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Mexico, U.S. Have Different Goals for North American Free Trade Agreement

by Carlos Navarro

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Mexico, Canada, and the US have launched the first round of negotiations on updating the North American Free Trade Agreement (NAFTA), but wide differences in a variety of areas could make for difficult talks in the weeks and months ahead. The three countries put a positive spin in a joint statement on Aug. 20, at the end of the first of many rounds of talks.

“While a great deal of effort and negotiation will be required in the coming months, Canada, Mexico, and the United States are committed to an accelerated and comprehensive negotiation process that will upgrade our agreement and establish 21st century standards to the benefit of our citizens,” the countries said in the statement issued after five days of discussions in Washington, DC.

Mexico, Canada seek to tweak agreement

While the positions of Mexico and Canada might be similar, the two countries have huge differences with the US. In a joint press conference, Mexican Economy Secretary Ildefonso Guajardo and Canadian Foreign Minister Chrystia Freeland stated their desire to tweak certain aspects of the agreement to benefit all three countries. NAFTA has greatly helped to boost trade in the region, with the value of commercial exchanges among the three countries reaching US\$1 trillion in 2015.

“Canada’s objectives are clear: We want to protect NAFTA’s record as an engine of job creation and economic growth,” Freeland said. “We will work to modernize NAFTA to bring it up to date. We’re going to work hard with our partners to make NAFTA more progressive, particularly with regard to labor, the environment, gender, and indigenous rights.”

Guajardo, for his part, suggested that NAFTA had been a “strong success for all parties,” and he cautioned against “tearing apart” the aspects of the accord that have worked. “To be successful, it has to work for all parties involved, otherwise it’s not a deal,” he Guajardo.

US wants overhaul

In contrast, US Trade Representative Robert Lighthizer mentioned a much different objective in his comments to reporters. Repeating some of the pledges that US President Donald Trump made during his campaign and during his first months in office, Lighthizer emphasized that the US would seek a major overhaul of the agreement.

“[Trump] is not interested in a mere tweaking of a few provisions and an updating of a couple of chapters,” Lighthizer said. “We feel that NAFTA has fundamentally failed many Americans and needs major improvements.”

The Trump government blames NAFTA for the loss of manufacturing jobs in the US, so the administration might seek language in the accord that would make it less attractive of US companies to relocate south of the border.

Additionally, the US is seeking to reduce the trade deficit with its two neighbors significantly. The US recorded trade deficits of US\$64 billion with Mexico and US\$11 billion with Canada in 2016.

The Trump government has justified its position by pointing to the loss of manufacturing jobs in several US Midwestern states, which Trump won in the presidential election. He has said that victories in industrial states like Michigan, Ohio, Pennsylvania, and Wisconsin provided him with a mandate to make deep changes to NAFTA or withdraw from the agreement altogether.

According to one poll conducted by Pew Research, NAFTA is viewed more favorably in Mexico and Canada than in the US. The accord was viewed favorably by 60% of respondents in Mexico and 74% in Canada. Of the respondents in the two countries, 33% in Mexico and 17% in Canada considered the accord unfavorable to their country. In the US, 51% of respondents said the agreement has been good for the country, compared with 39% who said it was harmful.

Mixed opinions in Mexico

Political and economic experts see a mixed mood in Mexico. "We are experiencing a climate of pessimism, similar to the time before negotiations on the current NAFTA began in February 1991," columnist Luis Enrique Mercado wrote in the daily newspaper *Excelsior* in late July. "A large segment of the public believes that Trump and the US are going to roll over our country."

There are others who have expressed slightly more optimism, especially given the fairly strong performance of the Mexican economy in light of constant threats by Trump against Mexico. "There is an expectation that the NAFTA negotiations will be favorable, or at least not harmful, to Mexico," columnist Manuel Somoza wrote in the daily newspaper *Milenio*. "This will allow economic activity to move forward with greater confidence."

A segment of the Mexican population feels that Mexico should withdraw from NAFTA because the accord has harmed some sectors of the economy, particularly agriculture. In early August, as negotiators were starting their meetings in Washington, several thousand demonstrators rallied in Mexico City to demand that Mexico withdraw from the agreement. "We are against the treaty and the renegotiation because it has not benefited the country," said Carlos Galindo, a spokesperson for the national university employees union (*Sindicato de Trabajadores de la Universidad Nacional Autónoma de México, STUNAM*), which helped organize the rally.

Protesters suggested the accord has harmed the country's indigenous communities, who rely on agriculture to survive ([SourceMex, May 12, 1993, June 27, 2001, Dec. 12, 2007](#)). "The effects of the treaty have been negative for the country's indigenous people," said José Narro Céspedes, a center-left politician who represents several groups of small farmers.

There is at least one proposal that the Trump administration has offered that would help workers in Mexico—a plan to narrow the gap between wages paid in Mexico and those in the US could end up helping Mexicans.

"It would be in America's self-interest," said Bloomberg news service. "Trump wants to stop US companies from moving to Mexico, where workers earn a quarter of what US counterparts make. Closing that gap might convince American firms to stay, which is why US negotiators will push for higher wages and better conditions for Mexican workers."

Ironically, the Trump administration has found support for this argument in the Trans-Pacific Partnership agreement (TPP), which the US abandoned earlier this year ([SourceMex, April 26, 2017](#)). Mexico agreed to major labor reforms, including increased wages, when it negotiated the TPP.

The disparity in pay between Mexico and the US and Canada led the three countries to negotiate a separate parallel treaty on labor ([SourceMex, March 24, 1993, April 28, 1993, Aug. 18, 1993](#)).

Contrary views on trade deficit

While Mexican officials are willing to discuss changes to NAFTA, the two sides might clash if Trump insists on linking his concerns about US job losses directly to the trade deficit. Between 2000 and 2010, the US lost nearly 6 million manufacturing jobs, but some of the job losses were due to automation or involved positions that were moved to countries other than Mexico.

“If Mexican negotiators pay more attention to the rhetoric than to the actual proposals, then we would lose,” columnist Enrique Quintana wrote in the daily business newspaper *El Financiero*. “Fortunately, the Mexican team is fully aware of what must be done.”

Guajardo acknowledged that addressing the trade deficit could be difficult, as could a plan by the US to eliminate a “global safeguard exclusion” in NAFTA that has largely prohibited the US from pursuing anti-dumping and anti-subsidy cases against Canadian and Mexican firms.

“The problem is, there’s a sense [in Mexico] that victory for Trump will have to come at the expense of Mexico,” said Antonio Ortiz-Mena, a senior advisor at the Albright Stonebridge Group and a member of the Mexican team that participated in the negotiations on the original NAFTA.

According to Ortiz-Mena, there is a real possibility that the US might withdraw from the negotiations and from NAFTA if its negotiators do not obtain all they want.

But Luis de la Calle, who also participated in Mexico’s NAFTA negotiating team in the 1990s, argued that “accepting tariffs or quotas on exports to North America would be contrary to the spirit and letter of NAFTA.”

And Guajardo noted that modifying certain points in NAFTA would have “consequences not only for Mexico but for North American exporters and the health of the region’s economy.”

Some economists suggest the Trump administration has taken an overly simplistic approach to the issue of trade deficits. According to Chad Bown, a senior fellow at the Peterson Institute for International Economics in Washington, a change in trade policy is not the best way to reduce the deficit. “You’re inevitably setting yourself up for failure if that’s your goal,” Bown said in an interview with Bloomberg news service.

Even though the gap between exports and imports remains a central concern for the Trump government, the US trade deficit with both countries has narrowed significantly in recent years. The trade deficit with Canada hit a high of US\$78 billion in 2008, while the trade gap with Mexico nearly reached US\$75 billion in 2007.

In addition to dealing with the deficit, the US outlined other priorities in a report published before the start of negotiations, including plans to eliminate a range of non-tariff barriers to US agricultural exports to Canada and Mexico. These include subsidies and unfair pricing structures.

Additionally, the Office of the US Trade Representative said it would seek to strengthen NAFTA's rules of origin to ensure that the pact's benefits do not go to outside countries and to "incentivize" the sourcing of US goods. The document offered no details on such incentives and did not specify how much of a product's components must originate from within North America.

Mexico, for its part is pushing for a new agreement to include reforms of financial services, particularly those carried out by so-called fintech companies, which are rapidly gaining ground in the region.

Vanessa Rubio, an undersecretary at Mexico's finance ministry (Secretaría de Hacienda y Crédito Público, SHCP) who is taking part in the NAFTA negotiations that began on Aug. 16, said discussions on financial services had found common ground between the three countries.

"We are not yet sure what will end up in the text of the new agreement, but we are sure that we need to have a discussion about new services, above all about the fintech industry," Rubio said.

Still, the political calendar could become a factor in the ultimate fate and the speed of negotiations. Mexico is scheduled to hold presidential and congressional elections in 2018, and the mid-term congressional elections in the US are set for November, 2018.

"Despite good intentions, this NAFTA renegotiation may be more akin to a lengthy process of couples' therapy than a quick exercise in speed dating," Bown said.

The three sides are scheduled to meet again in Mexico City on Sept. 1-5, and in Ottawa in late September. Negotiators would then meet again in the US in October, with additional rounds anticipated during the rest of 2017.

"That's a blinding pace for trade negotiations," said CNN Money, pointing out that the original NAFTA took years to negotiate ([SourceMex, Jan. 13, 1993](#)).

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