

MEXICO IN THE NAFTA (RE)NEGOTIATIONS

FERNANDO DE MATEO

October 2017

BACKGROUND ON MEXICO'S TRADE POLICY

- UNTIL MID-70'S, IMPORT SUBSTITUTION DEVELOPMENT MODEL
- MID 70'S TO EARLY 80'S, OIL-EXPORTING DRIVEN ECONOMY. 80% OF EXPORTS WERE OIL
- DEBT CRISIS. FISCAL DEFICIT = 15% OF GDP. INFLATION CLOSE TO 200% IN 1985
- OPENING OF THE ECONOMY. MEXICO BECAME GATT MEMBER ONLY IN 1986.

BACKGROUND (2)

- AUTONOMOUS TRADE AND INVESTMENT LIBERALIZATION. AVERAGE TARIFF 27% IN 1986; 10% IN 1991, (**4.2% TODAY**)
- OUTWARD-LOOKING DEVELOPMENT MODEL
- NAFTA NEGOTIATIONS: FEBRUARY 5, 1991-AUGUST 12, 1992
- “MEXICO MUST BE CRAZY”: A DEVELOPING COUNTRY LIBERALIZING TRADE IN GOODS AND SERVICES, INVESTMENT, IP... VIS À VIS THE MOST POWERFUL COUNTRY ON EARTH. AND NO S&DT.

23 YEARS LATER

- EVERY DAY, THE NAFTA REGION TRADES MORE THAN US\$2.5 B.
- TRADE WENT FROM \$290 B. IN 1993 TO \$1.2 T. IN 2016
- MEXICO'S TRADE WENT FROM \$88 B. TO \$482 B. IN 2016
- FDI STOCK IN MEXICO COMING FROM NAFTA = 20% GDP.

NAFTA HAS BEEN GOOD FOR THE THREE NAFTA COUNTRIES

- U.S. TRADE IN GOODS AND SERVICES: [MEXICO + CANADA] > [JAPAN + SOUTH KOREA + BRAZIL + RUSSIA + INDIA + CHINA].
- CANADA, MEXICO: 1st & 2nd. U.S. EXPORT MARKETS.
- FOR EVERY DOLLAR THE U.S. SELLS ABROAD, 16 CENTS ARE BOUGHT BY MEXICAN CONSUMERS (VS. LESS THAN 8 CENTS BY CHINA)
- NAFTA: A HUGE PRODUCTION LINE FOR MANY PRODUCTION PROCESSES –AUTOMOTIVE, AEROSPATIAL, CHEMICALS, FARMACEUTICALS, ELECTRONICS.
- CANADA AND MEXICO PROVIDE THE U.S. WITH COMPETITIVENESS IN THE INTERNATIONAL MARKETS. RESTRICTIONS TO REGIONAL VALUE CHAINS WOULD MAKE THE NAFTA REGION LESS COMPETITIVE

TRADE DEFICIT IS BAD FOR YOUR HEALTH SAY WHAT?

$$Y = C + I + G + (X - M)$$

$$Y = C + S + T$$

$$C + S + T = C + I + G + (X - M)$$

$$(S - I) + (T - G) = (X - M)$$

→ NOT A GOOD STARTING POINT TO (RE)NEGOTIATE NAFTA

US MANUFACTURING JOBS LOSSES DID NOT GO TO MEXICO

Change in manufacturing jobs, 1994-2016 cumulative
in thousands



Share of U.S. Value-Added in U.S. Manufactured Imports from Selected Countries

Exporting Country	Percentage of U.S. Content
Mexico	15.7
Canada	14.7
World	6.4
China	4.1
European Union	3.8
Brazil	2.4
Japan	1.9

Source: TiVA OECD

- Getting rid of NAFTA would end up lowering regional content to world levels around six percent. catastrophic consequences for U.S., Canadian, and Mexican workers. Chinese ones would be the primary beneficiaries. (SOURCE: Luis de la Calle, Mexico Institute. Wilson Center. October 2017).

MEXICO'S OBJECTIVES FOR NAFTA 2.0

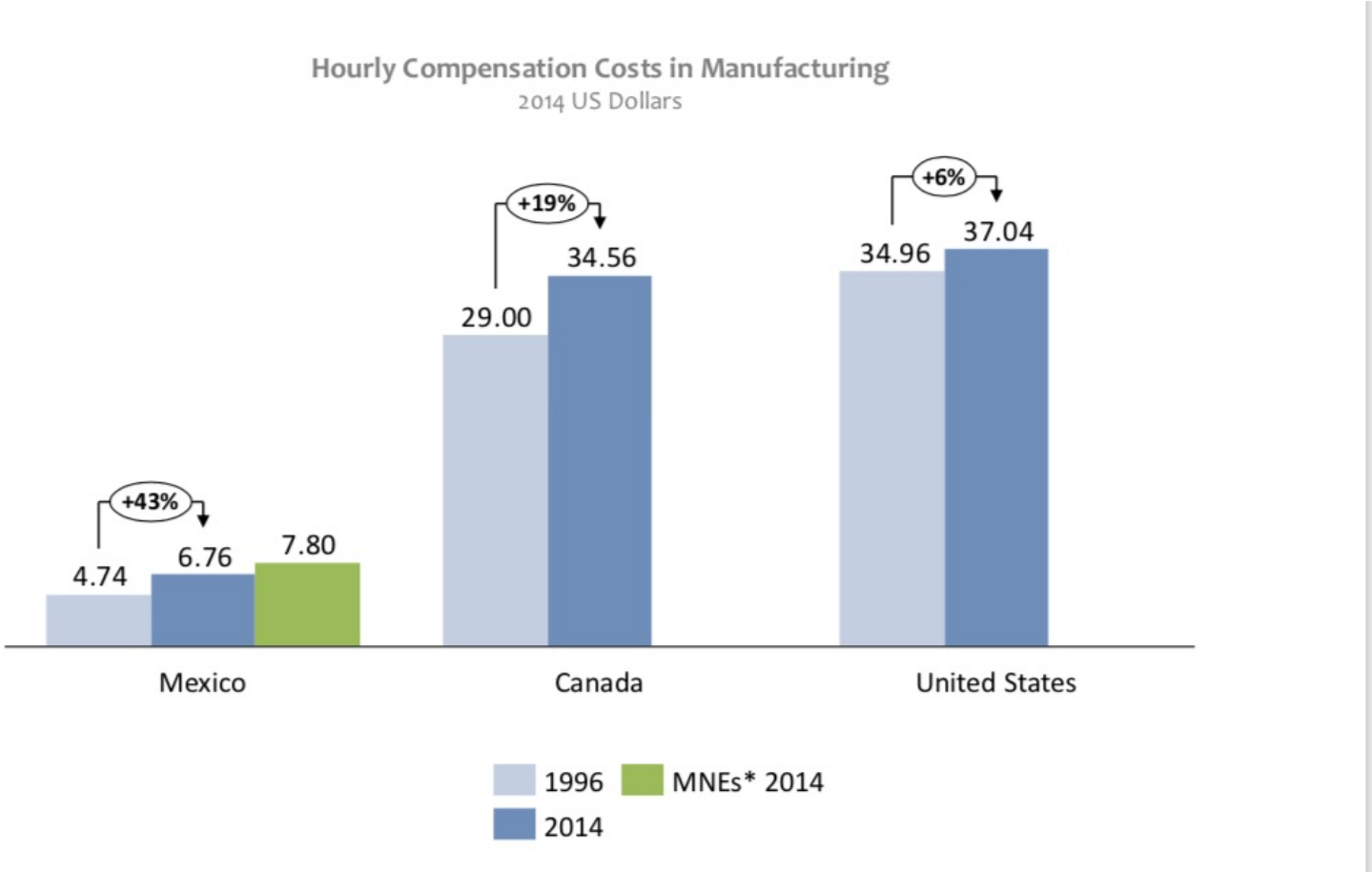
1. STRENGTHEN NORTH AMERICAN COMPETITIVENESS
2. ACHIEVE INCLUSIVE AND RESPONSIBLE REGIONAL TRADE
3. SEIZE THE OPPORTUNITIES OF THE 21ST CENTURY ECONOMY
4. SAFEGUARD DISPUTE SETTLEMENT MECHANISMS FOR TRADE AND INVESTMENT

SUNSET CLAUSE NON-SENSE

- MEXICO NEGOTIATED THE NAFTA BECAUSE THE GSP DID NOT PROVIDE MARKET ACCESS CERTAINTY WITH ITS COMPETITION CLAUSE, SAFEGUARDS, GRADUATION
- INVESTORS DID LACK CERTAINTY FOR LONG-TERM INVESTMENTS
- SUNSET CLAUSE? A NON-STARTER

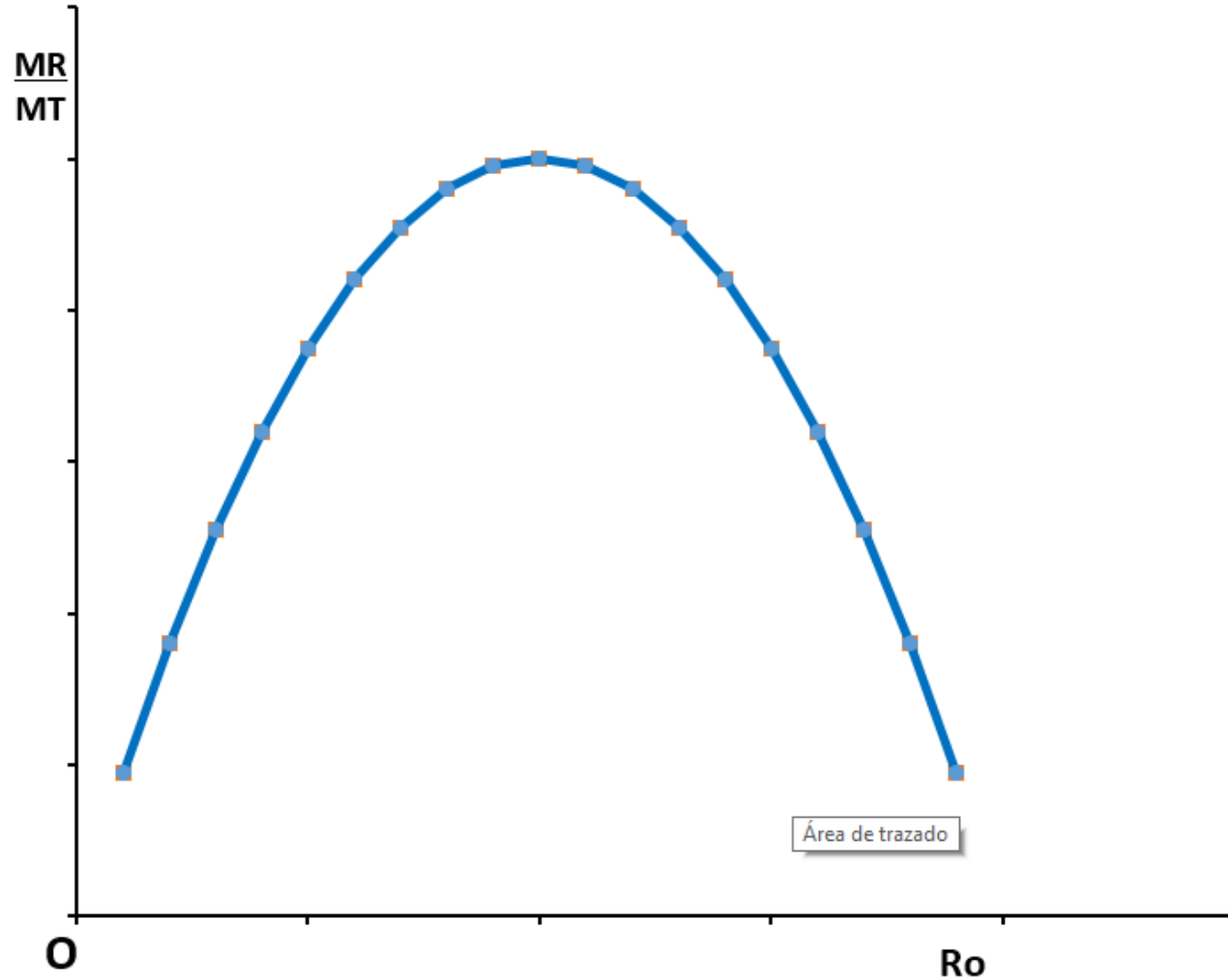
WAGES IN MEXICO HAVE GROWN FASTER

SOURCE: THE CONFERENCE BOARD, INTERNATIONAL LABOR COMPARRISON PROGRAM
TAKEN FROM LUIS DE LA CALLE *EMPLOYMENT DEBATE IN THE CONTEXT OF NAFTA*



RULES OF ORIGIN

50% + 50% + 50% = SAY WHAT?



SAFEGUARDS & SEASONAL TARIFF = NO WAY!

- IN NAFTA 1.0 SAFEGUARDS CAN BE APPLIED TO A PARTY ONLY WITH ITS CONSENT (UNLESS OBLIGED TO DO SO UNDER ARTICLE XIX OF GATT, IF IT IS ONE OF THE MAIN SOURCES OF AN IMPORT SURGE).
- SAFEGUARD REQUIRES COMPENSATION. NOT POSSIBLE IF ALL TARIFF LINES HAVE BEEN LIBERALIZED?
- SEASONAL TARIFFS FOR “CERTAIN” AGRICULTURAL PRODUCTS? WHY NOT FOR “OTHER” PRODUCTS? WHY JUST FOR VEGETABLES AND FRUITS? SOME PEOPLE AT HOME WOULD LIKE CORN OR RICE OR COTTON BECOME FRUITS. → UNRAVELLING

DISPUTE SETTLEMENT AND OTHER STUFF

- CHAPTER 11: INVESTOR STATE. A HOT ISSUE IN EUROPE. SOMEONE THOUGHT IT WAS A GOOD IDEA. U.S. CITIZENS MAIN USERS. OPT-IN & OPT-OUT. CASES AGAINST THE US TO BE SENT TO ITS COURT SYSTEM. RUMORS:
- CHAPTER 19: MECHANISM FOR REVIEWING DECISIONS BY THE INVESTIGATING AUTHORITY IN EACH COUNTRY REGARDING ANTI-DUMPING AND COUNTERVAILING MEASURES. ITS ELIMINATION WOULD ENTAIL DEALING WITH THE DOMESTIC COURTS (AND EVENTUALLY ARTICLE XX OR THE WTO DSB).
- CHAPTER XX: BACK TO GATT 1947?
- GOVERNMENT PROCUREMENT: Buy America

POSSIBLE SCENARIOS

- SUCCESSFUL NEGOTIATIONS.
 - LEGISLATIVE BODIES APPROVE NAFTA 2.0. IN THE MEANTIME, NAFTA 1.0 CONTINUES TO APPLY
 - US CONGRESS FAILS TO APPROVE NAFTA 2.0. NAFTA 1.0 CONTINUES TO APPLY
- US CONGRESS FAILS TO APPROVE NAFTA 2.0. PRESIDENT TRUMP DENOUNCES NAFTA 1.0.
- NEGOTIATIONS BREAK DOWN
 - CANADA AND MEXICO CONTINUE TO APPLY NAFTA 1.0
 - BILATERALLY WITH US, WTO APPLIES

TRADE UNDER THE WTO

🔒 wto.org

Canada

Part A.1

Tariffs and imports: Summary and duty ranges

Summary		Total	Ag	Non-Ag	WTO member since	1995
Simple average final bound		6.8	16.6	5.3	Binding coverage:	Total 99.7
Simple average MFN applied	2015	4.2	16.7	2.2		Non-Ag 99.7
Trade weighted average	2014	3.2	13.5	2.2	Ag: Tariff quotas (in %)	9.7
Imports in billion US\$	2014	411.4	35.8	375.6	Ag: Special safeguards (in %)	6.0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV in %
		Tariff lines and import values (in %)								
Agricultural products										
Final bound		46.0	15.9	20.8	7.8	1.8	1.9	0.7	5.1	19.6
MFN applied	2015	59.6	8.9	16.1	6.0	1.3	1.8	0.7	5.5	12.2
Imports	2014	52.4	15.0	17.9	10.0	0.4	2.3	0.2	1.9	14.7
Non-agricultural products										
Final bound		35.8	8.0	41.0	7.9	6.8	0.0	0	0	0.3
MFN applied	2015	78.5	3.2	10.7	1.3	6.3	0	0	0	0
Imports	2014	70.3	2.2	23.3	0.7	3.5	0	0	0	0

TRADE UNDER THE WTO (2)

🔒 wto.org

Mexico

Part A.1

Tariffs and imports: Summary and duty ranges

Summary		Total	Ag	Non-Ag	WTO member since	1995
Simple average final bound		36.2	45.0	34.8	Binding coverage:	Total 100
Simple average MFN applied	2015	7.1	15.6	5.7		Non-Ag 100
Trade weighted average	2014	4.7	23.6	3.3	Ag: Tariff quotas (in %)	6.9
Imports in billion US\$	2014	389.3	27.2	362.1	Ag: Special safeguards (in %)	34.0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV in %
		Tariff lines and import values (in %)								
Agricultural products										
Final bound		0.4	0.2	4.0	0	11.6	75.8	2.0	6.0	7.3
MFN applied	2015	19.6	3.4	27.5	7.5	34.9	1.8	4.0	1.2	4.7
Imports	2014	37.3	4.3	9.5	4.7	27.2	4.0	6.6	6.4	6.7
Non-agricultural products										
Final bound		0.3	0	0.5	0.1	2.2	97.0	0	0.0	0.0
MFN applied	2015	55.2	7.5	14.3	11.7	11.1	0.1	0	0	0.1
Imports	2014	73.6	8.1	7.2	6.4	4.4	0.3	0	0	0.0

TRADE UNDER THE WTO (3)

🔒 wto.org

United States of America

Part A.1

Tariffs and imports: Summary and duty ranges

Summary		Total	Ag	Non-Ag	WTO member since		1995	
Simple average final bound		3.5	4.8	3.3	Binding coverage:		Total	100.0
Simple average MFN applied	2015	3.5	5.2	3.2			Non-Ag	100.0
Trade weighted average	2014	2.2	3.8	2.1	Ag: Tariff quotas (in %)			5.9
Imports in billion US\$	2014	2,239.1	116.3	2,122.8	Ag: Special safeguards (in %)			3.0

Frequency distribution		Duty-free	0 <= 5	5 <= 10	10 <= 15	15 <= 25	25 <= 50	50 <= 100	> 100	NAV
		Tariff lines and import values (in %)								in %
Agricultural products										
Final bound		30.2	44.4	12.7	4.9	2.9	1.4	0.2	0.5	41.3
MFN applied	2015	30.8	45.9	12.1	5.0	2.9	1.5	0.3	0.8	41.5
Imports	2014	40.0	39.8	13.0	3.7	2.9	0.4	0.2	0.1	39.6
Non-agricultural products										
Final bound		47.4	26.7	17.0	4.9	1.9	0.5	0.0	0	3.3
MFN applied	2015	48.4	26.4	16.7	4.8	1.8	0.5	0.0	0	3.2
Imports	2014	51.0	37.3	6.5	0.9	3.3	0.8	0.0	0.0	12.6

CONCLUSION

- WILL THE U.S. FULFILL ITS COMMITMENTS UNDER THE WTO?