



# **The NAFTA Negotiations: A Mexican Perspective**

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The launching of the North American Free Trade Agreement (NAFTA) negotiations on August 16, 2017 begs a serious and thorough discussion given what it is at stake for the three countries in terms of trade, investment, economic integration, competitiveness, jobs, shared production, and innovation. While a NAFTA modernization has been long overdue, this renegotiation was motivated by the wrong reasons; i.e. to address the United States' concern regarding its trade deficit with Mexico and to return lost jobs to the U.S. manufacturing sector.

As a candidate, President Trump wrongly blamed Mexico for U.S. economic and security woes and stated that “NAFTA has been a catastrophic trade deal” that he would “either renegotiate or ... terminate”.<sup>1</sup> So this negotiation responds to a populist campaign promise, not to the need to improve the way the agreement works. When the NAFTA negotiations were launched in Washington, DC, United States Trade Representative (USTR) Robert Lighthizer's remarks underscored “the huge trade deficits, the lost manufacturing jobs, the businesses that have closed or moved” as a result NAFTA.<sup>2</sup> In sharp contrast, Canada and Mexico framed this process as an opportunity to modernize the Agreement to better respond to the 21<sup>st</sup> century economy. Canadian Foreign Minister Chrystia Freeland and Mexico's Secretary of Economy, Ildefonso Guajardo, used their opening speeches to reiterate that NAFTA has benefited the three partners and considered it a very favorable pact. In direct contrast with Trump's and Lighthizer's statements, Secretary Guajardo called the NAFTA a “strong success for all parties,” while also stressing that Mexico is not the problem but rather “the solution to the region's competitiveness.”<sup>3</sup> Given these diametrically opposing views and goals, Mexico and Canada have a very hard act to play in order to come up with an agreement that responds to their own interests while also addressing the United States' key concerns.

### The Mexican Approach to the NAFTA Renegotiation

For Mexico, this is not the first time that a trading partner has questioned its participation in a free trade agreement. In May 2006, Venezuela's President Chavez notified Mexico of his intent to withdraw from the G3, a free trade agreement that had been in place since January 1995 among Colombia, Mexico, and Venezuela. Six months later, on November 22, 2006, Venezuela ceased its membership in the

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<sup>1</sup> Quoted in “Here are all the terrible things President Trump has said about NAFTA — before deciding to stick with it,” (April 23, Associated Press interview) Daily News. <http://www.nydailynews.com/news/politics/terrible-president-trump-nafta-article-1.3107104> (Revised on September 12, 2017).

<sup>2</sup> Opening Statement of USTR Robert Lighthizer at the First Round of NAFTA Renegotiations. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/opening-statement-ustr-robert-0> (Revised on September 12, 2017).

<sup>3</sup> Danielle Kutzleben. “At NAFTA Kickoff, U.S., Mexico And Canada Already Show Signs Of Disagreement,” NPR. <http://www.npr.org/2017/08/16/543905718/at-nafta-kickoff-u-s-mexico-and-canada-already-show-signs-of-disagreement>

agreement causing Mexico's trade with that country to sharply decline and Mexican investments in that country to be left without protection.

As opposed to the Venezuela experience where Mexico was presented with a fait accompli, President Trump did offer the possibility of renegotiating the Agreement, although always maintaining the option of walking away from it. Towards that end, since the first days of the Trump presidency, Mexico started preparing for a NAFTA renegotiation. First, on January 23, 2017, President Peña Nieto outlined 10 points that Mexico would present to the incoming U.S. administration, including the need to preserve free trade in North America, eliminating any possibility of establishing any new taxes and investing in border infrastructure, among others. Although President Peña was supposed to meet with President Trump on January 31, 2017, and the future of NAFTA was central to the agenda, that meeting was canceled due to Trump's insistence on building a wall along the border and making Mexico pay for it.

Second, even before the Trump Administration notified Congress of its intent to renegotiate NAFTA, on February 5, 2017, the Mexican government launched a 90-day consultation process with domestic stakeholders and had a second one between June 26 and July 26, 2017. Third, prior to the beginning of the negotiations, on July 31, 2017, Mexico's Secretary of Economy submitted to the Mexican Senate *Mexico's NAFTA Negotiation Priorities*, which were categorized into four fundamental objectives: 1.) To strengthen North American competitiveness; 2.) To achieve inclusive and responsible regional trade; 3.) To seize the opportunities of the 21st century economy; and 4.) To safeguard dispute settlement mechanisms for trade and investment in North America. Mexico's approach to NAFTA shows, above all, an interest in safeguarding and modernizing the Agreement given what it represents for its economy. These policy decisions were well taken by the markets, and the volatility experienced by the Mexican peso in the period between Trump's election and his taking office on January 20, 2017 was reverse with the Mexican peso recovering from its lowest point on January 19, 2017 at 22.25 pesos per dollar to 17.23 pesos per dollar on August 16, 2017, when the negotiations started.

Before the negotiation started, statements from President Trump, U.S. Commerce Secretary Ross, and USTR Lighthizer made clear what the United States wants from this negotiation; for Mexico, this will not be an easy negotiation. First, we have the U.S. goal to eliminate Chapter 19, which establishes a mechanism for reviewing decisions by the Investigating Authority in each country regarding trade remedies (anti-dumping and anti-subsidy measures). Members from the Mexican Senate, as well as Mexico's Undersecretary for International Trade Juan Carlos Baker, have opposed to tracking back on this dispute settlement mechanism and accepting instead to use the U.S. Court system to address these types of disputes.<sup>4</sup> For Mexico, eliminating Chapter 19 would translate into making it easier for the United

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<sup>4</sup> Leticia Robles de la Rosa. "México alista primer "no" al TLC de Trump; negativa une a partidos" *Excélsior*. <http://www.excelsior.com.mx/nacional/2017/07/19/1176480> (Revised on September 12, 2017).

States to implement protectionist practices in an expeditious and comprehensive manner, something that runs counter to the vision of an integrated region.

Second, restrictive changes to rules of origin, particularly but not exclusively centered on the automotive sector, have also been identified as a major concern for Mexico. USTR Lighthizer has pointed out that the rules of origin for the automotive sector, currently at 62.5 percent for vehicles, "should establish a higher regional content and substantial U.S. content,"<sup>5</sup> while U.S. Commerce Secretary Ross has advocated for a regional content level as high or even higher than 70 percent. We should bear in mind that NAFTA's vehicle regional content level is already the highest that the United States has established in any trade agreement so increasing it may not be the most efficient proposal. Neither Canada nor Mexico have been in favor of accepting national content in the rules of origin as this would create unnecessary barriers to regional integration. During the first two rounds of negotiations, the United States did not table any proposal on this subject. It is foreseeable that rules of origin will be one of the issues that will present the greatest difficulty in this renegotiation and will require more time to be properly examined. The risk for Mexico is that very strict rules of origin may backfire since not all inputs can be sourced domestically or in North America.

Third, the United States and Canada have suggested they may want to incorporate trade-related labor issues including a minimum wage, a touchy issue, which has been adamantly opposed by Mexico's public and private sectors. Secretary Guajardo has stated that Mexico's "salary policy is an internal matter ... a domestic decision."<sup>6</sup> The idea behind raising the Mexican minimum wage to a North American standard would be to reduce the incentives of companies to relocate to Mexico where workers earn a fraction of what their counterparts earn in the United States and Canada. Apparently, this proposal could be central to the United States because it responds to President Trump's campaign promises to return manufacturing jobs to his country and reverse the trade deficit with Mexico.

In principle, Canada and Mexico coincide in defending and maintaining NAFTA and are in close agreement on their interest in modernizing the Agreement. However, this does not mean that they are in agreement on everything; it means that they sit at the table with the intention of building and deepening a trade and investment relationship. After two rounds of negotiations, it is already clear that the Mexican and Canadian position on labor issues related to the minimum wage is clearly not the same.

These areas are a few of the most evident redlines for Mexico; however, they may not be the only ones. Other areas that may be part of challenging discussions have

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<sup>5</sup> Opening Statement of USTR Robert Lighthizer at the First Round of NAFTA Renegotiations. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/august/opening-statement-ustr-robert-0> (Revised on September 12, 2017).

<sup>6</sup> "Política salarial no se negociará en TLCAN, dice Guajardo." [Politico.mx https://politico.mx/minuta-politica/minuta-politica-gobierno-federal/guajardo-habla-en-conferencia-de-prensa-sobre-inicio-del-tlcan/](https://politico.mx/minuta-politica/minuta-politica-gobierno-federal/guajardo-habla-en-conferencia-de-prensa-sobre-inicio-del-tlcan/) (Revised on September 12, 2017).

to do with trade in agriculture and Geographic Indications (GI), which the United States does not endorse. Mexico has incorporated a protection system based on GI at home and in its FTA with the European Union (EU). In its current negotiations, this is one of the key areas that Mexico may offer as a concession to the EU, especially in the dairy sector.

After two rounds of negotiations, the press reports progress in consolidating base texts from where to continue working on the next rounds in Technical Barriers to Trade (TBT), Small and Medium-sized Enterprises, and Trade Facilitation. In this respect, Mexico's Secretary of Economy Guajardo stated that "the second round allowed to make good progress in a number of areas and to come up with consolidated texts from where to move forwards."<sup>7</sup> However, after two rounds, the United States did not submit texts on such relevant and controversial issues like changes to rules of origin or Chapter 11 to resolve Investor-State disputes.

Although the three Parties are committed to completing the process by the end of 2017, there is no guarantee that this will actually happen since each one has submitted long lists of objectives that will require lengthy discussions and a lot of technical work. These negotiations may last longer than initially expected, which presents the risk that they could become entangled in Mexico's presidential election set to take place on June 2, 2018. Today, there is no certainty of who may win the next presidential election and whether the incoming administration will accept the work undertaken by the Peña administration. As a quick reminder, the original NAFTA negotiations began on February 5, 1991, and were concluded on August 12, 1992, in a context in which the three countries did not have competing views and goals but pursued the same objective. Even when we can see progress and preliminary results, the process will only end when there is agreement on all issues in the negotiation, and although the negotiators claim progress has been made, there are very delicate issues where discussions have not even started.

## ***Do No Harm***

There is no doubt that after more than 23 years in place, NAFTA needed an update. The most recent attempt was TPP; however, when President Trump decided to withdraw the United States from the agreement, for practical purposes, this option was canceled. During the USTR NAFTA hearings held from June 27-29, 2017, many participants called for a renegotiation that *does no harm*. Tampering with NAFTA may be extremely risky as the end result will constitute the set of rules that will govern North American trade in goods, trade in services, and investment for decades to come.

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<sup>7</sup> "Exitosa, segunda ronda de negociaciones del TLCAN: Guajardo," Informador.mx September 5, 2017. <http://movil.informador.com.mx/economia/2017/737909/6/exitosa-segunda-ronda-de-negociaciones-del-tlcan-guajardo.htm>.

We need to take care of NAFTA's accomplishments and its future. In spite of President Trump's assessment that NAFTA has been a "disaster" and the "worst trade deal in history," the pact has delivered economic results beyond the most optimistic expectations. NAFTA created a USD\$19 trillion regional market with more than 470 million consumers. Every day, the region trades more than USD\$2.5 billion. At the time when NAFTA was negotiated, Mexico aspired to export USD\$10 billion per month. Today, Mexico exports more than USD\$1.3 billion every day. In the past 23 years, trade among the three partners went from roughly USD\$290 billion in 1993 to more than USD\$1.2 trillion in 2016. U.S.-Mexico trade increased almost six times, going from USD\$88 billion in 1993 to USD\$482 billion in 23 years, and Mexico's exports to North America increased by more than seven times. In terms of foreign direct investment (FDI), U.S. and Canadian FDI into Mexico surpassed USD\$250 billion, namely, 52 percent of capital inflows Mexico received up to June 2017. North American FDI accounts for roughly 20 percent of the country's GDP. NAFTA opened the door for Mexico to invest in the United States; in 2015, FDI stock reached USD\$16.6 billion in manufacturing, wholesale trade, and depository institutions.<sup>8</sup>

After 23 years of NAFTA's implementation, Mexico has consolidated its position as the United States' third-largest trading partner and second-largest export market, only after Canada. For every dollar the United States sells abroad, 16 cents are bought by Mexican consumers compared to 7.7 cents by Chinese consumers. It is very likely that given the difference in market size (Mexico with 120 million people and Canada with 36 million people), Mexico could become the United States' top export market in the near future. Mexico is also the United States' second source of imports only after China, while Mexican products account for 14 percent of total U.S. imports from the world.<sup>9</sup> Today, the United States trades more in goods and services with Mexico and Canada than it does with Japan, South Korea, Brazil, Russia, India, and China combined.

NAFTA has also promoted regional integration to a level close to 55 percent, meaning that of all trade that the three countries do with the world (total imports and exports of goods) more than half is done amongst themselves. NAFTA has been a boon for regional production of automobiles and autoparts, aircraft, and electrical machinery and plastics, to name a few.<sup>10</sup> These highly integrated regional value chains have increased U.S. exports to Mexico in machinery (USD\$38.5 billion), electrical machinery (USD\$36.7 billion), vehicles (USD\$21.6 billion), and plastics (USD\$15.3 billion). In addition, sourcing from Mexico has offered U.S. production affordable and high-quality inputs; thus, increasing the United States' and the region's competitiveness. About half of our trade takes place between related companies, and its specialization has boosted productivity levels in the three

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<sup>8</sup> Office of the USTR. Executive Office of the President. Home. Countries & Regions. Western Hemisphere. <https://ustr.gov/countries-regions/americas/mexico> (Revised on September 12, 2017).

<sup>9</sup> *Idem*.

<sup>10</sup> *Idem*

economies.<sup>11</sup> Last but not least, Mexico is the United States' third-largest agricultural export market, which reached USD\$18 billion in 2016, and the top export market for U.S. exports of corn (USD\$2.6 billion), soybeans (USD\$1.5 billion), pork (USD\$1.4 billion), dairy products (USD\$1.2 billion), and beef (USD\$975 million).<sup>12</sup> These numbers show how important the Mexican market is for the United States and the need to be very careful with the changes proposed; if it is not broken, why fix it?

## NAFTA 2.0 May Become Mexico's Next Structural Reform

In the early 1990s, NAFTA triggered a major structural reform in Mexico that transformed the face of the Mexican economy and opened the door to a young democracy after 70 years of one-party rule, the PRI. Since its inception, NAFTA has been a force for change and deep transformation of Mexico's key economic structures and institutions. NAFTA triggered the creation, in 1993, of the Mexican Competition Commission (CFC), the Unit for Unfair Trade Practices (UPCI), and the Mexican Institute of Industrial Property (IMPI). In 1994, Mexico's Central Bank (Banco de México) was granted autonomy and Mexico's Ministry of the Environment (SEMARNAP became SEMARNAT in 2000) was created. In 1996, Mexico created the Federal Telecommunications Commission (today the Federal Telecommunications Institute).

Mexico is ready to embrace 21<sup>st</sup> century trade rules as a result of the reform agenda that President Peña Nieto put forward in 2012 with the *Pacto por México*. The structural reforms touched upon key sectors—education, telecommunications, finance, labor, and most importantly energy—and placed Mexico in a better position to contribute to a stronger and more competitive North America. Mexico is ideally positioned to negotiate new issue areas such as energy, services, e-commerce, telecommunications, or financial services. Specifically, in the energy sector, this renegotiation may end up creating an integrated regional energy market that could become the largest in the world. A new NAFTA may help to boost Mexico's recent reforms and speed up their positive effects on the growth and efficiency of the Mexican economy.

It is also true that NAFTA made even more evident the huge disparities and inequalities that have characterized Mexican development. For Mexico, this is an ideal opportunity to push harder towards the democratization of trade, which is a very much needed structural reform. A NAFTA 2.0 could lead to a more inclusive economy where more sectors, regions, and firms take part in globalization. Today more than half of Mexican exports come from the six northern states located at the U.S.-Mexico border; 60 percent of total manufacturing exports are concentrated in only two sectors—automotive and electronics—and, according to Secretary

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<sup>11</sup> "Preserving Order Amid Change in NAFTA" Forbes. <https://www.forbes.com/sites/stratfor/2017/03/14/preserving-order-amid-change-in-nafta/2/#1a685c43565c> (Revised on September 12, 2017).

<sup>12</sup> Office of the USTR. Executive Office of the President. Home. Countries & Regions. Western Hemisphere. <https://ustr.gov/countries-regions/americas/mexico> (Revised on September 12, 2017).

Guajardo, in Mexico only 45 firms out of more than 5 million enterprises account for 50 percent of total exports.<sup>13</sup> Inclusive rules in NAFTA 2.0 should allow Mexico to create a better business environment where more people benefit from the opportunities the Agreement can offer.

North American competitiveness should not only rely on the free flow of goods, services, and investment. A strong North America and a 21st century NAFTA requires finding ways to open orderly venues for labor market integration. It is urgent that the three countries acknowledge that Mexican labor is a key factor in the region's competitiveness. Mexican workers are filling jobs ranging from low- to high-skilled positions in the U.S. economy and are contributing to maintaining U.S. high growth economic rates in a market with the lowest unemployment levels. Ordering the North American labor markets is apparently not part of the renegotiation agenda; however, including it would be beneficial to both Mexico and the United States as it would help reduce illegal flows and criminal-related activities. It would also help create a more inclusive NAFTA and would address the minimum wage differential, which has been set on the agenda by the United States and supported by Canada.

## **NAFTA Needs to Be Rethought, Restated, and Revalued**

Maybe one of the reasons we are renegotiating the NAFTA today in such a contrasting context from the early 1990s is that we never took the time or made the effort to socialize NAFTA or explain the value of North America and how it benefits each one of us. Today one of our biggest challenges is how to restore the North American idea as a truly regional integration scheme where we acknowledge that the three countries are better off with NAFTA than without it. The late Robert Pastor conceived the North American idea and of North America as a region that could lead the world economy, but there are many areas that still need work if we want that to be a reality.<sup>14</sup>

The NAFTA renegotiation is a good opportunity to rethink how to reposition the agreement. We need to move away from the rhetoric that shaped this process and, as a result, move beyond a defensive agenda that assumes a zero-sum game where each one has to count its losses. NAFTA and North America urgently need a common vision from the three countries that shows that together we not only add but multiply gains in a highly globalized and competitive economy. In 2014, former USTR Bob Zoellick and General David Paetres issued a report that makes the case for North America. The authors argued that the United States needs to switch its stance

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<sup>13</sup>Ivette Saldaña. "Transnacionales concentran un tercio de exportaciones." *El Universal* <http://www.eluniversal.com.mx/articulo/cartera/economia/2017/01/18/trasnacionales-concentran-un-tercio-de-exportaciones> (Revised on September 12, 2017).

<sup>14</sup> Robert Pastor (2013) "Shortcut to U.S. Economic Competitiveness: A Seamless North American Market." Policy Innovation Memorandum No. 29, March. [www.cfr.org/competitiveness/shortcut-us-economic-competitiveness-seamless-north-american-market/p30132](http://www.cfr.org/competitiveness/shortcut-us-economic-competitiveness-seamless-north-american-market/p30132) (Revised on September 12, 2017).

vis-à-vis the NAFTA from “an afterthought” to “a central priority for U.S. policy.”<sup>15</sup> We need to do the same in Mexico, although the Trump discourse is definitely not making this an easy task. A *Pew Research Center* survey found that 65 percent of Mexicans view the United States unfavorably compared to only 30 percent that view the United States favorably, as opposed to 2015 when 66 percent had a favorable view and 29 percent an unfavorable one, a trend that is explained by Trump’s constant attacks on Mexico since his presidential campaign.<sup>16</sup>

Trump’s NAFTA repealing proposal goes against the NAFTA idea; however, this is by no means original or unique. There are a few past examples of presidential candidates and nominees who have pledged that they would renegotiate or even derogate NAFTA because it was politically appealing to their electoral bases. Since its negotiation in the early 1990s and its implementation in 1994, NAFTA bashing has been a common theme in U.S. presidential elections. In 1992, Ross Perot ran his campaign as an independent claiming that NAFTA would create a “giant sucking sound” for jobs going south of the border given a huge wage gap between U.S. and Mexican workers.<sup>17</sup> Likewise, that same year when Pat Buchanan sought the presidential Republican nomination, he ran on an “America first” platform which included a vocal opposition to NAFTA.<sup>18</sup> In 2008, 15 years after NAFTA became effective during the presidential election, both Democratic candidates Hillary Clinton and Barack Obama pledged to renegotiate the NAFTA. At that time, Senator Clinton went as far as to say “we will opt out of NAFTA unless we renegotiate.”<sup>19</sup> Obama also promised a renegotiation, but as President he backed off from his election campaign.<sup>20</sup>

As opposed to the way in which NAFTA has been dealt with in U.S. politics, in Mexico, no political party has suggested that it would be a good policy option to walk out of NAFTA or that Mexico should respond to Trump’s aggressions by closing its border or by building a fortress. In fact, a recent survey conducted by *Consulta Mitofsky* showed that close to 50 percent of Mexicans have a positive opinion of

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<sup>15</sup> North America. Time for a New Focus. Council of Foreign Relations. October 2014. [https://www.cfr.org/sites/default/files/report\\_pdf/TFR71\\_North\\_America.pdf](https://www.cfr.org/sites/default/files/report_pdf/TFR71_North_America.pdf) (Revised on September 12, 2017)

<sup>16</sup> Margaret Vice and Hanyu Chwe. “Mexican Views of the U.S. Turn Sharply Negative” <http://www.pewglobal.org/2017/09/14/dramatic-shifts-in-how-mexicans-see-the-u-s/> (Revised on September 14, 2017).

<sup>17</sup> Don E. Newquist, “Giant Sucking Sound” Is Theory By Perot Going Down The Tubes. The New York Times. Sunday, May 16 1993. Available on <http://www.deseretnews.com/article/290666/GIANT-SUCKING-SOUND-IS-THEORY-BY-PEROT-GOING-DOWN-THE-TUBES.html?pg=all> (Revised on September 12, 2017)

<sup>18</sup> Jackie López, “The Campaign Against NAFTA: An Irrational. Attack on Free Trade”. Spring 2009, Duke University. p. 4.

<sup>19</sup> Matthew Hennessey. “Let’s Make a New Deal. Democratic candidates trade jabs on renegotiating NAFTA” *Policy Innovations*. 2016. [https://www.carnegiecouncil.org/publications/archive/policy\\_innovations/briefings/000036](https://www.carnegiecouncil.org/publications/archive/policy_innovations/briefings/000036) (Revised on September 12, 2017)

<sup>20</sup> “Obama Reverses Campaign Pledge to Renegotiate NAFTA” Democracy Now. August 11, 2009. [http://www.democracynow.org/2009/8/11/obama\\_reverses\\_campaign\\_pledge\\_to\\_renegotiate](http://www.democracynow.org/2009/8/11/obama_reverses_campaign_pledge_to_renegotiate) (Revised on September 12, 2017)

NAFTA and of the trade relationship with the United States, while only 16 percent have a negative one.<sup>21</sup> Moreover, in a recent *GEA* survey (March 2017), 73 percent of respondents oppose getting rid of the Agreement.<sup>22</sup> Most recently a *Pew Research Center* survey found that 60 percent have a positive opinion of what the pact has done for the country.<sup>23</sup> This does not mean that NAFTA has not yielded winners and losers in Mexico; however, it does mean that overall the country has undergone a silent but deep transformation based on opening to the world, which has also created new opportunities in a variety of areas that we had not experienced before.

It is urgent that we revitalize the NAFTA concept and that we articulate a message that clearly shows that this regional arrangement is a source of strength and competitiveness. We need to make the case that we need each other and that the integration of a North American market is also the way to job creation, business opportunities, and innovation. Since 9/11, NAFTA has been torn between its driving force to deepen integration, on one hand, and on the other the break imposed by the U.S. need to build a fortress to guarantee safe and secure borders. Integration and cooperation can be the base for a safe region and investing in border infrastructure will make integration smoother.

## **A World without NAFTA: Plan B**

Mexico is not ready to reverse the progress made in the last 23 years under the Agreement. NAFTA created a wide consensus in Mexico that an open economy is the way to go, that we need more not less competition, that we want to be global players, and that we need to deepen not reverse our integration into the world economy. Mexico needs NAFTA and Mexico needs a strong NAFTA. However, this cannot be done at any cost.

President Trump has had no qualms about threatening both Mexico and Canada that he is willing to walk away from NAFTA. On April 26, 2017, he was close to sending official notifications to Canada and Mexico triggering article 2205 of NAFTA that states that “a Party may withdraw from this Agreement six months after it provides written notice of withdrawal to the other Parties.” Between the first and second round of negotiations, on August 23, 2017, during a rally in Phoenix, Arizona, President Trump declared, “I think we’ll end up probably terminating NAFTA at some point.” Such threats do not help a trade negotiation like the one the three countries have decided to carry out. For that reason, Mexico’s Secretary of Foreign Relations,

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<sup>21</sup> Consulta Mitofksy. “EU, el que más ha ganado y ganará en TLCAN” *México Opina*. <http://www.consulta.mx/index.php/estudios-e-investigaciones/mexico-opina/item/951-tlcan-2017> (Revised on September 12, 2017).

<sup>22</sup> Mariano Ruiz Funes. “Nueva encuesta, peores resultados,” *El Financiero*. <http://www.elfinanciero.com.mx/opinion/nueva-encuesta-empeoran-los-resultados.html> (Revised on September 12, 2017).

<sup>23</sup> Margaret Vice and Hanyu Chwe. “Mexican Views of the U.S. Turn Sharply Negative” <http://www.pewglobal.org/2017/09/14/dramatic-shifts-in-how-mexicans-see-the-u-s/> (Revised on September 14, 2017).

Luis Videgaray, stated that if President Trump decided to withdraw from NAFTA, Mexico would walk away from the negotiation table. Most recently, a U.S. proposal for a sunset review clause, as suggested by U.S. Commerce Secretary Ross, which would imply revising the agreement every five years would stall the negotiation since it goes completely against what NAFTA intends to offer; i.e., certainty and predictability to doing business in the region.

Mexico has also been working on Plan B in case the negotiation fails. Plan B consists of deepening Mexico's integration into the world economy by diversifying its export markets and import sources. Currently, Mexico has 12 FTAs with 46 countries and is working to include new trade agreements. Mexico is negotiating with the EU on the modernization of its FTA in place since 2000; this is expected to be completed by the end of 2017. Mexico has also embarked in negotiation processes with Argentina and Brazil to enlarge its respective Economic Complementation Agreements (*Acuerdos de Complementación Económica, ACE*). Both countries are good alternative sources of agriculture imports and would help replace those from the United States (e.g. soybeans, corn, poultry, beef and dairy products). Mexico is also working on the incorporation of Australia, Canada, New Zealand, and Singapore as Associate States into the Pacific Alliance and has been an active participant in the discussions on the future of TPP11 in order to secure access to new markets in the Asia Pacific region.

Its market diversification strategy also includes working on a closer relationship with China, its second-largest trading partner and second source of imports. President Peña was invited by Chinese President Xi Jinping to attend the Dialogue between Emerging Market Economies and Developing Countries, which took place within the context of the 2017 BRICS Summit in Xiamen in early September 2017. Peña's participation can be interpreted as a deliberate attempt to find new allies at a time when U.S.-Mexico relations have reached historical lows.

## Conclusions

In the absence of TPP, the new rules that will result from a NAFTA 2.0 may become the new standard of global trade rules. In the early 1990s, the disciplines that we negotiated in the NAFTA became the state-of-the-art trade rules in new areas such as agriculture, trade in services, investment, and IP to name a few. NAFTA was the lab where new rules were developed and later were transferred to the negotiation agenda of the multilateral trading system in the Uruguay Round and the World Trade Organization (WTO). The rules and disciplines that we give ourselves in North America will offer a very clear idea of the direction that world trade may take in the future. Likewise, this will be the blueprint for other current and future negotiations that Mexico undertakes. It may also open the door to Mexico's current trading partners to ask the same kinds of concessions that Mexico is ready to offer in this NAFTA renegotiation. The NAFTA 2.0 negotiations are being closely followed by the entire world. We have a responsibility beyond NAFTA.

Since 2013, Mexico passed a series of structural reforms that will yield results in the medium to long term. However, corruption and transparency, rule of law, crime, and a weak judiciary are serious challenges that are also acting against Mexico's competitiveness. If Mexico is to contribute to a stronger region, we need to find sustainable and long-term solutions. In 1994, NAFTA may have triggered Mexico's transition to democracy in 2000. Today, more NAFTA may be the required force to effectively address transparency, accountability, anti-corruption, security, and rule of law questions that are so urgent right now in Mexico.

For decades, NAFTA opponents have been more vocal than its supporters. We need to seize this opportunity to reverse the discourse on NAFTA and North American integration, and we need to make the case for a North American market based on facts while dismissing myths. Boosting North American integration will require political leadership and a shared vision among the three parties, which at this time does not seem to be present. Giving credibility and legitimacy to North America may prove to be the biggest challenge, however, the stakes are too high not to give it a serious try. This is what Mexico is doing. The results will be seen in a few months, and we will know how far we will be able to take North America under the new rules. Mexico can be and has to be up to the standard.