8b-80ae-8957d3528949.

[719] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 23. https://fas.org/sgp/crs/row/R44981.pdf.

[720] *Ibidem*.

[721] *Ibidem*.

currency manipulation provisions to NAFTA. A spokesman of the Ford Motor Company stated: *«foreign currency manipulation is the 21st century trade barrier, and we strongly support the inclusion of this top-tier issue in the US negotiating objectives for NAFTA»*[722]. Also Mexico has announced his openness to *«a pledge not to manipulate its currency for competitive purposes»*[723]. Villarreal and Fergusson underlined that *«although few US stakeholders have raised concerns specifically regarding Mexico and Canada's currency policies, new provisions in the NAFTA modernization could serve as a template for future FTA negotiations, similar to TPP»*[724].

[722] "US makes lower trade deficit top priority in NAFTA talks", *Reuters*, 17/7/2017. https://www.reuters.com/article/us-usa-trade-nafta-statement/u-s-makes-lower-trade-deficit-top-priority-in-nafta-talks-idUSKBN1A2272 (cited on 28 December 2017).

[723] "Mexico Open to 'Rebalancing' Trade Amid US NAFTA Overhaul", *Bloomberg*, 6/6/ 2017. https://www.bloomberg.com/news/articles/2017-06-06/mexico-willing-to-rebalance-trade-with-america-guajardo-says (cited on 28 December 2017).

[724] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 29. https://fas.org/sgp/crs/row/R44981.pdf.

CONCLUSION

Partners' reactions to the publication of the guidelines of Washington for NAFTA renegotiation were quite diverse.

As far as Mexico is concerned, the Secretary of Economy, Ildefonso Guajardo, who once stated that *«it makes no sense to introduce an agreement with border restrictions or tariffs»*[725], underlined how he's country started to fear the worst, and judged the fact that the introduction of new barrier duties is no longer happening as an extremely positive development. Regarding Trump's intention to reduce the trade deficit with Canada and Mexico, the Mexican Secretary defined it as a mercenary idea.

On the Canadian front, the Minister of Foreign Affairs Chrystia Freeland renewed the openness to reconsider the negotiation, however, as long as domestic interests will be defended without causing an earthquake.

Finally, the most sever criticisms came from the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO) – the largest federation of unions in the United States –, that initially welcomed the renegotiation news as *«an incredible opportunity to replace this fundamentally flawed trade deal with new rules that work for working families. But how we do it matters»*[726].

Moreover, its president Richard Louis Trumka was disappointed by a too soft line adopted by Washington and because, according to him, *«NAFTA needs to be completely rewritten and the administration need look no further than working people on how to best do that. The president has a major opportunity in front of him, and working families will hold him accountable for the choices he makes»*[727].

An unclear outlook

The outlook on NAFTA renegotiation is rather unclear. The major revision of a US Free Trade Agreement (FTA) is an unprecedented fact, since the first US FTA was

[725] "NAFTA needs to be modernized: Mexican economy minister", *Reuters*, 3/3/2017. http://www.reuters.com/article/us-usa-mexico-autos/nafta-needs-to-be-modernized-mexican-economy-minister-idUSKBN16A29J (cited on 8 January 2018).

[726] "Working People Set High Bar for NAFTA Renegotiation", *AFL-CIO America's Unions*, 14/8/2017. https://aflcio.org/press/releases/working-people-set-high-bar-nafta-renegotiation (cited on 8 January 2018).

[727] "Make-or-Break Moment in NAFTA Renegotiation Plans", *AFL-CIO America's Unions*, 14/8/2017. https://aflcio.org/press/releases/make-or-break-moment-nafta-renegotiation-plans (cited on 8 January 2018).

concluded with Israel in the late 1980s[728]. As highlighted by Villarreal and Fergusson, what should be considered is that, on the one hand, NAFTA is a twenty-three years old agreement and, since the US withdrawal from the Trans-Pacific Partnership (TPP), renegotiation would enable NAFTA parties to considerably modernize the agreement in line with the current US trade negotiating objectives and more recent US FTAs[729]. In this sense, convergence areas could be found in major provisions in TPP to which all countries were party. These measures would likely modernize NAFTA by addressing new trade policy issues and barriers that have emerged in the global economy since NAFTA's implementation, which have to deal with digital and services trade, state-owned enterprises' roles in commercial activity, enhanced intellectual property rights, and more enforceable labor and environmental commitments, among other issues found in more recent US trade agreements[730]. Nevertheless, there are also crucial conflicting concerns on major issues, such as rules of origin, dispute settlement review of trade remedy decisions, labor, environment, as well as NAFTA's role in the trilateral US trade deficit[731].

For example, during the second round of negotiations, Canada introduced new provisions on labor and the environment, *«giving the US the most difficulty at the negotiating table»*[732]. Canadian Foreign Minister Chrystia Freeland stated that *«NAFTA should have provisions related to the environment that would prevent a country from intentionally weakening climate-change policies to attract investment»*[733]. In this context, considered the opposing positions of the White House to the Paris climate agreement[734], the negotiation process might lead to extended negotiations, basically a stalemate – thus keeping NAFTA untouched – or even to a potential withdrawal from the accord.

Notwithstanding, on this issue, Bill Waren, senior trade analyst at Friends of the Earth[735], seems to be rather pessimistic: *«regardless of the outcome of the negotiations, there is no prospect for a NAFTA that puts good environmental and climate policy first. While Canada, Mexico, and the Trump administration appear to*

---

[728] Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. P. 36. https://fas.org/sgp/crs/row/R44981.pdf.
[729] *Ibidem*.
[730] *Ibidem*.
[731] *Ibidem*.
[732] "Canada Emerges as a Tough Negotiator in Nafta Talks", The Wall Street Journal, 4/9/ 2017. https://www.wsj.com/articles/canada-emerges-as-a-tough-negotiator-in-nafta-talks-1504559935 (cited on 8 January 2018).
[733] *Ibidem*.
[734] United Nations Climate Change, http://unfccc.int/paris_agreement/items/9485.php (cited on 8 January 2018).
[735] *Friends of the Earth* is the US voice of the world's largest grassroots environmental network, with member groups in 77 countries. Since 1969, it aims at creating a healthier world.

be at loggerheads on many NAFTA issues, they apparently agree on rolling back environmental regulations like food, chemical, and biotechnology safeguards – exactly what global corporations like Monsanto *and* DuPont *want. NAFTA renegotiation is a no-win situation for people and the planet»*[736].

The fact is that, what can be acknowledged by media reports is that, after three months of talks *«the US, Canada and Mexico remain miles apart on a deal to update the region's flagship trade pact»*[737].

To date, after the latest fifth round of talks held in Mexico City at the end of November 2017, Canada and Mexico told the United States that it would make *«little headway with its current approach»*[738], while Mexico *«fired its first warning shot with a tough counterproposal»*[739], thus failing to draw up new agreements on even minor sections of the pact[740].

The USTR Robert Lighthizer pointed at his Canadian and Mexican counterparts stating *«thus far, we have seen no evidence that Canada or Mexico are willing to seriously engage on provisions that will lead to a rebalanced agreement. Absent rebalancing, we will not reach a satisfactory result»*[741]. Furthermore, he added that, if, on the one hand, some progress for the modernization of NAFTA has been made, on the other, he *«remain*[s] *concerned about the lack of headway»*[742]*;* as a matter of fact, since discussions were scheduled just a few weeks away in Washington, he hoped that the *«partners will come to the table in a serious way so we can see meaningful progress before the end of the year»*[743]. 2017, actually, ended without such expected progress.

Also the Canadian representative Chrystia Freeland manifested her frustration saying *«there are some areas where more extreme (US) proposals have been put forward. These are proposals we simply cannot agree to»*[744].

What is known from negotiators reports in this round they have been able to reduce the red tape for exporters and standardized food safety regulations among

---

[736] "Sixth Round of NAFTA Talks Stall", *Common Dreams*, 13/12/2017. https://www.commondreams.org/newswire/2017/12/13/sixth-round-nafta-talks-stall (cited on 8 January 2018).

[737] "Trump's Hopes for Quick Nafta Deal Are Dimming", *Bloomberg*, 22/11/2017. https://www.bloomberg.com/news/articles/2017-11-21/u-s-cites-progress-but-no-breakthroughs-in-latest-nafta-talks (cited on 8 January 2018).

[738] "Nafta Round Closes With Talks Bogged Down by Conflict", *The New York Times*, 21/11/2017. https://www.nytimes.com/2017/11/21/us/politics/nafta-talks.html (cited on 8 January 2018).

[739] *Ibidem*.

[740] "Trump's Hopes for Quick Nafta Deal Are Dimming", *Bloomberg*, 22/11/2017. https://www.bloomberg.com/news/articles/2017-11-21/u-s-cites-progress-but-no-breakthroughs-in-latest-nafta-talks (cited on 8 January 2018).

[741] *Ibidem*.

[742] *Ibidem*.

[743] *Ibidem*.

[744] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

the three partners[745]. Progress has been made in the digital trade area, to such a way that countries will not be able to require disclosure of proprietary algorithms as a precondition for trade, which was a provision set in the United States for the protection of proprietary algorithms. Nonetheless, negotiators have to create similar protections for other forms of technology. In addition, they have agreed on limited civil liability for online platforms hosting third party contents, which means that *«all three countries would develop a consistent standard for how accountable websites are for content that users publish on them»*[746]. Indeed, it would create consistent accountability standards for content providers such as *Facebook* and *Google*[747].

Moreover, negotiators faced also the rules of origin issue, although without achieving substantial progress on US proposals to increase content requirements in the auto sector. Both Canada and Mexico have agreed to discuss auto changes but also have insisted that the US proposal is too extreme. Mexico has pushed back on the US auto content requirements, affirming that *«the US autos proposal was "unviable" and would "make the region less competitive"»*[748]. On the one hand, Ildefonso Guajardo announced that Mexico will provide a counter proposal to the United States *«once the dimensions of the US proposal are "understood"»*[749]. Canada, on the other, *«has so far refrained from offering a counter proposal and instead made a presentation on the detriments of the US proposal to the North American automotive industry»*[750]. What is more, US proposal has received strong oppositions from Congress.

In this context, more than 70 members of the US House of Representatives *«urged the Trump administration (...) not to boost current production requirements on vehicle content for autos produced in the region under the North American Free Trade Agreement»*[751]. The bipartisan group of lawmakers wrote a letter to the Trump administration stating that *«the push by US negotiators "would eliminate the*

---

[745] *Ibidem*.

[746] "NAFTA digital trade tweaks", *Politico*, 20/11/2017. https://www.politico.com/newsletters/morning-tech/2017/11/20/nafta-digital-trade-tweaks-028391 (cited on 8 January 2018).

[747] *Ibidem*.

[748] "Mexico, Canada shun NAFTA autos counteroffers: sources", *Reuters*, 19/11/2017. https://www.reuters.com/article/us-trade-nafta/mexico-canada-shun-nafta-autos-counteroffers-sources-idUSKBN1DJ0T1 (cited on 8 January 2018).

[749] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

[750] *Ibidem*.

[751] "House members oppose Trump administration auto trade rules proposal", *Reuters*, 15/11/2017. https://www.reuters.com/article/us-trade-nafta-autos/house-members-oppose-trump-administration-auto-trade-rules-proposal-idUSKBN1DF2PQ?il%3D0 (cited on 8 January 2018).

competitive advantages provided to the US auto industry under the current NAFTA rules – or lead to rejection by Canada and Mexico and the end of the agreement"»[752].

Moreover, Moisés Kalach, Advisor to the Mexican Chamber of Commerce (CCE), who once affirmed to have doubts about the willingness of the US negotiating team to make significant progress, has declared that *«the US delegation has been reluctant to cooperate in closing chapters. While Canada and Mexico are increasingly consolidating and supporting each other's proposals, the United States' willingness to show flexibility on more controversial matters is lower than its counterparts (…) "In the report they [negotiators] gave us, we saw that the Mexican team is proposing, but the USTR (United States Trade Representative) is not responding"»*[753].

Furthermore, Mexico has turned down another proposal related to the seasonality of agricultural exports from Mexico and Canada according to which different rules would apply to imports from Mexico and Canada depending on whether in the United States it is harvest season.

In this regard, Kalach contained that the response from the Mexican team was a negative one, since no part of the proposal was acceptable and there was no counterproposal, even though he is perfectly aware that there is actual risk that NAFTA may be terminated by the United States before the conclusion of the renegotiation process.

No actual progress was achieved in the government procurement sector, on which *«the US has proposed protectionist "Buy American" rules that would freeze out many Canadian firms (…) Mexico responded to that proposal with a point-making protectionist proposal of its own, suggesting a plan that would effectively deny Americans access to Mexican government contracts»*[754].

As far as telecommunications is concerned, negotiators could not agree on the inclusion of an Annex that would apply specifically to Mexico. The purpose of this Annex would be to prevent *America Movil,* a Mexican telecommunications provider, from charging interconnection fees to competitors, such as AT&T, for calls using *Movil*'s network. The disagreement raised *«sensitive issues of telecommunications reform in Mexico because an August 2017 Mexican Supreme*

---

[752] *Ibidem*.

[753] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

[754] "Freeland call US proposals 'extreme' as NAFTA round ends without major progress", *The Toronto Star,* 21/11/2017. https://www.thestar.com/news/world/2017/11/21/freeland-calls-us-proposals-extreme-as-nafta-round-ends-without-major-progress.html (cited on 8 January 2018).

Court case ruled against a 2014 legislative reform effort that contained the prohibition. The Court held that the interconnection fees must be set by the Mexican telecommunications provider, not by the Mexican legislator. The United States would like to enshrine the reform in a NAFTA Annex, notwithstanding the Supreme Court decision, while Mexican negotiators prefer not to address the matter»[755].

In terms of the proposed suspension clause to terminate the agreement every five years unless the countries opted back in, on November 18, 2017, the United States released updated trade objectives that appear to accommodate the Mexican proposal for periodic reviews of the trade Pact without an automatic expiration, which specify that the revised NAFTA should *«provide a mechanism for ensuring that the Parties assess the benefits of the agreement on a periodic basis»*[756].

In this context, Canada and Mexico have also manifested flexibility on the US proposal to review NAFTA every five years, however insisting on the fact that *«it* [must] *not include a clause that would automatically cancel NAFTA unless everyone agrees to renew it»*[757].

The updated trade objectives also involve larger aims on dispute settlement, such as establishing *«procedures to ensure that panels are composed in a timely manner and with the appropriate expertise (…) ensuring that the Parties retain control of disputes and can address situations when a panel has clearly erred in its assessment of the facts or the obligations that apply»*[758].

As far as investment is concerned, *«improve procedures for resolving investment disputes, including ensuring that arbitrators act impartially and independently, allowing arbitrators expeditiously to review and dismiss frivolous claims, and providing the NAFTA countries with tools to ensure the coherence and correctness of the interpretation of investment rules»*[759]. Although generic, these statements show support for keeping ISDS in the negotiations[760].

As far as labor is concerned, Mexico recently announced that, starting from

[755] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

[756] "USTR Releases Updated NAFTA Negotiating Objectives", *Office of the United States Trade Representative*, November 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/november/ustr-releases-updated-nafta (cited on 8 January 2018).

[757] "'There are no fireworks': The hunt for news in a ho-hum NAFTA round", *Financial Post*, 18/11/2017. http://business.financialpost.com/pmn/business-pmn/there-are-no-fireworks-the-hunt-for-news-in-a-ho-hum-nafta-round (cited on 8 January 2018).

[758] "USTR Releases Updated NAFTA Negotiating Objectives", *Office of the United States Trade Representative*, November 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/november/ustr-releases-updated-nafta (cited on 8 January 2018).

[759] *Ibidem*.

[760] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

December 2017, Mexican workers *«will earn at least 88.36 pesos ($4.71) per day, up from 80.04 pesos»*[761].

UNIFOR president Jerry Dias, who *«appeared in Mexico's senate promising to fight for improved Mexican wages and free collective bargaining»*[762], stated that *«there will not be an agreement until the Mexican team agrees to free collective bargaining, the elimination of yellow unions and that Mexican workers get paid what they deserve»*[763].

In this sense, as already mentioned, the fifth round concluded without any real movement on the most controversial topics, therefore stakeholders and negotiators are not optimistic about reaching an agreement by March 2018. As written in the Trilateral Statement on the Conclusion of the Fifth Round of NAFTA Negotiations by the USTR, *«Chief Negotiators reaffirmed their commitment to moving forward in all areas of the negotiations, in order to conclude negotiations as soon as possible. Ministers have agreed to hold the Sixth Round of Negotiations from January 23-28, 2018, in Montreal, Canada. In the meantime, negotiators will continue their work in intersessional meetings in Washington, DC throughout mid-December and will report back to Chief Negotiators on the progress achieved»*[764].

Furthermore, media reports that the latest sixth round of secret negotiations *«appear to have stalled»*[765]. In this context, according to reports from the negotiations, President Trump may be preparing to unilaterally withdraw the United States from NAFTA by executive action in the short term. Despite ongoing talks, Canada and Mexico appear unwilling to concede to Trump's demands.

In this sense, a unilateral withdrawal from the treaty would be extremely expensive for the US economy. A recent study by the Wilson Center has calculated that if trade between the United States and Mexico were suspended, 4.9 million Americans would lose their jobs[766]. As a matter of fact, *«Mexico is the United States' second largest export market, third largest overall trading partner (…) The two*

---

[761] "As NAFTA talks stall, Mexico raises minimum wage to $4.71 per day", *Reuters*, 21/11/2017. https://www.reuters.com/article/us-mexico-wages/as-nafta-talks-stall-mexico-raises-minimum-wage-to-4-71-per-day-idUSKBN1DL2KA (cited on 8 January 2018).

[762] "A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

[763] *"Unions take NAFTA wage fight to Mexican Senate"*, *Reuters*, 17/11/2017. https://www.reuters.com/article/us-trade-nafta-mexico/unions-take-nafta-wage-fight-to-mexican-senate-idUSKBN1DH2VA (cited on 8 January 2018).

[764] Office of the USTR. *Trilateral Statement on the Conclusion of the Fifth Round of NAFTA Negotiations by the USTR*. Press Release. November 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/november/trilateral-statement-conclusion (cited on 8 January 2018).

[765] "Sixth Round of NAFTA Talks Stall", *Common Dreams*, 13/12/2017. https://www.commondreams.org/newswire/2017/12/13/sixth-round-nafta-talks-stall (cited on 8 January 2018).

[766] Wilson C., *Growing Together: How Trade with Mexico Impacts Employment in the United States*, 11/2016. https://www.wilsoncenter.org/publication/growing-together-how-trade-mexico-impacts-employment-the-united-states (cited on 8 January 2018).

countries trade over a half-trillion dollars in goods and services each year, which amounts to more than a million dollars in bilateral commerce every minute»[767]. In this sense, the number of jobs depending on the bilateral relationship is quite impressive.

To this day, Mexican companies and even more American ones have invested billions of dollars in their respective economies to build regional production chains. Their removal would provoke extensive damage to competitiveness and financial losses to producers. According to *The Economist*[768], the 60% of Canadians and Mexicans goods imported by the United States are intermediate goods that fuel American manufacturing.

Furthermore, among the economic and geographical areas most hit there are those electorally strategic for President Trump. The cancellation of NAFTA and the consequent default of the most favourite nation clause, would primarily harm agricultural States.

Texas, for instance, would find itself hurt since its economy largely depends on hydrocarbon, whose export towards Mexico amounts to 6% of the GDP, as well as Michigan, which is a great exporter of car components towards Mexico.

An issue still unsolved

Within the framework of the NAFTA debate, some complex issues emerge in relation to the role of the United States in the world and – as already seen in Chapter one – to the very concept of the basis of US power: industrial-commercial and/or financial-monetary.

According to most observers, Trump's criticism on globalization, already expressed during the primary campaign, led him to the electoral victory of 2016, managing to reach "hearts and minds" of numerous blue-collars, who traditionally voted for the Democratic party in some key States.

Globalization, indeed, has been described by the right-wing which endorsed Trump's campaign as the major cause – if not the only one – of the country's deindustrialization; of the delocalization of many firms in countries with lower labor costs; of the loss of jobs, threatened particularly by immigrants; of the hard

[767] *Ibidem*.

[768] "How Donald Trump could take America out of NAFTA", *The Economist*, 22/1/2017. https://www.economist.com/blogs/economist-explains/2017/01/economist-explains-15 (cited on 8 January 2018).

times affecting the middle class; of the huge development of the financial market[769].

In this sense, once he came into office, Trump pledged to bring back capitals and companies that were emigrated abroad; he convinced by means of tax incentives other companies not to invest abroad, but in their homeland; he applied duties to some imported products[770]; he pushed through Congress a fiscal reform whose tax reductions favor wealthier classes; moreover, he tried to close borders insisting, by the way, on the extension of the wall along the Mexican border (paradoxically demanding to be Mexico to bear the costs).

In brief, Trump's answer to the pressing dilemma between either resigning to the decline of the superpower or to fight for the restoration of its hegemony in the world, seems to put trade relations at the center of his foreign policy – at least for what can be observed from his first year of presidency –: it is a fact that the first decisions he took right after coming into office have been the US withdrawal from the TPP, the suspension of the TTIP negotiations with the European Union and, finally, the urgent request to renegotiate NAFTA with Canada and Mexico[771].

During the same time, it is remarkable how, in several occasions, Trump argued more with China, which has a large trade surplus with the United States but also a large share of US debt, than with Russia, whose nuclear arsenal is indeed far more threatening than the Chinese one, probably because the former soviet country is not perceived by Washington as a commercial "threat" for the United States[772].

Surely there are similarities with the answers that, at other times, both republican and democratic administrations have sought to give to the abovementioned dilemma. Nonetheless, currently, there are also important differences.

For instance, under the Reagan administration – as described in Chapter one – a sustained expansion of the public debt occurred because of the increase of military spending and, simultaneously, of tax reduction.

---

[769] Such accusations towards finance and corporations did not prevent Trump from surrounding himself by advisors indeed coming from that world: among them, Steven Mnuchin, Treasure Secretary, former Chief Information Officer of Goldman Sachs merchant bank, and Rex Tillerson, former CEO of Exxon Mobil. See Livesey, B. *Il protezionismo di Trump è un bluff*, in Chi comanda il mondo. Limes. 2/2017. P.70.

[770] Such as solar-panels and washing machines, imported from China and South Korea. It is interesting to note how such measures are frowned upon by some US producers of solar plants, due to their negative consequences on satellite activities of this industrial sector and on technological research. See Worland, J. *Trump's solar tariffs will cost American jobs and hurt a growing industry*. Time. February 5, 2018.

[771] Fabbri, D. *La sensibilità imperiale degli Stati Uniti è il destino del mondo*, in Chi comanda il mondo. Limes. 2/2017. P.33.

[772] *Ivi*. P. 41

Also the Trump administration seems to follow that path: on the one hand, besides a significant rise in military spending – already considerable –[773], he introduced a new doctrine of nuclear deterrence[774], harbinger of tensions with other nuclear powers of the world. On the other, it has frequently expressed little concern regarding the increase of domestic debt[775]. This, indeed, could result in a further rise of the bonds held by various countries of the world.

Notwithstanding, while the *Reagonomics* was accompanied by a monetary policy based, among other measures, on high dollar interest rates, which attracted capitals from all over the globe to the United States, the current monetary policy of the Federal Reserve is characterized by low interest rates. But, what is relevant in this context, the Trump administration's monetary policy aims to a devaluation of the US dollar, mostly towards the Euro, as recently expressed by the Treasury Secretary Mnuchin[776] at the 2018 World Economic Forum Annual Meeting in Davos, Switzerland[777]. With all that implies in terms of tensions with the European countries and the creditors of the United States.

In this context, political scientist Ian Bremmer observed: *«trade is the one area where Trump clearly differs from the establishment of both parties»*[778], intended as Republicans and Democrats. *«The President has surrounded himself with trade skeptics like Trade Representative Robert Lighthizer, advisors Stephen Miller and Peter Navarro, and Commerce Secretary Wilbur Ross. (National Economic Council director Gary Cohn is an exception.)»*[779]. And after having reminded the US withdrawal from TPP and the threats to do the same with NAFTA, Bremmer added that Trump *«wants what he considers a better bilateral deal from South Korea and complains about every country that enjoys a trade surplus with US – including China, Germany and Japan»*[780].

An apparent weakness of Trump's framework of economic policy was indirectly revealed at the beginning of February 2018, when the New York Stock Exchange, which had seen a boom over the last months – interpreted by many economic

---

[773] "Congresso Usa approva aumento record delle spese militari", *Askanews,* 17/11/2017. http://www.askanews.it/esteri/2017/11/17/congresso-usa-approva-aumento-record-delle-spese-militari-pn_20171117_00015/ (cited on 9 February 2018).

[774] Nuclear Posture Review 2018. https://www.defense.gov/News/Special-Reports/NPR/ (cited on 9 February 2018).

[775] Also relying on the fact that US dollar is, by definition, the international reserve currency. See Arfaras, G. *Il dollaro resta imperiale*, in Chi comanda il mondo. Limes. 2/2017.

[776] "Mnuchin Takes on the Dollar at Davos: DealBook Briefing", *The New York Times,* 25/1/2018. https://www.nytimes.com/2018/01/25/business/dealbook/steven-mnuchin-dollar-davos.html (cited on 9 February 2018).

[777] World Economic Forum. https://www.weforum.org/ (cited on 9 February 2018).

[778] Bremmer, I. *Tweets aside, Trump has mostly governed like a garden-variety Republican*, Time, January 22, 2018.

[779] *Ibidem*.

[780] *Ibidem*.

analysts as one of the positive outcomes achieved by the Trump administration –, has collapsed, dragging behind itself stock exchanges throughout the world. Such a sharp fall would be triggered by concerns of an increasing inflation caused by the rise in wages recently registered in the United States[781].

In this context, what appears undoubtedly paradoxical is that the increasing income of the middle-class – one of the objectives of Trump's economic policy –, has been negatively interpreted by the financial market, which, within a few market sessions, has burnt the value recently accumulated in stocks, funds and bonds, that are also in the portfolios of the Americans.

Nobel Prize Paul Krugman launched a call in this direction: *«when talking about stock markets, there are three rules you have to remember. First, the stock market is not the economy. Second, the stock market is not the economy. Third, the stock market is not the economy»*[782]. According to him, *«rising wages are a good thing* [which suggests that] *workers are gaining bargaining power, too* [adding that] *we're now seeing fairly strong evidence that the US economy is nearing full employment»*[783]. All this happens in real economy. Nonetheless, as the economist noted, *«America is heading for a downshift in its growth rate; the available evidence suggests that growth over the next decade will be something like 1.5 percent a year, not the 3 percent Donald Trump and his minions keep promising»*[784]. In other words, to make "America great again", maybe, there is still a long way to go.

Three hypotheses

Finally, although it might be too early to predict how NAFTA renegotiation will conclude, some potential outcomes may include the following options:

- the first one involves keeping the status quo, without those alleged improvements strongly requested by the Trump administration, but also without those possible and, maybe – after twenty-three years – necessary readjustments. Currently, this appears to be the least likely hypothesis, since President Trump has declared his will to withdraw from the

[781] "Perché Wall Street è crollata nonostante l'economia reale vada meglio del previsto", *AGI*, 6/2/2018. https://www.agi.it/economia/wall_street_perche_borsa_crolla-3453002/news/2018-02-06/ (cited on 9 February 2018).
[782] "Has Trumphoria Finally Hit a Wall?", *The New York Times*, 5/2/2018. https://www.nytimes.com/2018/02/05/opinion/stock-market-trump.html (cited on 9 February 2018).
[783] *Ibidem*.
[784] *Ibidem*.

agreement in case it is not renegotiated in accordance with Washington's demands.

- The second one envisages an update of NAFTA according to the guidelines previously presented by summer 2018. If, on the one hand, this option would entail a subordination of Canadian and Mexican interests to those of the United States, on the other, the White House would be encouraged to reintroduce, in form and substance, its trade policy also in other negotiating context, such as towards the European Union. In this scenario, political and electoral perspective both in the United States and in Mexico are particularly significant. With regard to the United States, in the midterm elections of November 2018 all the seats in the House of Representatives and a third in the Senate will be contested; whereas with regard to Mexico, the Presidential elections of July 2018 will choose a new president, 500 members of the Chamber of Deputies and 128 members of the Senate.
- Finally, the third one includes a substantial failure of the renegotiation attempt, with the consequent withdrawal from the accord by either the United States – thus triggering uncertainty, legal proceedings and potential Congressional reaction – or one or both the other partners – even though, this last scenario appears to be rather remote –. Estimating geopolitical and geoeconomic implications of such an eventuality seems quite difficult. In any case, they would be huge.

Nonetheless, many are the factors – social, political, economic, cultural and even conjunctural – that may influence the negotiation and its outcome over the next months. In this thesis, I limited myself to explore the reasons, in a way "internal" to the dynamics introduced by the treaty, with a special attention to the standpoint of the United States. On how it will end, caution is required. To put it in poetry: *«ai posteri l'ardua sentenza»*[785].

[785] Manzoni, A. *Il cinque maggio*. 1821. http://www.letteraturaitaliana.net/pdf/Volume_8/t227.pdf.

BIBLIOGRAPHY

Acemoglu, D., Autor, D., Dorn, D., Hanson, G.H. and Price, B. *Import Competition and the Great US Employment Sag of the 2000s*. National Bureau of Economic Research, Working Paper 20395. Cambridge, MA. August 2014. http://www.nber.org/papers/w20395.pdf.

Agambegjan, A. *La perestrojka nella economia*. Rizzoli, 1988.

Akhtar, I.S. and Jones, V.C. *Transatlantic Trade and Investment Partnership (TTIP)*. Congressional Research Service. February 4, 2014. https://fas.org/sgp/crs/row/ R43387.pdf.

Arfaras, G. *Il dollaro resta imperiale*, in Chi comanda il mondo. Limes. 2/2017.

Arrighi, G. *Il Lungo XX Secolo: Denaro, Potere e Le Origini Del Nostro Tempo.* Milano. Il Saggiatore, 2014.

Arrighi, G., *The world economy and the Cold War, 1970–1990*. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War*. Cambridge University Press, 2010.

Assman H. (Ed.) *Carter y la lógica del imperialismo*, Editorial Universitaria Centroamericana (EDUCA), 1978.

Baker, D. and Weisbrot, M. *Will New Trade Gains Make Us Rich?* Center for Economic and Policy Research (CEPR) Paper, October 2001. http://cepr.net/documents/publications/ trade_2001_10_03.pdf.

Basosi, D. *The 'Missing Cold War' Reflections on the Latin American Debt Crisis, 1979-1989*. In Kalinovsky, M. A. and Radchenko, S. (Eds.) *The End of the Cold War and the Third World: New Perspectives on Regional Conflict*. Routledge, 2013.

Basosi, D. *The European Community and International Reaganomics, 1981–85*. In K. Patel & K. Weisbrode (Eds.) *European Integration and the Atlantic Community in the 1980s*. Cambridge University Press, 2013.

Bergsten, C. F. *Trade Balances and the NAFTA Renegotiation*. Peterson Institute for International Economics. Policy Brief. June 2017. https://piie.com/system/files/documents/ pb17-23.pdf.

Bernstein, J., Lin, J. and Mishel, L. *The Characteristics of Offshorable Jobs*. Economic Policy Institute Report. November 2007. https://secure.epi.org/files/page/-/old/datazone/characteristics_of_ offshorable_jobs.pdf.

Blecker, R.A. and Esquivel, G. *NAFTA, Trade, and Development*. Working Paper 10-03, Center for US-Mexican Studies (San Diego), the Mexico Institute of the Woodrow Wilson Center (Washington DC), El Colegio de la Frontera Norte (Tijuana), and El Colegio de México (Mexico City), 2010. http://www.cesifo-group.de/DocDL/forum4-10-focus3.pdf.

Blinder A. and Krueger A. *Alternative Measures of Offshorability: A Survey Approach*. Princeton University Center for Economic Policy Studies Working Paper No. 190. August 2009. http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.435.5708& rep=rep1&type=pdf.

Bognanno, F. M. and Ready, J. K. *The North American Free Trade Agreement.* Westport, CT, Praeger. 1994.

Bottari, M. and DePalma, W. *The WTO Comes to Dinner: US Implementation of Trade Rules Bypasses Food Safety Requirements*. Public Citizen's Global Trade Watch report, July 2003. http://www.citizen.org/documents/equivalencyfinalreport.pdf.

Bremmer, I. *Tweets aside, Trump has mostly governed like a garden-variety Republican*, Time, January 22, 2018.

Caliendo, L. and Parro, F. *Estimates of the Trade and Welfare Effects of NAFTA*, National Bureau of Economic Research, November 2012. http://faculty.som.yale.edu/lorenzocaliendo/ETWENAFTA.pdf.

Calleo, P. D. *Follies of Power: America's Unipolar Fantasy*. Cambridge University Press, 2009.

Castronovo, V. *Piazze e Caserme: i Dilemmi Dell'America Latina Dal Novecento a Oggi*. Laterza, 2007.

Chomsky, N. *The Carter Administration: Myth and Reality*. In *Radical Priorities*. AK Press, 2003. https://chomsky.info/priorities01/.

Citizen Trade Campaign: https://www.citizenstrade.org/ctc/wp-content/uploads/2017/01/CTC-PEOTUS-Trade-Letter-011317.pdf.

Colombia and Mexico Country Management Unit, Latin America and the Caribbean Region, Poverty Reduction and Economic Management Division. *Poverty in Mexico: An Assessment of Conditions, Trends and Government Strategy*. World Bank, Report No. 28612-ME, June 2004. http://documents.worldbank. org/curated/en/539241468752996263/pdf/286120ME.pdf.

Congressional Budget Office of the United States, *The Effects of NAFTA on US-Mexican Trade and GDP*. May 2003. https://www.cbo.gov/sites/default/files/108th-congress-2003-2004/ reports/report_0.pdf.

Cox, M. and Stokes, D. *US Foreign Policy*. 2nd ed. Oxford University Press, 2012.

De Hoyos, R.E. and Iacovone, L. *Economic Performance under NAFTA*. The World Bank Development Research Group. May 2011. http://www.etsg.org/ETSG2007/papers/iacovone.pdf.

Di Nolfo, E. *Storia delle relazioni internazionali. Dal 1918 ai giorni nostri*. Laterza, 2008.

Dussel Peters, E. (Coord.) *La inversión extranjera directa de China en América Latina: 10 estudios de caso*. Red Académica de América Latina y el Caribe sobre China; Unión de Universidades de América Latina y el Caribe; Universidad Nacional Autónoma de México; Red Académica de América Latina y el Caribe sobre China; Centro de Estudios China-México. Mexico. 2014. http://www.dusselpeters. com/73.pdf.

Dussel Peters, E. (Coord.) *La relación México-China. Desempeño y propuestas para 2016-2018*. Universidad Nacional Autónoma de México; Cámara de Comercio de México en China; Centro de Estudios China-México; Unión de Universidades de América Latina y el Caribe. Mexico. 2016. http://dusselpeters.com/CECHIMEX/LarelacionMexicoChina.pdf.

Dussel Peters, E. and Gallagher, P.K. *NAFTA's uninvited guest: China and the disintegration of North American trade*. CEPAL Review 110, 2013. https://www.cepal.org/en/publications/37000-naftas-uninvited-guest-china-and-disintegration-north-american-trade.

Dussel Peters, E., Hearn, A.H., Shaiken, H. (Eds.) *China and the New Triangular Relationships in the Americas. China and the Future of US-Mexico Relations*. Center for Latin American Studies, University of Miami; Center for Latin American Studies, University of California, Berkeley; Centro de Estudios China-México, Facultad de Economía, Universidad Nacional Autónoma de México. Mexico, 2013. http://clas.berkeley.edu/sites/default/files/shared/docs/papers/China%20and%20the%20New%20Triangular%20Relationships%20in%20the%20Americas-%20China.pdf.

Ebenstein, A., Harrison, A. and McMillan, M. *Why are American Workers getting Poorer? China, Trade and Offshoring*. National Bureau of Economic Research; December 2015. http://citeseerx.ist.psu.edu/ viewdoc/download?doi=10.1.1.704.6665 &rep=rep1&type=pdf.

Fabbri, D. *La sensibilità imperiale degli Stati Uniti è il destino del mondo*, in Chi comanda il mondo. Limes. 2/2017.

Falke, A. (1996) *American Trade Policy after the end of the Cold War*. The American Impasse: US Domestic and Foreign Policy after the Cold War. University of Pittsburgh Press.

Fergusson, I.F. and Williams, B.R. *The Trans-Pacific Partnership (TPP): Key Provisions and Issues for Congress*. Congressional Research Service. June 14, 2016. https://fas.org/sgp/crs/row/ R44489.pdf.

Fischer, B.A. *US foreign policy under Reagan and Bush*. In M. Leffler & O. Westad (Eds.) *The Cambridge History of the Cold War.* Cambridge University Press, 2010.

Food Safety and Inspection Service. *Quarterly Enforcement Report for Quarter 4, Fiscal Year 2013.* US Department of Agriculture, 2013, at Table 3a. http://www.fsis.usda.gov/wps/portal/fsis/topics/ regulatory-compliance/regulatory-enforcement/quarterly-enforcement-reports/qer-q4-fy2013.

Frieden, J. A. *Global Capitalism*. W.W. Norton & Company Inc. Castle House, 2014.

Friedman, M. *Capitalism and Freedom*. University of Chicago Press, 2012.

Fukuyama, F. *The End of History and the Last Man*. Free Press, 1992.

Gorbaciov, M. *Perestrojka. Il Nuovo pensiero per il nostro paese e per il mondo*. Mondadori, 1987.

Gowan, P. *The Global Gamble: Washington's Faustian Bid for World Dominance*. Verso London, 1999.

Gunder Frank, A. *¿Es posible desactivar la bomba de la deuda*? in Nueva Sociedad, Septiembre/Octubre 1985.

Harvey, D. *A Brief History of Neoliberalism*. Oxford University Press, 2011.

Hayek, A. F. *The Constitution of Liberty*. University of Chicago Press, 1997.

Henriques, G. and Patel, R. *NAFTA, Corn, and Mexico's Agricultural Trade Liberalization.* Interhemispheric Resource Center. February 2004.

Hufbauer C.G. and Schott J.J. *NAFTA: An Assessment*. Washington, D.C.: Institute for International Economics, 1993.

Hufbauer, C.G. and Schott, J.J. *NAFTA Revisited: Achievements and Challenges*. Institute for International Economics, October 2005.

Hufbauer, G. C. and Schott, J.J. *North American Free* Trade. Washington, DC: Institute for International Economics. 1994.

Kelly, R. *NAFTA, a guide*. August 1998. www.arcli.com/docs/guideline%20for%20 nafta.doc.

Kennedy, P. M. *The Rise and Fall of the Great Powers: Economic Change and Military Conflict from 1500 to 2000*. Fontana, 1990.

Keynes, J. M. *The end of laissez-faire*; *The Economic Consequences of the Peace.* London, 1926.

Koopman, R., Powers, W. and Wang Z., Wei, S.J. *Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains*. National Bureau of Economic Research, Working Paper 16426, Cambridge, MA, September 2010. https://www.bea.gov/about/pdf/NBER%20working% 20paper_1.pdf.

Kose, M.A., Meredith, G.M., Towe C.M. *How Has NAFTA Affected the Mexican Economy? Review and Evidence*. International Monetary Fund Working Paper. April 2004. https://www.imf.org/external/ pubs/ft/wp/2004/wp0459.pdf.

Lederman, D., Maloney F.W. and Servén, L. *Lessons from NAFTA for Latin America and the Caribbean*. The World Bank, 2005. http://siteresources.worldbank.org/DEC/Resources/ BookNAFTAWorldBank.pdf.

Lee, M.T. *False Prophets, The Selling of NAFTA*, Economic Policy Institute. July 1995. https://secure.epi.org/files/page/-/old/briefingpapers/falsep_bp_1995.pdf.

Lewis, E.D. *The Hemispheric dynamics of integration*. Revista Pensamiento Propio/CRIES. (8) October-December 1998, Nicaragua.

Livesey, B. *Il protezionismo di Trump è un bluff*, in Chi comanda il mondo. Limes. 2/2017.

Maier, C. S. *Among Empires: American Ascendancy and Its Predecessors*. Harvard University Press, 2007.

Manzoni, A. *Il cinque maggio*. 1821. http://www.letteraturaitaliana.net/pdf/Volume_8/t227.pdf.

Maronta, F. *Rinegoziare il Nafta? Buona fortuna, Mr. Trump*, La potenza del Messico. Limes. 8/2017.

McCulloch, R. *Protection and Real Wages: The Stolper-Samuelson Theorem*. April 2005. http://people.brandeis.edu/~rmccullo/wp/Stolper-Samuelson0405.pdf.

Nau, R. H. *Conservative Internationalism: Armed Diplomacy under Jefferson, Polk, Truman, and Reagan*. Princeton University Press, 2015.

Nocera, R. and Trento, A. *America Latina, un secolo di storia*. Carocci. Roma, 2013.

Nocera, R. *Stati Uniti e America Latina dal 1945 a oggi*. Carocci. Roma, 2005.

Office of the United States Trade Representative (USTR). *Summary of Objectives for the NAFTA Renegotiation*. July 17, 2017. https://ustr.gov/sites/default/files/files/Press/Releases/NAFTAObjectives. pdf.

Office of the United States Trade Representative (USTR). *The President's Trade Policy Agenda for 2017.* https://ustr.gov/sites/default/files/files/reports/2017/AnnualReport/Chapter%20I%20-%20The%20President%27s%20Trade%20Policy%20Agenda.pdf.

Organization for Economic Co-operation and Development (OECD). *Fighting Bid Rigging in Public Procurement: A Review of the Procurement Rules and Practices of PEMEX in Mexico*. 2016. http://www.oecd.org/daf/competition/OECD-PEMEX-review-2016.pdf.

Passel, J., Cohn D.., and Gonzalez-Barrera, A. *Net Migration from Mexico Falls to Zero—and Perhaps Less*. Pew Hispanic Center, April 23, 2012. http://www.pewhispanic.org/files/ 2012/04/Mexican-migrants-report_final.pdf.

Pierce, J.R. and Schott, P.K. *The Surprisingly Swift Decline of US Manufacturing Employment*. National Bureau of Economic Research, Working Paper 18655. Cambridge, MA. December 2012. https://www.usitc.gov/research_and_analysis/documents/Pierce%20and%20Schott%20%20The%20Surprisingly%20Swift%20Decline%20of%20US%20Manufacturing%20Employment_0.pdf.

Public Citizen's Global Trade Watch, *Failed Trade Policy & Immigration: Cause & Effect*. https://www.citizen.org/sites/default/files/failed-trade-policy-and-immigration_1.pdf.

Public Citizen's Global Trade Watch, *Food Imports to United States Soar During NAFTA-WTO Trade Agreement Era, Threatening American Farmers and Food Safety*. June 2017. https://www.citizen.org/sites/default/files/let_them_eat_imports_june_2017_ final.pdf.

Public Citizen's Global Trade Watch, *NAFTA's Broken Promises: Fast Track to Unsafe Food,* Fall 1997. https://www.citizen.org/our-work/globalization-and-trade/executive-summary-naftas-broken-promises-fast-track-unsafe.

Public Citizen's Global Trade Watch, *NAFTA's 20-Year Legacy and the Fate of the Trans-Pacific Partnership*. February 2014. https://www.citizen.org/sites/default/files/nafta-at-20.pdf.

Public Citizen's Global Trade Watch, *Prosperity Undermined During Era of Fast Tracked NAFTA and WTO Model Trade Agreement.* https://www.citizen.org/sites/default/files/prosperity underminedfinal.pdf.

Public Citizen's Global Trade Watch. *Food Imports to United States Soar under WTO-NAFTA Model, Threatening American Farmers and Safety*. June 2014. https://www.citizen.org/ sites/default/files/food-under-nafta-wto.pdf.

Public Citizen's Global Trade Watch. *NAFTA's Broken Promises 1994-2013: Outcomes of the North American Free Trade Agreement*. https://www.citizen.org/sites/default/files/naftas-broken-promises. pdf.

Public Citizen's Global Trade Watch. *Prosperity Undermined: The Status Quo Trade Model's 21-Year Record of Massive US Trade Deficits, Job Loss and Wage Suppression.* August 2015. https://www.citizen.org/sites/default/ files/prosperity-undermined.pdf.

Public Citizen's Global Trade Watch. *Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated US Income Inequality*. https://www.citizen.org/sites/default/files/trade-and-income-inequality.pdf.

Public Citizen's Global Trade Watch's Global Trade Watch. *How Overreaching Trade Pact Rules Can Undermine Buy American Procurement Policies*, 2014. http://www.citizen.org/documents/buy-american.pdf.

Public Citizen's Global Trade Watch's Global Trade Watch. *NAFTA at Five: School of Real-Life Results, Report Card*. PC report, 1999. https://www.citizen.org/nafta-five-school-real-life-results-report-card.

Public Citizen's Global Trade Watch's Global Trade Watch. *Studies Reveal Consensus: Trade Flows during "Free Trade" Era Have Exacerbated US Income Inequality*. https://www.citizen.org/sites/default/ files/trade-and-income-inequality.pdf.

Public Citizen's Global Trade Watch's Global Trade Watch. *Table of Foreign Investor-State Cases and Claims under NAFTA and Other US 'Trade' Deals*, March 2017. https://www.citizen.org/sites/default/ files/investor-state-chart_march_2017_final.pdf.

Saez, E. *Striking it Richer: The Evolution of Top Incomes in the United States*. UC Berkeley, June 30, 2016. https://eml.berkeley.edu/~saez/saez-UStopincomes-2015.pdf.

Salas, C. *Between Unemployment and Insecurity in Mexico: NAFTA Enters Its Second Decade*, in Scott, E.R., Salas, C. and Campbell, B. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper 173, September 28, 2006. https://secure.epi.org/files/page/-/old/briefingpapers/173/bp173.pdf.

Schott, J. and Hufbauer, G. *The Realities of An Economic Alliance.* Washington, D.C.: Institute for International Economics, 1990.

Scott, E.R. *Heading South: US-Mexico Trade and Job Displacement under NAFTA*. Economic Policy Institute, May 3, 2011. http://www.epi.org/publication/heading_south_u-s-mexico_trade_and_job_ displacement_after_nafta1/.

Scott, E.R., Salas, C., Campbell, B. and Jeff Faux, J. *Revisiting NAFTA: Still Not Working for North America's Workers*. Economic Policy Institute, Briefing Paper #173. http://www.epi.org/ publication/bp173/.

Scott, R. and Kimball, W. *China Trade, Outsourcing and Jobs*. Economic Policy Institute, December 11, 2014. http://www.epi.org/files/2014/bp385-china-trade-deficit.pdf.

Seelke, C.R. *Mexico: Background and US Relations*. Congressional Research Service. March 30, 2016. https://fas.org/sgp/crs/row/R42917.pdf.

Seelke, C.R., Ratner, M., Villarreal, M.A. and Brown, P. *Mexico's Oil and Gas Sector: Background, Reform Efforts, and Implications for the United States*. September 28, 2015. https://fas.org/sgp/ crs/row/R43313.pdf.

Shaiken, H. *The Nafta Paradox*. Center for Latin American Studies, University of California, Berkeley. Spring 2014. https://clas.berkeley.edu/research/trade-nafta-paradox.

Stiglitz, J.E. *La globalizzazione e i suoi oppositori.* Einaudi, 2002.

Tambs, L. *A new Inter-American Policy for the Eighties*, (also known as document of Santa Fe Committee), May 1980; in Larkin, B. D. *Vital Interests. The Soviet Issue in US Central American Policy*, Lynne Rienne Publishers – Boulder/London.

Trump, D.J. *Declaring American Economic Independence*. 26/6/2016. https://assets.donaldjtrump.com/DJT_DeclaringAmerican EconomicIndependence.pdf.

US Chamber of Commerce. *NAFTA Triumphant: Assessing Two Decades of Gains in Trade, Growth, and Jobs*. 2015. https://www.uschamber.com/sites/default/files/documents/files/nafta_triumphant_updated_2015.pdf.

US Government Accountability Office. *Imported Food Safety*: *FDA's Targeting Tool Has Enhanced Screening, but Further Improvements Are Possible*. May 2016. http://www.gao.gov/assets/680/677538.pdf.

US Government Accountability Office. *Seafood Safety: FDA Needs to Improve Oversight of Imported Seafood and Better Leverage Limited Resources*. April 2011. http://www.gao.gov/assets/320/317734.pdf.

US Joint Forces Command. *The Joint Operating Environment: Challenges and Implications for the Future Joint Force*. USJFC report, 2008. http://www.dtic.mil/doctrine/concepts/joe/ joe_2008.pdf.

USITC. *The Impact of Trade Agreements: Effect of the Tokyo Round, US-Israel FTA, US-Canada FTA, NAFTA, and the Uruguay Round on the US Economy*. Publication 3621, August 2003. https://www.usitc.gov/publications/332/pub3621.pdf.

USTR. *Updating the North American Free Trade Agreement (NAFTA)*. https://ustr.gov/sites/default/files/TPP-Upgrading-the-North-American-Free-Trade-Agreement-NAFTA-Fact-Sheet.pdf.

Various Authors. *La politica estera della perestrojka*. Editori Riuniti, 1988;

Villarreal, M. A. and Fergusson, F.I. *The North American Free Trade Agreement (NAFTA)*. Congressional Research Service. May 24, 2017. https://fas.org/sgp/crs/row/R42965.pdf.

Villarreal, M. A. and Fergusson, I.F. *NAFTA Renegotiation and Modernization*. Congressional Research Service. October 12, 2017. https://fas.org/sgp/crs/row/R44981.pdf.

Weisbrot, M., Merling, L., Mello, V., Lefebvre, S. and Sammut, J. *Did NAFTA Help Mexico? An Update After 23 Years*. Center for Economic and Policy Research. March 2017. http://cepr.net/images/stories/reports/nafta-mexico-update-2017-03.pdf?v=2.

Wise, T. *Agricultural Dumping Under NAFTA: Estimating the Costs of US Agricultural Policies to Mexican Producers*. Woodrow Wilson International Center for Scholars. 2010. http://www.ase.tufts.edu/gdae/Pubs/rp/AgricDumpingWoodrowWilsonCenter.pdf.

Worland, J. *Trump's solar tariffs will cost American jobs and hurt a growing industry.* Time. February 5, 2018.

Zubok, M. V. *Soviet foreign policy from détente to Gorbachev, 1975–1985*. Cambridge University Press, 2010.

SITOGRAPHY

"Trump affila le armi sul commercio e si prepara ad agire fuori dalla WTO", *Il Sole 24 Ore*, 27/02/2017. http://www.ilsole24ore.com/art/mondo/2017-02-27/trump-affila-armi-commercio-e-si-prepara-ad-agire-fuori-wto-152618.shtml?uuid=AEslgNe (cited on 15 November 2017).

"Trump va alla guerra commerciale con dazi e addio al WTO", *Business Insider*, 15/02/2017. https://it.businessinsider.com/dazi-e-addio-al-wto-trump-va-alla-guerra-commerciale-globale/ (cited on 15 November 2017).

"G7: tregua sul protezionismo, Trump non cede sul clima", *Il Sole 24 ore*, 27/05/2017. http://www.ilsole24ore.com/art/notizie/2017-05-27/commercio-accordo-extremis-225259.shtml?uuid=AEh3tQUB (cited on 15 November 2017).

"EU's top trade official warns on Trump impact on WTO", *Financial Times*, 16/10/2017. https://www.ft.com/content/f6a7768c-b029-11e7-aab9-abaa44b1e130 (cited on 15 November 2017).

"Trump Abandons Trans-Pacific Partnership, Obama's Signature Trade Deal", *The New York Times*, 23/01/2017. https://www.nytimes.com/2017/01/23/us/politics/tpp-trump-trade-nafta.html (cited on 15 November 2017).

"EU attacks Donald Trump for 'playing games' with controversial TTIP trade deal", *Express*, 21/03/2017. https://www.express.co.uk/news/world/782189/donald-trump-eu-ttip-trade-deal-playing-games-canada-ceta (cited on 15 November 2017).

"Trump warns it's 'possible' the US will drop out of Nafta", *The Guardian*, 12/10/2017. https://www.theguardian.com/world/2017/oct/12/trump-warns-its-possible-the-us-will-drop-out-of-nafta (cited on 15 November 2017).

NAFTA, Text of the agreement at https://www.nafta-sec-alena.org/Home/Texts-of-the-Agreement/North-American-Free-Trade-Agreement?mvid=2#102 (cited on 19 November 2017).

US Customs and Border Protection. https://www.cbp.gov/trade/nafta (cited on 15 November 2017).

US Customs and Border Protection, *Agricultural Products*. https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/agricultural-products (cited on 15 November 2017).

US Customs and Border Protection, *Automotive Products*. https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/automotive-products (cited on 15 November 2017).

US Customs and Border Protection, *Electronic Products*. https://www.cbp.gov/trade/nafta/guide-customs-procedures/provisions-specific-sectors/electronic-products (cited on 15 November 2017).

Carter, J.: "*The State of the Union Address Delivered Before a Joint Session of the Congress.*" January 23, 1980. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=33079 (cited on 15 November 2017).

Reagan, R.: "*Remarks at the Annual Convention of the National Association of Evangelicals in Orlando, Florida*" March 8, 1983. Online by Gerhard Peters and John T. Woolley, The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=41023 (cited on 15 November 2017).

"Anti-Soviet warrior puts his army on the road to peace: The Saudi businessman who recruited mujahedin now uses them for large-scale building projects in Sudan. Robert Fisk met him in Almatig", *The Indipendent*, 6/12/1993. http://www.independent.co.uk/news/world/anti-soviet-warrior-puts-his-army-on-the-road-to-peace-the-saudi-businessman-who-recruited-mujahedin-1465715.html (cited on 15 November 2017).

"Reaganomics: Making it Work", *Time*, 21/09/1981. http://content.time.com/time/subscriber/article/0,33009,953082-1,00.html (cited on 15 November 2017).

Oxfam Italia, https://www.oxfamitalia.org/tag/davos-2017/ (cited on 15 November 2017).

"The Mexican 1982 debt crisis", *RaboResearch - Economic Research*, https://economics.rabobank.com/publications/2013/september/the-mexican-1982-debt-crisis/ (cited on 15 November 2017).

http://www.heritage.org/americas/report/us-strategy-solve-mexicos-debt-crisis (cited on 15 November 2017).

http://www.ans21.org/component/content/article/215-envio-2015/luglio-agosto-n-7-8/715-nicaragua-lavoratrici-nelle-zone-franche-quando-il-sogno-si-trasforma-in-incubo (cited on 15 November 2017).

Ronald Reagan's announcement for Presidential Candidacy, 11/13/1979. https://reaganlibrary.archives.gov/archives/ reference/11.13.79.html (cited on 15 November 2017).

https://www.usaid.gov/biodiversity/TFCA/enterprise-for-the-americas-initiative (cited on 15 November 2017).

Bush, G.H.W. *Remarks on Signing the North American Free Trade Agreement*. December 17, 1992. Online by Peters, G. and Woolley, J.T. The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=21784 (cited on 15 November 2017).

"The 1992 Campaign: The Democrats; With Reservations, Clinton Endorses Free-Trade Pact", *The New York Times*, 05/10/1992. http://www.nytimes.com/1992/10/05/us/1992-campaign-democrats-with-reservations-clinton-endorses-free-trade-pact.html?pagewanted=all (cited on 15 November 2017).

Clinton, W.J*: Remarks at the Signing Ceremony for the Supplemental Agreements to the North American Free Trade Agreement*. September 14, 1993. Online by Peters G. and Woolley, J.T. The American Presidency Project. http://www.presidency.ucsb. edu/ws/?pid=47070 (cited on 15 November 2017).

Clinton, W.J. *The President's Radio Address*. October 16, 1993. Online by Peters, G. and Woolley, J.T. The American Presidency Project. http://www.presidency.ucsb.edu/ws/?pid=47215 (cited on 15 November 2017).

http://www.sat.gob.mx/Paginas/Inicio.aspx (cited on 15 November 2017).

Public Citizen's Global Trade Watch's Global Trade Watch job loss map. http://www.citizen.org/job-loss-map.

Public Citizen's Global Trade Watch's Global Trade Watch TAA database at www.citizen.org/taadatabase.

VOX CEPR's Policy Portal, http://voxeu.org/article/twenty-five-percent-us-jobs-are-offshorable (cited on 5 December 2017).

US Bureau of Labor Statistics. *Displaced Workers Summary - Table 7. Long-tenured displaced workers (1) who lost full-time wage and salary jobs and were reemployed in January 2016 by industry of lost job and characteristics of new job.* August 25, 2016. https://www.bls.gov/cpi/ (cited on 5 December 2017).

US Census Bureau. *Educational Attainment in the United States: Table 2. Educational Attainment of the Population 25 Years and Over, by Selected Characteristics: 2016.* https://www.census.gov/data/tables/2016/demo/education-attainment/cps-detailed-tables.html (cited on 5 December 2017).

US Bureau of Labor Statistics. *Consumer Price Index Database.* CPI for food at home for all urban consumers, Series ID CUUS0000SAF11, US Department of Labor. https://www.bls.gov/cpi/ (cited on 5 December 2017).

"Want 'free trade'? Open the medical and drug industry to competition", *The Guardian*, 11/11/2013. https://www.theguardian.com/commentisfree/2013/nov/11/support-real-free-trade-medical-costs (cited on 5 December 2017).

International Monetary Fund, http://www.imf.org/external/datamapper/NGDP_RPCH@WEO/MEX (cited on 5 December 2017).

"Exposed: elite club of lawyers who make millions from suing states", *TNI*, 23/11/2012. https://www.tni.org/en/pressrelease/exposed-elite-club-lawyers-who-make-millions-suing-states (cited on 5 December 2017).

UNCTAD. *Record Number of Investor-State Arbitrations Filed in 2015.* February 2016. http://investment policyhub.unctad.org/News/Hub/Home/458 (cited on 5 December 2017).

Food and Agriculture Organization of the United Nations, http://www.fao.org/worldfoodsituation/ foodpricesindex/en/ (cited on 5 December 2017).

"Trade Secrets", *The New Republic*, 9/4/2008. https://newrepublic.com/article/63888/trade-secrets (cited on 5 December 2017).

"Trade Brings Riches, but Not to Mexico's Poor", *The Washington Post*, 22/3/2003. https://www. washingtonpost.com/archive/politics/2003/03/22/trade-brings-riches-but-not-to-mexicos-poor/70d182 3f-17d6-4587-b040-1b882c627ae2/?utm_term=.194730c7d119 (cited on 5 December 2017).

World Bank. *World dataBank: World Development Indicators.* http://databank.worldbank.org (cited on 5 December 2017).

United States Department of Agriculture. https://www.fsis.usda.gov/wps/portal/fsis/topics/international -affairs/importing-products/eligible-countries-products-foreign-establishments/eligible-foreign-establish ments (cited on 5 December 2017).

Centers for Disease Control and Prevention. *Table 2b FoodNet–Incidence of Laboratory–Confirmed Infections by Year 2013.* http://www.cdc.gov/foodnet/data/trends/tables/2013/table2a- b.html (cited on 5 December 2017).

"Tainted Strawberries' Danger Has Eased, US Officials Say", *The New York Times*, 4/4/1992. http:// www.nytimes.com/1997/04/04/us/tainted-strawberries-danger-has-eased-us-officials-say.html (cited on 5 December 2017).

"The Renegotiation of NAFTA", *The European Financial Review*, 14/8/2017. http://www.european financialreview.com/?p=17412#!prettyPhoto (cited on 5 December 2017).

"After 25 Years, Free-Trade Deal with US Has Helped Canada Grow Up", *The Globe and Mail*, 29/9/2012. https://www.theglobeandmail.com/report-on-business/economy/after-25-years-free-trade-deal-with-us-has-helped-canada-grow-up/article4576313/ (cited on 30 November 2017).

"35 states lean on Canada for trade; but we're a small piece of their economic pie", *BNN*, 27/1/2017. https://www.bnn.ca/35-states-lean-on-canada-for-trade-but-we-re-a-small-piece-of-their-economic-pie -1.659349 (cited on 30 November 2017).

Center for International Development at Harvard University, ATLAS of Economic Complexity. http://atlas.cid.harvard.edu/ (cited on 5 December 2017).

Bureau of Economic Analysis, https://www.bea.gov/international/factsheet/factsheet.cfm?Area=100 (cited on 5 December 2017).

Bureau of Economic Analysis online database: http://www.bea.gov (cited on 5 December 2017).

UNIFOR-UAW Statement On Auto And The Re-Negotiation Of Nafta, https://uaw.org/unifor-uaw-statement-auto-re-negotiation-nafta/ (cited on 5 December 2017).

“Maquiladoras: Mexican Factory Assembly Plants for the US Market”, *ThoughtCo*, June 30, 2017. https://www.thoughtco.com/maquiladoras-in-mexico-1435789 (cited on 5 December 2017).

“The US Has Issued Its Highest 'Do Not Travel' Warning for 5 Mexican States”, *Time*, 11/1/2018. http://time.com/5098354/us-mexico-travel-warning-violence/ (cited on 13 January 2018).

“L’impatto politico ed economico del NAFTA sugli Stati Uniti”, *Il Caffè Geopolitico*, 19/5/2017. https://www.ilcaffegeopolitico.org/55113/limpatto-politico-ed-economico-del-nafta-sugli-stati-uniti (cited on 28 December 2017).

“Transcript: Donald Trump’s Foreign Policy Speech”, *The New York Times*, 27/4/2016. https://www.nytimes.com/2016/04/28/us/politics/transcript-trump-foreign-policy.html (cited on 28 December 2017).

“Full transcript: Donald Trump's jobs plan speech”, *Politico*, 28/06/2016. https://www.politico.com/story/2016/06/full-transcript-trump-job-plan-speech-224891 (cited on 28 December 2017).

“Bernie Sanders Tells Trump to Keep His Promise on Nafta”, *Bloomberg*, 13/12/2017. https://www.bloomberg.com/news/articles/2017-12-13/bernie-sanders-to-trump-on-nafta-for-once-keep-your-promise (cited on 28 December 2017).

“What Will Trump Deliver on Trade?”, *The American Prospect*, 10/5/2017. http://prospect.org/article/what-will-trump-deliver-trade (cited on 28 December 2017).

“Bernie Sanders Pushes Donald Trump to Stay Strong In NAFTA Negotiations”, *Huffpost*, 14/12/2017. http://www.huffingtonpost.ca/2017/12/13/bernie-sanders-pushes-donald-trump-to-stay-strong-in-nafta-negotiations_a_23306782/ (cited on 28 December 2017).

“Should President Trump pull out of NAFTA?”, *Tylt*. https://thetylt.com/politics/nafta-president-donald-trump (cited on 28 December 2017).

“Il premio Nobel Krugman: ‘Trump non ha alcun merito sull’economia e i Bitcoin sono un’enorme bolla’”, *Business Insider Italia*, 27/12/2017. https://it.businessinsider.com/il-premio-nobel-krugman-trump-non-ha-alcun-merito-sulleconomia-e-i-bitcoin-sono-unenorme-bolla/ (cited on 28 December 2017).

Bergsten, F. *Mexico and the NAFTA Renegotiations*. Wilson Center, Webcast. August 15, 2017. https://www.wilsoncenter.org/event/mexico-and-the-nafta-negotiations (cited on 28 December 2017).

“Trump Threatens to Undo NAFTA’s Auto Alley”, *Bloomberg*, 26/1/2017. https://www.bloomberg.com/news/articles/2017-01-26/trump-threatens-to-undo-nafta-s-auto-alley (cited on 28 December 2017).

“UAW wants to join Trump in effort to crush NAFTA”, *USA Today*, 10/11/2016. https://www.usatoday.com/story/money/cars/2016/11/10/uaw-united-auto-workers-donald-trump-nafta-north-american-free-trade-agreement /93600032/ (cited on 28 December 2017).

“Unions urge worker-friendly NAFTA re-do; industry urges 'do no harm'”, *Detroit Free Press*, 12/6/2017. http://www.freep.com/story/money/cars/2017/06/13/what-auto-industry-wants-out-nafta-renegotiation/388782001/ (cited on 28 December 2017).

“Trump's push for American-made could disrupt NAFTA supply chains and raise consumer prices”, *Los Angeles Times*, 28/2/2017. http://www.latimes.com/business/la-fi-nafta-rules-origin-20170228-story.html (cited on 28 December 2017).

"Mexico Sets Out NAFTA Goals Ahead of Renegotiation Talks: Document", *Reuters*, 1/8/2017. https://www.reuters.com/article/us-usa-trade-mexico/mexico-sets-out-nafta-goals-ahead-of-re-negotiation-talks-document-idUSKBN1AH4VW (cited on 28 December 2017).

"Mexico's Guajardo Sees 60 Percent Chance of Ending NAFTA Talks This Year", *Reuters*, 9/8/2017. https://www.reuters.com/article/us-latam-summit/mexicos-guajardo-sees-60-percent-chance-of-ending-nafta-talks-this-year-idUSKBN1AO2LI (cited on 28 December 2017).

"Mexican Presidential Hopeful Lopez Obrador Says He Would Revise Oil Contracts", *Reuters*, 5/9/2017. https://www.reuters.com/article/us-mexico-politics/mexican-presidential-hopeful-lopez-obrador-says-he-would-revise-oil-contracts-idUSKCN1BH0AQ (cited on 28 December 2017).

"US Businesses Fear NAFTA Doomed; Mexico Warns of Consequences", *Reuters*, 10/10/ 2017. https://www.reuters.com/article/us-trade-nafta/u-s-businesses-fear-nafta-doomed-mexico-warns-of-consequences-idUSKBN1CF0WV (cited on 28 December 2017).

"Dairy protected 'for good reason,' Trudeau says; Trump calls Canada's actions a 'disgrace'", *CBC News*, 20/4/2017. http://www.cbc.ca/news/politics/trudeau-bloomberg-dairy-trump-1.4077625. (cited on 28 December 2017).

"Exxon says to open gas stations in Mexico, invest $300 million", *Reuters*, 17/5/2917. https://www.reuters.com/article/us-exxon-mobil-mexico/exxon-says-to-open-gas-stations-in-mexico-invest-300-million-idUSKCN18D1XR (cited on 28 December 2017).

"Peter Navarro: A 'Bricklayer' Of Trump's Protectionist Wall", *NPR Politics*, 3/5/2017. https://www.npr.org/2017/05/03/526621048/peter-navarro-a-bricklayer-of-trumps-protectionist-wall (cited on 28 December 2017).

"Trump's America First Trade Agenda Roiled by Internal Divisions", *The New York Times*, 20/10/2017. https://www.nytimes.com/2017/10/20/us/politics/trumps-america-first-trade-agenda-roiled-by-internal-divisions.html (cited on 28 December 2017).

"Kill Nafta? It's Not as Easy as Trump Might Think", *Bloomberg*, 14/11/2017. https://www.bloomberg.com/news/articles/2017-11-14/kill-nafta-it-s-not-as-easy-as-trump-might-think-quicktake-q-a (cited on 28 December 2017).

"'Concessions' ahead for Mexico, Canada in NAFTA talks later this year: US commerce secretary", *BNN*, 8/3/2017. http://www.bnn.ca/concessions-ahead-for-mexico-canada-in-nafta-talks-later-this-year-u-s-commerce-secretary-1.691104 (cited on 28 December 2017).

"Why the White House Worries About Trade Deficits", *The Wall Street Journal*, 5/3/2017. https://www.wsj.com/articles/why-the-white-house-worries-about-trade-deficits-1488751930 (cited on 28 December 2017).

"US Trade Rep Says in NAFTA Talks He Keeps Trump's Views in Mind", *Reuters*, 6/9/2017. https://www.reuters.com/article/us-trade-nafta-lighthizer/u-s-trade-rep-says-in-nafta-talks-he-keeps-trumps-views-in-mind-idUSKCN1BG31X (cited on 28 December 2017).

Office of the USTR. *Trilateral Statement on the Conclusion of NAFTA Round One*. Press Release, August 20, 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/trilateral-statement-conclusion (cited on 28 December 2017).

"Trump Will Withdraw US From Paris Climate Agreement", *The New York Times*, 1/6/2017. https://www.nytimes.com/2017/06/01/climate/trump-paris-climate-agreement.html (cited on 28 December 2017).

"The Trans-Pacific Partnership clause everyone should oppose", *The Washington Post*, 25/2/2015. https://www.washingtonpost.com/opinions/kill-the-dispute-settlement-language-in-the-trans-pacific-partner

ship/2015/02/25/ec7705a2-bd1e-11e4-b274-e5209a3bc9a9_story.html?utmterm=.590b0 649bcfd (cited on 28 December 2017).

"Mexico Congress Backs Motion Defending NAFTA Dispute Mechanism", *Reuters*, 26/7/2017. https://www.reuters.com/article/us-usa-trade-nafta-mexico/mexico-congress-backs-motion-defending-nafta-dispute-mechanism-idUSKBN1AB2UE (cited on 28 December 2017).

"North American Free Trade Agreement", *NAFTANOW.org*. http://www.naftanow.org/dispute/default_en.asp (cited on 28 December 2017).

"US makes lower trade deficit top priority in NAFTA talks", *Reuters*, 17/7/2017. https://www.reuters.com/article/us-usa-trade-nafta-statement/u-s-makes-lower-trade-deficit-top-priority-in-nafta-talks-idUSKBN1A2272 (cited on 28 December 2017).

"Mexico Open to 'Rebalancing' Trade Amid US NAFTA Overhaul", *Bloomberg*, 6/6/ 2017. https://www.bloomberg.com/news/articles/2017-06-06/mexico-willing-to-rebalance-trade-with-america-guajardo-says (cited on 28 December 2017).

"NAFTA needs to be modernized: Mexican economy minister", *Reuters*, 3/3/2017. http://www.reuters.com/article/us-usa-mexico-autos/nafta-needs-to-be-modernized-mexican-economy-minister-idUSKBN16A29J (cited on 8 January 2018).

"Working People Set High Bar for NAFTA Renegotiation", *AFL-CIO America's Unions*, 14/8/2017. https://aflcio.org/press/releases/working-people-set-high-bar-nafta-renegotiation (cited on 8 January 2018).

"Make-or-Break Moment in NAFTA Renegotiation Plans", *AFL-CIO America's Unions*, 14/8/2017. https://aflcio.org/press/releases/make-or-break-moment-nafta-renegotiation-plans (cited on 8 January 2018).

"Canada Emerges as a Tough Negotiator in Nafta Talks", *The Wall Street Journal*, 4/9/ 2017. https://www.wsj.com/articles/canada-emerges-as-a-tough-negotiator-in-nafta-talks-1504559935 (cited on 8 January 2018).

United Nations Climate Change, http://unfccc.int/paris_agreement/items/9485.php (cited on 8 January 2018).

"Sixth Round of NAFTA Talks Stall", *Common Dreams*, 13/12/2017. https://www.commondreams.org/newswire/2017/12/13/sixth-round-nafta-talks-stall (cited on 8 January 2018).

"Trump's Hopes for Quick Nafta Deal Are Dimming", *Bloomberg*, 22/11/2017. https://www.bloomberg.com/news/articles/2017-11-21/u-s-cites-progress-but-no-breakthroughs-in-latest-nafta-talks (cited on 8 January 2018).

"Nafta Round Closes With Talks Bogged Down by Conflict", *The New York Times*, 21/11/2017. https://www.nytimes.com/2017/11/21/us/politics/nafta-talks.html (cited on 8 January 2018).

"A closer look at round five of the NAFTA negotiations", *Dentons*, 4/12/2017. https://www.dentons.com/en/insights/articles/2017/december/4/a-closer-look-at-round-five-of-the-nafta-negotiations (cited on 8 January 2018).

"NAFTA digital trade tweaks", *Politico*, 20/11/2017. https://www.politico.com/newsletters/morning-tech/2017/11/20/nafta-digital-trade-tweaks-028391 (cited on 8 January 2018).

"Mexico, Canada shun NAFTA autos counteroffers: sources", *Reuters*, 19/11/2017. https://www.reuters.com/article/us-trade-nafta/mexico-canada-shun-nafta-autos-counteroffers-sources-idUSKBN1DJ0T1 (cited on 8 January 2018).

"House members oppose Trump administration auto trade rules proposal", *Reuters*, 15/11/2017. https://www.reuters.com/article/us-trade-nafta-autos/house-members-oppose-trump-administration-auto-trade-rules-proposal-idUSKBN1DF2PQ?il%3D0 (cited on 8 January 2018).

"Freeland call US proposals 'extreme' as NAFTA round ends without major progress", *The Toronto Star*, 21/11/2017. https://www.thestar.com/news/world/2017/11/21/freeland-calls-us-proposals-extreme-as-nafta-round-ends-without-major-progress.html (cited on 8 January 2018).

"USTR Releases Updated NAFTA Negotiating Objectives", *Office of the United States Trade Representative*, November 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/november/ustr-releases-updated-nafta (cited on 8 January 2018).

"'There are no fireworks': The hunt for news in a ho-hum NAFTA round", *Financial Post*, 18/11/2017. http://business.financialpost.com/pmn/business-pmn/there-are-no-fireworks-the-hunt-for-news-in-a-ho-hum-nafta-round (cited on 8 January 2018).

"As NAFTA talks stall, Mexico raises minimum wage to $4.71 per day", *Reuters*, 21/11/2017. https://www.reuters.com/article/us-mexico-wages/as-nafta-talks-stall-mexico-raises-minimum-wage-to-4-71-per-day-idUSKBN1DL2KA (cited on 8 January 2018).

"Unions take NAFTA wage fight to Mexican Senate", *Reuters*, 17/11/2017. https://www.reuters.com/article/us-trade-nafta-mexico/unions-take-nafta-wage-fight-to-mexican-senate-idUSKBN1DH2VA (cited on 8 January 2018).

Office of the USTR. *Trilateral Statement on the Conclusion of the Fifth Round of NAFTA Negotiations by the USTR*. Press Release. November 2017. https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/november/trilateral-statement-conclusion (cited on 8 January 2018).

Wilson C., *Growing Together: How Trade with Mexico Impacts Employment in the United States*, 11/2016. https://www.wilsoncenter.org/publication/growing-together-how-trade-mexico-impacts-employment-the-united-states (cited on 8 January 2018).

"How Donald Trump could take America out of NAFTA", *The Economist*, 22/1/2017. https://www.economist.com/blogs/economist-explains/2017/01/economist-explains-15 (cited on 8 January 2018).

"Congresso Usa approva aumento record delle spese militari", *Askanews,* 17/11/2017. http://www.askanews.it/esteri/2017/11/17/congresso-usa-approva-aumento-record-delle-spese-militari-pn_20171117_00015/ (cited on 9 February 2018).

Nuclear Posture Review 2018. https://www.defense.gov/News/Special-Reports/NPR/ (cited on 9 February 2018).

World Economic Forum. https://www.weforum.org/ (cited on 9 February 2018).

"Mnuchin Takes on the Dollar at Davos: DealBook Briefing", *The New York Times,* 25/1/2018. https://www.nytimes.com/2018/01/25/business/dealbook/steven-mnuchin-dollar-davos.html (cited on 9 February 2018).

"Perché Wall Street è crollata nonostante l'economia reale vada meglio del previsto", *AGI*, 6/2/2018. https://www.agi.it/economia/wall_street_perche_borsa_crolla-3453002/news/2018-02-06/ (cited on 9 February 2018).

"Has Trumphoria Finally Hit a Wall?", *The New York Times*, 5/2/2018. https://www.nytimes.com/2018/02/05/opinion/stock-market-trump.html (cited on 9 February 2018).

ACKNOWLEDGEMENTS

First and foremost, I would like to thank my thesis supervisor Professor Duccio Basosi of the School of Comparative International Relations at Ca' Foscari University of Venice. He has impressed me since the beginning of this Master's Degree for his passionate classes I had the chance to attend. In the process of my research, the doors of Professor Basosi have always been open whenever I had a question about my work. Through his precious advice, he has guided me in the right directions whenever I needed it.

I would also like to thank my family: my parents Marco and Monica, my sister Irene, my grandmother Licia and my fiancée Riccardo, for their constant presence and support during these months of intense but pleasant and fruitful work.

Particularly, I must express a special, sincere and profound gratitude to my parents. Not only I thank them for providing me with unfailing and relentless encouragement throughout my years of study and, especially, during the drafting of this thesis, but also and above all, for teaching me the true values of life. I was raised to feel a citizen of the world, be humble and grateful for what I have, and to be wary of taking the easy way out, because achievements have a greater taste when reached through hard work and commitment.

This accomplishment would not have been possible without their sacrifices. Thank you.