Summary and Keywords

“A Marriage of Convenience” became the best metaphor, coined in 1990 by distinguished American economist Sidney Weintraub to summarize the fundamentals under which NAFTA was built and understood, at least in mainstream analysis: the economic complementarities existing among the three countries of North America could work to the benefit of everyone involved if economic integration is well managed and geared toward the improvement of regional competitiveness. Thus, NAFTA became the privileged tool under which managed integration became implemented and assessed, at least in three major domains: as a foreign policy tool to advance the interests of each nation, as an economic device to reap the benefits of integration, and as the backbone under which a regional political and social bloc could eventually be constructed.

Scholars, intellectuals, and public officials engaged in the discussions around NAFTA in each of those fields shared ideas, built some consensus, and split on dissents following competing approaches and/or national cleavages. The current literature in those three major fields of discussion is rich, voluminous, and highly inspiring, sometimes making references to other integrative experiences. This article reviews these debates and highlights either the consensus or dissention witnessed in each of the three domains under which NAFTA has been discussed the most. Since NAFTA cannot be separated from the political and social contexts that the debates and discussions took place in, a reference to those political contexts can be made when explaining and summarizing the debates.

At a time when the mainstream consensus around NAFTA is being challenged by U.S. President Trump’s assumption that NAFTA is not about complementary economies but about economies competing against each other under a zero-sum game rationale, politics comes back to the forefront of North American affairs. The renegotiation of NAFTA will doubtless redefine the partnership among the three North American countries and the role that economic cooperation and integration entails for each.
Introduction

For more than twenty years, the North American Free Trade Agreement (NAFTA) has been the subject of analysis and debate, either because it was the first North-South free-trade area envisioned and created after the end of the Cold War, or because it represented a major shift in U.S. trade diplomacy at a time when major changes in the global economy were taking place, such as the implosion of the former Soviet Union, the unification of Germany, the expansion of the European Union (EU) toward the East, and the negotiation of new multilateral trade rules at the Uruguay Round of the General Agreement on Tariffs and Trade (GATT). Since then, NAFTA has remained a contentious treaty at the policy and intellectual levels. This essay aims to review how NAFTA has been approached and analyzed in academic circles both inside and outside North America. This task was not easy, since the literature on the subject is rich and encompasses many disciplines of the social sciences. Thus, it was easier to organize this expanding body of literature into three major fields in which most of the debate seems to be focused:

- the role of NAFTA as a foreign policy tool
- how NAFTA has functioned as an economic policy instrument to enhance productivity, employment, and competitiveness in specific industries or countries
- to what extent NAFTA is at the grounds of reconfiguring the North America region as a regional bloc

In each of the three domains that the debate of NAFTA is centered on, there is little consensus and much dissent about the role NAFTA played (or continues to play) in foreign and economic policymaking, as well as in the construction of a regional bloc. This article highlights the theoretical and policy tensions existing in each of the three fields, adhering mainly to the political context and constraints in which the academic and theoretical discussions take place. In other words, the way NAFTA has been understood, analyzed, debated, and problematized cannot be separated from the political and social juncture in which the debate takes place. Take, for example, U.S. President Donald Trump's renegotiation of the NAFTA agreement, alleging that it was detrimental to the economic and social interests of the United States. Many new analyses and debates have flooded the media and academic press attempting to highlight the flaws or the strengths of the agreement. Most of this new literature tries to explain, justify, support, or attack a specific political decision: the renegotiation of NAFTA.

In an era in which the tense relationship between politics and knowledge has been established and problematized, a survey on how NAFTA has been thought about since the 1990s cannot help but mention those tensions. Indeed, the new literature sometimes
explains how debates are shaped and ideas ordered. Thus, each section of this article highlights what is at stake in the debate, the converging views that exist (if any), and the alternative interpretations featured by specific analyses.

NAFTA as an Archetype of “Reactive” Foreign Policy

The emergence of a free-trade agreement (FTA) in North America has puzzled scholars of theory and policy from the start. As two U.S. scholars who have studied NAFTA since its inception, Gary Hufbauer and Jeffrey Schott (1992), state that “there is little precedent for an FTA between developed and developing countries. In this sense, NAFTA became as a sort of innovation” (p. 8). Mexico’s Gross Domestic Product (GDP) per capita at the beginning of the 1990s was approximately 12% of the United States and Canada’s GDP combined (Hufbauer & Schott, 1992, p. 8). Neither the incorporation of Spain and Portugal into the European Community in 1986 nor the trade agreement signed by the United States with Israel in 1985 were paramount to such economic imbalance. The emergence of an FTA in North America also challenged functionalist and neo-functionalist perspectives on integration, which normally assumed the presence of sociopolitical pluralism and symmetrical regional heterogeneity—industries and societies organized as agency—as two major drivers of regional integration (Mattli, 1999, p. 778). At the time when NAFTA was negotiated, Mexico still had an authoritarian, non-democratic regime, and the decision to open negotiations with the United States was in the hands of its president, Carlos Salinas, as a geopolitical move to make his country attractive to foreign investors at a time when former European socialist countries and Russia were moving toward market reforms (Salinas de Gortari, 2000).

It was always clear that NAFTA would evolve differently than that of the European Community, which was preparing to move toward an economic union. In 1987, after Greece, Spain, and Portugal entered the European Union between 1981 and 1986, the European Commission adopted the Single European Act to establish a single market of labor, services, and goods in 1992. On the other hand, NAFTA was not originally conceived as a common market like Europe. Even though the size of the North American market was already comparable to the population and aggregate GDP of the combined Europe 10 and EFTA blocs at the time, NAFTA was conceived as a process of economic integration of a “lesser kind”; there was no commitment to relinquish sovereign powers to supranational institutions, the mobility of labor was not envisioned, and no monetary cooperation was anticipated. Furthermore, sophisticated econometric models conceived at the beginning of the 1990s by researchers living in the three NAFTA countries found no major gains in terms of employment and welfare as a result of the abatement of tariff and non-tariff barriers between the three countries. So what was NAFTA really about?
Economist Paul Krugman, who won the Nobel Prize in Economics in 2008 for his contribution to the so-called new trade theory, advanced a provocative hypothesis (at least for mainstream economists). For him, NAFTA was not about economic gains but about foreign-policy bets (Krugman, 1993). For political economists and pundits of political science and international relations, NAFTA was explained originally as a reactive move by U.S. government to the major changes affecting global affairs. There was the strong expansion of the European Community, which approved the Maastricht Treaty from which the European Union was created in 1993 and provided the basis for building the Eurozone. There was the end of the Cold War, prompting German reunification and the implosion of the former Soviet Union. There was also the halt of the Uruguay Round of multilateral trade negotiations under the GATT: here the U.S. government aimed to advance a new agenda of trade and trade-related disciplines, including, among others, the opening of agricultural and services markets, a liberalization and higher protection of foreign investments and property rights, and the liberalization of government procurement.

At the beginning of the 1990s, the political and economic changes taking place in Europe seemed to benefit the expansion of the European Union toward former eastern socialist European countries, with the potential of building what at the time was called a “Fortress Europe” able to exploit the potential of the Russian market. As a theorist of comparative regionalism suggested, the turn to bilateralism in U.S. foreign-trade policy with the signing of the Canada-U.S. Free Trade Agreement (CUFTA) in 1988, and thereafter to “minilateralism”1 with the signing of NAFTA (in 1992, put into force in 1994), became a reactive response to the potential economic and political costs inflicted by the European bloc. As Mattli (1999) and Börzel (2016) suggested, history has proved that when economic or political blocs (the European Union was both) become reinforced, the costs imposed on the outsiders will trigger reactive integrative responses, which will also provoke new reactive moves from those countries remaining outside the blocs that made the first and second moves (Mattli, 1999, p. 192). Regional blocs became “building blocks” instead of stumbling blocks for economic liberalization and policy cooperation when multilateral institutions become gridlocked.

NAFTA soon became framed as a foreign-policy tool to reassert U.S. interests not only vis-à-vis its neighbors and major trade partners (Canada, Japan, and Mexico) but also Europe and Latin America. Indeed, seven months prior to the launching of NAFTA negotiations, President George H. W. Bush announced the Enterprise of the Americas Initiative (EAI), his new foreign-trade and economic policy toward the Americas months after the Cold War had ended. Once NAFTA came into force, it became the blueprint for what President Clinton called the Free Trade Area of the Americas (FTAA). It was an attempt to expand “open regionalism” (i.e., NAFTA-like ruling) to the entire Western Hemisphere as a tool to affect multilateral trade talks under the new “Doha Round,” which started in 2001 and rapidly hit an impasse. It is within this context that experts and political science researchers considered NAFTA as a major force for reasserting U.S. leadership in the
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Americas and in global trade affairs. Roughly, the debate has been centered on three major issues: (1) NAFTA as a new institutional and legalistic device for articulating a new governance of trade regimes; (2) NAFTA as a reassertion of U.S. neoliberal hegemony in world affairs; and (3) NAFTA and “post-hegemonic” regionalism in the Americas.
NAFTA and the Governance of Trade Regimes

Built upon theories about policy regimes and neoliberal institutionalism approaches to governance and cooperation (Keohane, 1984, 1989; Krasner, 1986), NAFTA was conceived as a myriad of principles and disciplines whose goal was to contain and manage the involvement of states in the economy; in other words, it was conceived to bring about policy change and adaptation to general norms through which “deep integration” was pursued to facilitate interdependence and to manage the externalities that arise from it (Haggard, 1995, p. 2). According to U.S. political jargon, those general norms were aimed at “levelling” the playing field in trade, investment, and corporate rights. A rich body of literature has focused on how these new norms and legal institutions have built new trade and trade-related disciplines through which state participants must converge (Schott, 2004; Salazar-Xirinachs, & Maryse, 2001). Since NAFTA and succeeding FTAs crafted by the U.S. government with several trade partners featured some “hard” law litigation and arbitration processes, jurists joined the debate about how the alternative dispute settlement mechanisms (ADSM) worked to make partners abide by the rules (Abbot, 2000; Abbot & Duncan, 2000; Chayes & Handler Chayes, 1995). In general terms, authors who have approached NAFTA and open regionalism through the lenses of regimes, hard law, and litigation concur that the agreement has been successful in promoting trade and investment liberalization in North America and elsewhere where there is a NAFTA-like FTA.

When assessed by the growth in commercial exchanges among parties, NAFTA has been successful. Figure 1 portrays the trade performance (the sum of exports and imports) of NAFTA partners from 1980 to 2014. From 1993—the year before the enactment of the agreement—to 2014, NAFTA trade increased 395% in absolute terms and in terms of its value measured in current dollars. While this increase is impressive when compared to overall trade performed by all countries, NAFTA countries’ trade share itself has decreased. In 1993, NAFTA’s world trade share was 19.16%, and in 2014 it was 15.17%. It is interesting to highlight that in 2000, NAFTA’s share reached its highest point at 22%. One year later, China joined the World Trade Organization (WTO), and from that year onward its market share grew from 4% to 11.27%, four points below the share of NAFTA countries. It is also worth highlighting the performance of other major trade partners, such as the European Union and Japan. In Figure 1. North America’s world exports compared to global exports, 1980-2014. Shares.
Source: World Trade Organization.
1993, the European Union’s share was 38.75%, while Japan’s was 7.4%; and in 2014, their shares were reduced to 32.2% and 3.9%, respectively. The emergence of China as a major trade power explains the contraction of market shares of other major exporters. China became the United States’ major trading partner, displacing Canada and Mexico. And so far China has done this without signing an FTA with any NAFTA partner.

These simple figures suggest that if NAFTA was understood as a “second integrative” response to the consolidation of the single market and the creation of the European Union, China was in fact the rising trading power of the late 20th and early 21st centuries. This was especially true when Hong Kong returned to continental China, and the latter joined the WTO. It was during the second term of the Obama administration that the debate and renovation of the Trade Promotion Authority (TPA) took place in Washington to negotiate the Trans-Pacific Partnership (TPP) with 11 Pacific Realm countries located in the Americas or Asia and the so-called Transatlantic Trade Investment Partnership (TTIP) with the European Union. In all these debates and negotiations, the elephant in the room was China. U.S. scholars framed the TPP as a way to renovate “competitive liberalism” worldwide and give momentum to stalled Doha talks at the WTO (Schott, 2014). Other scholars interpreted the absence of China in all these talks and agreements as a geo-economic and geopolitical move vis-à-vis the Asian dragon to diffuse its state-centered capitalist model and trade diplomacy, both of which have momentum in the Pacific and its area of influence (Morales, 2017).

NAFTA: Hegemony and Neoliberalism

In a speech given in New York in June 16, 2014, before the end of TPP negotiations, and addressing an audience gathered by the Council of International Affairs, Michael Froman, then the U.S. Trade Representative (USTR), recalled that with the end of the Cold War, U.S. trade diplomacy was no longer subordinated to military alliances and security goals. He acknowledged that maintaining the U.S. leadership in trade affairs remained strategic, especially since, according to him, the power of nations has become measured by today’s economic strength. Hence, it was crucial for Washington to continue to define the rules to be followed, “the standards countries should adhere to, the norms which create a sense of fairness among economies, and the mechanisms by which disagreements—as they inevitably arise—can be peacefully resolved” (Froman, 2014).

On October 4, 2015, 21 years after NAFTA went into effect, USTR Michael Froman concluded the negotiations for signing the TPP with 11 countries: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Vietnam, and Singapore. The United States had already signed FTAs with six of these countries—Canada and Mexico (included in NAFTA) plus Australia, Chile, Peru, and Singapore, all of whom had already signed bilateral FTAs. The TPP incorporated Brunei, Japan, Malaysia, New Zealand, and Vietnam to the expanded rules of the game of U.S.-led trade diplomacy. Before concluding TPP negotiations, the United States had signed 11 bilateral FTAs (the last was with the Republic of Korea) and two minilateral ones (NAFTA and DR-CAFTA), all negotiated at the
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same time as multilateral negotiations took place in the WTO. The agreements sometimes contain specific sectors of interest for the parties involved—automotive, energy, or textile, for example—but their common denominator is their consistency when it comes to the rules and topics involved. The U.S. government has been successful in including progressive new areas to liberalize or invigorate. For instance, NAFTA was innovative because it included the liberalization of agriculture, services, and government procurement while enhancing the protection of corporate investments and property rights. Succeeding agreements incorporated to the liberalization agenda electronic commerce and competition policies—including state enterprises—and made labor and environment regulations enforceable.

Through the TPP, the U.S. government attempted to deepen the coverage and scope of its trade agenda. Besides the regulatory body already accumulated in previous minilateral or bilateral agreements, the TPP included new chapters concerning small and medium enterprises (SMEs) and Global Value Chains (GVCs). In so doing, the United States attempted to update previous agreements it already had with six participants without spending political capital to reopen or renegotiate them. Furthermore, the “competitive liberalization” agenda conveyed by the TPP was bound to have a “systemic” effect on other Latin American countries, on members of the Asia Pacific Economic Conference (APEC), and on multilateral trade negotiations held by the WTO. This is because several countries involved in the TPP maintain alliances or FTAs with third countries, which could have unleashed a “domino effect” in the area. For instance, countries in APEC, of which both the United States and China are members, are currently discussing the possibility of becoming a free-trade zone. The U.S. government argued that the TPP could be the model for the region and thus serve as an Asia-Pacific FTA (APFTA). Meanwhile China advanced its own model that would crystallize with the establishment of the Regional Comprehensive Economic Partnership (RCEP), which would include the countries of the Association of Southeast Asian Nations (ASEAN), plus countries it already had an FTA with—Australia, India, Japan, New Zealand, and the Republic of Korea.

At the time of this writing, President Trump had already dismissed the TPP and plans to renegotiate NAFTA on a bilateral basis. It is unclear whether this should be considered a major strategy change in U.S. trade negotiations over the previous decades, or whether this is simply a tactical maneuver (by escalating the threat of trade wars and prompting bilateral negotiations on an ad hoc basis), as are the consequences of these shifts. Nonetheless, as Froman noted, the U.S. government’s renegotiation of the rules of the game in global trade affairs at the mini- or multilateral level has once again ignited the debate for those who have envisioned NAFTA as an instrument to reassert U.S. hegemony and expand the scope of a neoliberal agenda.

Political scientists involved in this debate interpret U.S. hegemony differently. Some see hegemony as strong economic leadership, or more in the Gramscian sense of an actor able to build an institutional consensus, making its supremacy legitimate. Others see it as a neoliberal order—either as a generalization of market-centered mechanisms of governance or as a new paradigm structuring human behavior around the rationale of
enterprise competition. However, most experts agree that NAFTA and all the NAFTA-like mechanisms aim at modifying embedded social pacts in steering nations toward a corporate-led approach. By adapting their economic and labor environments to attract foreign direct investment (FDI), GVCs, and transnational services, countries adopting the NAFTA-like agenda have dismissed former industrial, social, educational, and welfare policies geared toward reducing domestic social and income gaps. As part of this debate, NAFTA has helped multinational corporations (MNCs) protect their corporate global activities and to maintain and upgrade technological innovations of U.S. companies, as well as their competitiveness abroad. This has happened not only through trade but also by relocating GVCs that are more expensive to maintain at home. This debate could eventually establish a sort of dialogue or confrontation with the economists highlighting the decline of the U.S. manufacturing industry by relocating production chains to Canada, Mexico, or other countries; the ultimate goal is to reassert the United States as a knowledge-based economy where innovation and wealth creation will be grounded in the technological prowess of their companies and research centers and the sophistication of its services (e.g., in education, e-commerce, financing, health treatment, among other fields).

There were however key factors that helped open the debate about a so-called post-hegemonic or post-neoliberal era: the derailment of FTAA talks in 2005; the 2007–2008 U.S. financial crisis that prompted state intervention in banking, finances, and the U.S.-based automotive industry; and the proliferation of alternative mechanisms for enhancing cooperation without U.S. sponsorship. To what extent the Trump administration is part of this so-called post-hegemonic momentum is still unknown.

**NAFTA and Post-Hegemonic Regionalism**

Post-hegemonic regionalism has become the “buzzword” for explaining what Mattli (1999) referred to as the succeeding reactive shifts provoked by the consolidation of a regional bloc. If NAFTA is to be considered as a “second integrative” response to the creation of the European Union, post-hegemonic regionalism became a sort of third integrative reaction to the U.S. government’s promotion of open regionalism through the FTAA negotiations. Research exploring this counter-hegemonic reaction (Briceño-Ruiz, 2013, 2017; Carranza, 2017; Sanahuja, 2017; Tussie & Riggirozzi, 2012) has explored how pre-NAFTA regional blocs in the Americas, such as the Common Market of the South (Mercosur) or the Andean Community, adapted their agendas to resist neoliberal policies coming from FTAs promoted by the United States so that they could control their domestic and regional environments. This process gained momentum at the end of 2005, when Brazil and Mercosur derailed FTAA negotiations, and open regionalism became a target of criticism from left-wing governments in Brazil, Argentina, Venezuela, and Bolivia during the Mar del Plata Summit of the Americas. The creation of the Bolivarian Alternative for the Americas (ALBA) in 2004, the Union of South American Nations
(UNASUR) in 2008, and the Community of Latin American and Caribbean States (CELAC) in 2011 are all part of this chain reaction to the inception and expansion of NAFTA.

Needless to say, the renovation of Latin American regionalism, led mainly by Brazil and Venezuela, also responded to domestic changes in the political coalitions governing most Southern Cone countries. Once these coalitions become fragile or disappear, as has already been the case in Brazil and Argentina, the future of post-hegemonic regionalism becomes unclear (Briceño-Ruiz & Morales, 2017). This is apparently the case with the NAFTA model, currently denounced by the Trump administration. Although some analysts give credit to the political agenda of regionalism as a sign of resilience against the pressures of NAFTA-like approaches (e.g., the case of Mercosur [Carranza, 2017]) other experts perceive the ups and downs of this bloc as a by-product of presidential foreign policy to enlarge the margin of maneuver of the Brazilian political elite (Malamud, 2005). At any rate, and in contrast with NAFTA, the economic gains of the prevailing regional discourse in South America since the late 1990s are less clear compared to the higher-profile political discourse.

**NAFTA as an Economic Policy Debate**
In 1990 leading U.S. economist Sidney Weintraub published a book suggestively titled *A Marriage of Convenience* (Weintraub, 1990), arguing that the U.S. and Mexican economies had already become de facto integrated in spite of previous protectionism: state-centered industrial policies followed by the Mexican government. The signs of that integration were clear to him in the sense that transnational firms seeking complementarities in both countries already dominated non-petroleum U.S.-Mexico trade. Mexico’s assembling industries, called maquiladoras, were already exploiting cheap labor costs to process duty-free imports coming from the United States by transforming these duty-free goods and exporting them back to the United States, paying duties only for the labor value added in Mexico. At the end of the 1980s, this process had become the business model in the automotive and machinery industries, and the model was being replicated in the emerging computer industries. This pattern of production became mutually beneficial for the two countries; U.S. firms relocated to Mexico so they could reduce their production costs to boost their competitiveness, while Mexico promoted the production and export of manufacturing, highly needed at a time when oil exports still dominated most of the country’s trade exchange. Economic integration went beyond trade exchanges and industry specialization, comprising also U.S. flows of direct investment into the Mexican economy and financial flows to support and renegotiate the country’s foreign debt.

For Weintraub (1990), this de facto integration was extended to the political and cultural realms. He noticed the democratic norms of “infection” spreading from north of the Rio Grande to the south at a time when political opposition to the then “hegemonic party” ruling Mexico, the Partido Revolucionario Institucional (PRI), which was disputing elections in northern Mexico. Migratory flows, all sorts of transborder movements, and U.S. pop culture were also part of that growing integration portrayed by Weintraub (Weintraub, 1990, p. 15). Nonetheless, this integration was no doubt asymmetrical, since Mexico became more dependent on its ties to the U.S. economy than the United States was on Mexico’s economy.

Despite these asymmetries, and despite Mexico’s willingness to remain a sovereign country, Weintraub (1990) suggested that the two countries had more to gain if they moved from a chaotic integration drive to a “managed integration.” At the time Weintraub’s book was published, the Canada-U.S. Free Trade Agreement (CUSFTA) had already been negotiated (1988) and accepted into law (1989); it was also clear at that time that U.S. foreign trade policy had moved toward bilateralism (and eventually toward “minilateralism”). What Weintraub was suggesting was that U.S.-Mexico “managed integration” could follow the same path as that chosen by the Canadians, whose economic, political, and cultural integration with the United States was comparable to Mexico’s. By using the metaphor of an arranged marriage of convenience when referring to this “managed integration,” Weintraub also framed the dilemma the three countries were moving toward. Deepening integration would increase the asymmetrical dependence among the three countries. This would mean, consequently, more vulnerabilities vis-à-vis the policy moves and changes coming from any member, even without the explicit intention to harm the other partners. However, according to the
dilemma highlighted by Weintraub, this perceived vulnerability was the price to pay to make North America more resilient to the competition from third parties (Weintraub, 1990, p. 26). Asymmetrical dependence could be transformed into resiliency in the long run if the three parties as a region became more efficient and competitive thanks to their managed integration process. Even though Weintraub’s dilemma was meant to depict the U.S.-Mexico side of the North American equation, it could also be extended to the Canada-U.S. side. The two U.S. neighbor countries would become more dependent on accessing the U.S. market as a by-product of an FTA, and the United States would eventually become more vulnerable to higher-quality products coming from Canada and low-wage imports from Mexico. It would mean asymmetric job dislocation in the three countries, and institutional and industrial adaptations of all types. At the end of the day, assuming that vulnerabilities are well managed, all three members would win if economic efficiency and productivity were increased to compete better against third parties.

If NAFTA was a tool for achieving economic gains, research and debate on how to achieve these gains was framed differently within each NAFTA country, as will be discussed in the following subsections.
The Competitiveness Debate in the United States

Weintraub (1990) framed in many ways the core of the policy options triggered by the signature and inception of NAFTA since 1994. In the public and academic discourse, the rationale of the agreement was to enhance the complementarities of the three national economies to boost a so-called North American competitiveness, understood in different ways according to the debates nurtured in each NAFTA country. Econometrists originally approached the economic rationale of NAFTA using computable general equilibrium (CGE) models to assess the asymmetric gains of the deal, and economists preferred to combine the historical evolution of the three NAFTA countries (intertwined with their respective institutions) to depict the advantages and flaws of the deal. Econometrists privileged three types of models for measuring welfare gains from NAFTA. Some elaborated static models, assuming perfect competition and constant returns to scale, whereas others assumed imperfect competition with a technology that ensured increasing returns to scale—and still another group preferred to conceive rather “dynamic” models in which the reduction of uncertainties and the growth in labor productivity were introduced. The goal of all models was to simulate or predict firm behavior in an environment where tariffs and non-tariff barriers were being reduced. The core of the debate in these early models centered more on giving legitimacy to NAFTA than framing its economic, political, and strategic dimension. It was about the effects of trade creation and deviation that the deal was about to produce, as well as the effects on employment and “welfare gains” reaped by each country (Brown, 1992). Most anticipated trade creation and positive welfare gains from the deal, although the amount of these gains and their redistribution among participants varied significantly from one model to another, depending on the assumptions and calculations estimated by the authors. These models usually worked as “black boxes” where assumptions varied according to the preferences and training of authors. Worst of all, since they could not predict the effects of institutional changes and external shocks, their use was substituted for qualitative analyses combining metrics with policy and institutional factors.

The focus and scope of the economic analyses have varied in each NAFTA partner. In the United States, one of the major debates on the economic effects of NAFTA has centered on job creation and competitiveness: in other words, the increase of U.S. market shares in global markets. While renowned economists have decried such a debate as elusive, the link between job creation or destruction and economic liberalization has remained a contentious issue in the United States since the creation of NAFTA, more for political reasons than economic ones. Gary Clyde Hufbauer and Jeffrey Schott (2005) have argued about the flaws and restraints for accurately estimating the employment-related effects of NAFTA. They believe that job creation is the combined outcome of macroeconomic policies, human capital, labor-force flexibility, and an effective use of technology. Nonetheless, they recognize that trade pacts could affect the composition and quality of jobs by shifting output from less productive sectors to more productive ones (p. 39).
other words, economists normally anticipate that job losses provoked by a surge in imports from another country will translate into job creation in more competitive and sometimes better-paid domains.

During the debate in the U.S. Congress about ratifying NAFTA, a major issue was the fear that U.S. industries would want to reduce production costs by relocating to Mexico, thus taking advantage of low wages, weak labor laws, and lax environmental regulations. We must remember that a Republican administration under President George H. W. Bush negotiated the NAFTA with both Canada and Mexico from 1990 to 1992. However, Bush was not reelected, and the agreement was ratified at the end of 1993 by a new Democrat administration led by Bill Clinton. During the 1992 presidential campaign, the ratification of NAFTA became a hot issue for the candidates, and the most radical criticism came from H. Ross Perot, who coined the derogative phrase the “sucking sound” of jobs going to Mexico if NAFTA was approved.

At that time, in an attempt to hold on to its blue-collar constituency, the Democrats also stressed that trade deals did not have to adversely affect jobs in the United States. So in addition to NAFTA President Clinton decided to negotiate two “side agreements” on labor and environmental issues. These agreements would force Canada and Mexico to respect minimum labor laws and environmental rights and effectively enforce their respective legislations on those issues. For Mexicans, these side agreements were the price they had to pay to facilitate the ratification of the agreement in the U.S. Congress. And in the United States, these agreements were seen a compromise by the Clinton administration to avoid a “rise to the bottom” on labor and environmental standards (Mayer, 1998).

Furthermore, President Clinton attached a $90 million transitional adjustment assistance program to NAFTA (Hufbauer & Schott, 2005, p. 7), highlighting how sensitive the link between trade liberalization and job dislocation had become in the political debate. The so-called Trade Adjustment Assistance (TAA) programs had been enacted in 1962 to protect blue-collar workers who suffered job dislocations due to international trade or trade pacts. The goal has been to provide for income support (a type of unemployment insurance) and job training for the workers affected by foreign competition. NAFTA-TAA was created to protect the workers affected by NAFTA, even though most CGE models at that time agreed that the net job impact of NAFTA on the U.S. economy would be minimal (Brown, 1992; O’Leary, Eberts, & Pittelko, 2012, p. 25). This was also the position of the U.S. International Trade Commission (ITC), although the agency recognized a potential shift of job demand from lower- to higher-skilled labor. Notwithstanding, President Clinton claimed at the time that NAFTA would create a million jobs during the first five years (O’Leary et al., 2012, p. 7).

As long as the U.S. government was signing NAFTA-like agreements with other partners, the debate on trade and job creation or dislocation remained. During the 2008 presidential campaign, the Democratic candidates (Barack Obama and Hillary Clinton) raised the possibility of renegotiating NAFTA, taking into consideration its effects on jobs in the U.S. economy. The political debate became more intense when the Obama administration negotiated the Trans-Pacific Partnership (TPP) with 11 countries,
including the two original NAFTA members. This became a heated issue during the 2016 presidential campaign, when Republican candidate Donald Trump targeted NAFTA, alleging that too many jobs in the United States were moving to Mexico.

In 1997, the United States ITC published a new econometric assessment on the economic effects of NAFTA in the United States, confirming a modest benefit in job creation and welfare gains.\(^{11}\) Most estimates made with CGE models in the 1990s and early 2000s coincided with this assessment (see O’Leary et al., 2012, p. 25).

As the political debate on the subject became increasingly heated, new approaches offered different insight on the issue. Rather than conceiving U.S. trade with its NAFTA partners as competing for market shares and jobs in the United States, the new research approach is shifting toward conceiving North America as a regional cross-border manufacturing platform. This means that Canada and Mexico are contributing to the U.S. economy in its transition from manufacturing production—which is becoming less labor intensive—toward a knowledge-intensive services society. From this perspective, the relocation of production chains in Canada and Mexico, mainly by U.S. MNCs, is geared toward specialization in more knowledge-intensive chains at home and consequently boosting their overall competitiveness in global markets. Many prominent authors have highlighted the fact that intra-NAFTA trade has shifted from inter-industry to intra-industry transactions (especially in the case of Mexico, where oil exports were dominant prior to NAFTA). Many writers have also pointed out that most of this trade is dominated by MNCs, either through intra- or inter-firm transactions (or through franchising or subcontracting): these transactions have become a strategic component of overall production and sales in the United States or in North America and the world (Wilson, 2017; Morales, 2008, 2017). Moran and Oldenski (2014) have suggested that foreign operations of U.S.-based MNCs are net complements to domestic U.S. operations. In the case of U.S. affiliate activities in Mexico, a 10% increase in employment in this country leads to a 4.1% increase in U.S. research and development (R&D) spending, a 1% boost in U.S. sales, a 1.3% increase in U.S. employment, and a 1.7% increase in U.S. exports. Similarly, a 10% increase in sales by U.S. affiliates in Mexico leads to a cascade of increases in the United States: 16.2% in R&D, 2.3% in sales, 2.2% in employment, and 1% in exports (Moran & Oldenski, 2014, p. 40).

Morales (2017) has stressed the importance of trade in services in North America closely linked to intra-industry exchanges. These exchanges are mainly in the domain of transportation, finances and banking, insurance, and income from property rights, highlighting their importance for U.S. innovation and outsourcing. A major study sponsored by the Woodrow Wilson Center suggests that 4.9 million U.S. jobs depend on overall U.S. transactions (exports and imports) with Mexico, mainly in the services sector. Furthermore, bilateral exports with Mexico are heavily regionalized in the United States, most of them coming from California and Texas. Mexico is the main destination of exports from all four U.S. southern border states, but Mexico ranks second in some key “Rust
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“Belt” states such as Michigan, Illinois, Ohio, and Pennsylvania: states that ironically became crucial in helping Donald Trump win the White House (see Wilson, 2017).

The debate is linked to the discussion on whether NAFTA has helped increase U.S. or North American competitiveness (or both). Economists agree that the competitiveness of a country or a region is grounded in the capacity to increase the ratio between production and labor—or total factors performance (dividing economic output by the weighted average of labor and capital input). Although the question of productivity has become a major concern for Canadians in assessing their competitiveness in the United States, the public debate has been linked instead to the evolution of its trade balance and its global market shares. At the beginning of the 1970s when oil prices were skyrocketing, the Bretton Woods order collapsed, and for the first time after World War II the United States witnessed a growing deficit in its trade balance; thus, the discussion about the decline of U.S. economic strength was born. During the 1980s, U.S. “neo-protectionism” became a major international issue, targeting mainly—though not exclusively—Japanese imports into the United States. Managed import/export deals proliferated at the time, and the Department of Commerce expanded the list of countries supporting “structural” impediments to trade or “unreasonable” practices against U.S. exports (Goldstein, 1993, pp. 217–219; Bergsten & Noland, 1993; Tyson, 1992). It was in this context of rising protectionism that Canadians moved to sign the CUSFTA. However, as Paul Krugman (1994) stated at that time, assessing U.S. competitiveness with foreign-trade performance had become a “dangerous obsession,” because the growing U.S. trade deficit up until then had provided the impetus for imposing protectionism barriers on trade partners.

This article has explained how intra-NAFTA trade accelerated, especially up to the end of the 20th century. NAFTA stimulated trade and accelerated FDI mobility, mainly to the benefit of Mexico. It has had a characteristic deficit in the U.S. trade balance vis-à-vis Canada and Mexico. Although this trade deficit was reduced through a surplus in the U.S. services balance with its two NAFTA partners, the current U.S. balance remains negative with Mexico and relatively even with Canada. Figure 2 depicts the evolution of the U.S. deficit in the early 21st century in the balance of goods and services with key trade partners or regions, showing how the deficit with China (but not with Mexico) has deepened. Currently, the U.S. deficit with China represents 56% of the overall American deficit, while Mexico’s represents 12%.
It is important to highlight that the deficits in the U.S. trade balance with Canada and Mexico are explained partly by the oil component in the commercial exchanges. The two countries have remained strategic net suppliers of crude oil to the U.S. economy, a situation that may change if the shale oil and gas revolution remains as successful as it was when it started in 2005. Furthermore, it is estimated that approximately 40% of Mexican exports to the United States contain U.S. imports (or U.S. value added), while in the case of Canadian and Chinese exports, the share is 25% and 4%, respectively (Wilson, 2017, p. 13). Notwithstanding, discussion over the “dangerous obsession” with trade performance and U.S. competitiveness was renewed in the United States during the 2016 presidential campaign. NAFTA was attacked not only for “exporting” jobs but for benefiting Mexicans “unfairly,” due to the trade surplus the country maintains with the United States.

Canada’s Concern With Market Access and Converging Productivity

Although NAFTA was also promoted in Canada under the Mulroney administration as a tool to enhance job creation and productivity, in entering first into the Canada–U.S. Free Trade Agreement (CUSFTA) in 1998, and later NAFTA, Canada wanted to buy a sort of “insurance policy” for accessing the U.S. market. As Richard Lipsey, a senior Canadian economist of the time argued, Canada’s entrance into the FTA was both defensive and offensive. It was a defensive move against the mounting U.S. protectionism that prevailed throughout the 1980s and that had affected Canadian exports to that country. The move was offensive as well, because by signing on, Canada accelerated its own liberalization process that was set up when it joined the GATT (Lipsey, 2000, pp. 102–104). To what extent NAFTA guaranteed U.S. market access for Canadian goods has become a judicial and political debate. A rich juridical discussion has taken place on the functioning of ADSMs under NAFTA, compared to how domestic tribunals or WTO panels should or could have decided on similar matters (e.g., unfair trade practices or investments). The bulk of the discussion has concentrated on the operation of chapter 11 (investments) and how it has affected other domains such as environmental and domestic policies (which in principle are not ruled by NAFTA legislation) (Bachand, 2011; Weiler, 2004; Vega, 2010). The saga of Canadian softwood lumber exports to the United States has also received
most of the attention in this legal debate, highlighting that the entrance to the U.S. market remains contingent on political domestic pressures. President Trump’s intentions to renegotiate NAFTA move in the same direction.

In the economic realm, the debate in Canada has been about the effects of NAFTA on boosting Canadian productivity and income convergence with the United States. In fact, the debate about the endurance of Canadian and U.S. productivity and income gaps predates NAFTA; the agreement renewed the expectations that the abatement of tariffs could improve production efficiency and increase economies of scale, consequently affecting productivity growth. Ten years after NAFTA was implemented (i.e., 15 years after CUSFTA came into ruling), Hufbauer and Schott (2005) found that the “productivity gap” between Canada and the United States had widened, arguing that the effects of information technology during those years led to greater gains in productivity in the United States than in Canada (pp. 42–43). More recent data from Canadian and Organization for Economic Co-operation and Development (OECD) sources suggest that the productivity gap between the two countries still prevails, as well as the GDP per capita gap (Macdonald, 2015; OECD, 2015).

The debate has evolved to one about how to measure these gaps and which indicators are better fit to understand how Canadian wealth compares to that of the United States. Some studies suggest that it is more accurate to compare total factor productivity growth rather than simply labor-productivity indicators, whereas others suggest that, at least during the 1990s in the United States, the growth in the gap was commanded by a lag in labor productivity in the services sector (Keay, 2003 Tang & Wang, 2004). Since labor productivity depends on technological incorporation in production, labor incorporation, and the evolution of relative prices of intermediate inputs, trade liberalization has an indirect effect on productivity performance. In terms of welfare, some economists have suggested that it is better to compare the evolution of Canada’s Gross National Income per capita vis-à-vis the United States, because this indicator better reflects the gains obtained from international commerce (in terms of trade) in the general income of a nation. If this indicator is used, income gaps are narrower, despite an increase in the productivity gap (Macdonald, 2015).

**Mexico’s Lock-In for Market Reforms and the Finding That NAFTA Was Not Enough**

It was certainly in Mexico where NAFTA was most overrated. The agreement made no distinctions or exceptions in Mexico, which was hitherto considered a developing country. NAFTA “levelled the playing field” of Mexico in terms of trade, investment, and corporate-rights protection to U.S. and Canadian standards. It was an important move for a country that from the end of World War II until the mid-1980s had followed a state-centered model of development, through which domestic industry became heavily protected to substitute imports of technology and capital goods. Labor rights were also protected, and fossil fuels and electricity were supplied by the progressive construction of
two major state monopolies. The state also organized agricultural land tenure through communal and *ejido* lands; the latter were plots entitled to landless peasants (as a political outcome of the Mexican Revolution) and their offspring, under the condition that plots ought to be permanently farmed. State dirigisme was also heavily legitimized by a nationalistic narrative built on the transformations provoked by the Mexican Revolution (of which the PRI claimed the heritage), which became embedded in public education and the country’s foreign policy.

Mexico’s state-centered model’s major achievements were sustained, high-growth rates of GDP per capita, income convergence with the United States, and political stability and continuity but with poor democratic institutions. This so-called Mexican miracle went into crisis at the beginning of the 1970s, only to be renovated artificially by the oil boom years of the early 1980s. The model collapsed with a major debt default in 1982 and the plunge in oil prices in 1986, the year when Mexico finally joined the GATT and continued the liberalization of its economy (which had hitherto been initiated on a unilateral basis). The signing and eventual implementation of NAFTA represented the lock-in of market reforms initiated previously, after the debt default and the major reforms applied by President Salinas to make credible Mexico’s membership in the FTA. While the two energy monopolies survived, most state-owned enterprises were privatized, including the banking sector, which was nationalized in 1982 during the debt default. Property rights on rural lands were guaranteed by the official suppression of land reform and the *ejido* system, and legislation concerning FDI, trade, and intellectual property rights was modified to make it consistent with the new NAFTA regime.

NAFTA included the promise to renovate Mexico’s strategy of sustained economic growth, to further reduce the income gap with the United States, and to create new, better-paid jobs to reduce the pressure for Mexicans to migrate illegally to the United States. Some econometricists of the time fueled these expectations in part by estimating real income gains of up to 5% and real wage increases of up to 16%. Although some models assumed international mobility in elaborating their estimates (both legal and illegal), they also assumed intersectoral mobility, mainly from rural areas to urban manufacturing centers (Brown, 1992, pp. 44–47). NAFTA’s high expectations in Mexico were diminished rapidly by a series of political and economic events in which the country became engulfed—the Chiapas Zapatista uprising at the beginning of 1994, the killing of the PRI’s candidate for the presidency in March of that year, and months later, the lethal shooting of the PRI’s president. There was also a major peso crisis at the end of the year (similar to that of the early 1980s) that once again fueled inflation and eroded wages. Nonetheless, 20 years after the agreement was implemented, the major debates about its effects on the Mexican economy are still on trade creation, investment flows, growth, and migration.

**NAFTA’s Effects on Mexico’s Trade Performance, Investment Flows, and Growth**
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Figures 2 and 3 depict market-share trends of Canada and Mexico in the U.S. market from 1992 to 2016. It is clear that both countries remain major U.S. partners before and after NAFTA. In terms of the direction of U.S. exports, Canada has remained the major destination country: U.S. exports to Canada amount to nearly 20% of total U.S. exports. This share peaked at 24% in 2015. Also, Mexico, China, and the EU-28 witnessed their importance as a destiny for U.S. exports. Mexico displaced Japan as a major importing partner at the end of the 1990s and remains the second-most-popular destination for U.S. exports, with a share of 16%. The EU-28’s participation increased in U.S. exports from 9% to 16% during the period, while China’s (including Hong Kong) went up from 1.2% to 6.6%. In other words, the United States increased its export shares not only with Mexico but also with the European Union and China. Meanwhile, exports to Canada remained static in relative terms, and those earmarked for Japan decreased from 7.4% in 1992, to 3.2%.

For U.S. import shares, the picture is quite different. Since the 1990s, Chinese imports have surpassed Canadian and Mexican products in the U.S. market. While China’s import share was 4.83% in 2016, it reached 19%, higher than the European Union’s (18%) and similar to Canada’s import shares in the U.S. market in the 1990s. In 2002 China entered the WTO, and Canadian import shares began to decline in the U.S. market: Canadian shares were 12.7% in 2016; this was even lower than Mexico’s shares, which reached 13.4% in that same year. Mexico’s share was 6.6% in 1992; however, most of Mexico’s share growth took place during the first nine years after NAFTA, just before China entered the WTO. From 2002 to 2016, Mexico’s import share increased from 11.6% to 13.4%, while China’s jumped from 10.8% to 21.14%; China’s share doubled, while Mexico’s share increased slightly less than two points. The EU share has remained more or less equal during the overall period, while Japan’s share, which was almost similar to Canada’s in 1992, declined to 6% in 2016.

There is no consensus among economists as to how to interpret these descriptive trends in U.S. commercial relations with its major partners. The “non-invited” partner to NAFTA has become China, something that was not envisaged during the early debates when the agreement went into effect. China’s rapid entrance to North America’s import markets is explained by cost advantages, exchange-rate variations, and tariff and tariff-rate quota abatement (e.g., the sunset of GATT’s Multifibre Arrangement in 2005) (Blecker & Esquivel, 2010; Dussel & Gallagher, 2014; de la Cruz & Veintimilla, 2014), but it is not yet...
clear how China’s growing presence in North America, which could affect investment flows and trade in services, will affect vertical cross-border value chains already in place in North America and reinforced by NAFTA. NAFTA’s success can normally be gauged by the performance of the automotive industry, whose value-chain functions are integrated vertically throughout the region. However, there is already evidence that Chinese imports in textile and apparel—and to some extent, in machinery—have relocated Mexican and Canadian exports to the United States (Dussel & Gallagher, 2014; Morales, 2017). It is likely that future research will attempt to explain the effects of this fourth North American partner in the region.

Having said that, there seems to be a consensus among economists that NAFTA’s golden years took place during the first decade after the agreement. In spite of Mexico’s peso crisis at the end of 1994 (and the attendant consequences at the macroeconomic level) and the strength of the U.S. economy in the early 21st century, economists agree that Mexico benefited the most from NAFTA, at least until around 2005. According to a comprehensive assessment sponsored by the World Bank and published in 2005, regardless of all the externalities that affected the implementation of the agreement from 1994 to 2002, NAFTA helped increase Mexico’s global exports by 50%. FDI flows to Mexico increased by 40%, and GDP per capita performance increased 4% during the same period (Lederman et al., 2005, p. 2).

The disagreements and debates stem from the relationship between trade performance and economic growth, employment, and business-cycle convergence between Mexico and the United States. For instance, it has been established that Mexico’s GDP-per-capita growth rates were higher between 1950 and 1981 (the year the oil boom began to wane) vis-à-vis the overall 1980s (known as the “lost decade”) and the post-NAFTA years up to the present. During the period from 1950 to 1981, Mexico’s income gap with the United States narrowed, whereas in the period from 1981 to present (and despite NAFTA), Mexico’s income gap widened (Esquivel, 2010; OECD, 2015, p. 15). Neoclassic economists anticipated wage increases for low-skilled Mexican labor, but this has not happened (plus, the 1994 peso crisis negatively affected wages across the country). Wage and productivity differentials have been detected between trade-oriented industries and those more oriented toward the domestic market, suggesting the lack of technology diffusion anticipated by trade liberalization.

Finally, there seems to be a consensus that Mexico’s business cycle has been synchronized with the U.S. economy. But whereas some authors tie this synchronization to the inevitability of a “deep” integration of Mexico with North America, others warn about the vulnerabilities it may lead to. Many point to the recession Mexico experienced when the United States suffered its major financial crisis in 2007–2008 (Serra, 2010; Esquivel, 2010).

Thus, some economists have warned about the lack of a domestic engine to fuel growth and productivity in Mexico, advocating for the need to reignite industrial policies and policies oriented toward the stimulation of innovation and of non-manufacturing sectors
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(Moreno-Brid & Ross, 2010; Lederman et al., 2005; Blecker & Esquivel, 2010). In sum, the consensus is that NAFTA was not enough and that a myriad of reforms (including political and legal reforms), along with a new role of state governance in all public affairs, were still needed to fulfil the oversold promises triggered by the NAFTA negotiations in the early 1990s.14

At a time when post-NAFTA North America is entering the Trump era, a new debate looms on the horizon about the relationship between the state and markets. If NAFTA represented for Mexico a retreat from the state in key policy areas, the blurring of the effects of NAFTA in the early years and the mounting protectionism and nationalism coming from the U.S. government will precipitate a new debate on how state intervention could return to the fore. It would be useful to gear the discussion not toward a return to the golden years of Mexico’s dirigisme but rather to the discussion taking place in Europe on the need to strengthen the “entrepreneurial state”: that is, a new way to explain the role of the state in the economy to spark growth and welfare (Mazzucato, 2015).

NAFTA and Migration

There is a consensus among experts that a de facto integrated labor market exists between the United States and Mexico (and perhaps between the United States and Canada). This market predates NAFTA and was articulated throughout the 20th century, responding to “push” factors coming from Mexico (poor job opportunities against a demographic explosion, especially since the 1950s) and “pull” forces, fueled mainly by U.S. economic growth and short domestic supply of unskilled labor. This market, originally made up of seasonal workers in U.S. agricultural activities, became bonded by cross-border networks connecting migrants form their place of origin in Mexico to the place of destiny in the United States. Experts agree on the economic function of this informal or illegal cross-border market; it helped Mexico increase low-skilled wages at home and improve the living conditions of migrant families through the support of remittances. At the same time, these seasonal workers supplied the traditional U.S. shortage of cheap labor in agricultural, construction, and some service activities.

Like all markets, this cross-border labor one operates in cycles of expansion and contraction. From World War II to 1964, access to this Mexican labor pool became strategic, so the market became formalized by guest-worker programs that were originally negotiated between governments but ended up being privatized (García Griego, 2006). In periods of contraction, when illegal migration is perceived as a breach of migratory laws or a threat to U.S. interests—as is the case currently—deportations, escalated surveillance at the border, and more severe law enforcement become the rule. Through these actions, low-skilled wages in Mexico tend to go down (Robertson, 2005).

The consensus among specialists ends when it comes to the effects of NAFTA on this informal networked market. As previously touched upon, NAFTA did not address migratory issues, yet some mobility of professionals was accepted and regulated through
what was called NAFTA visas. However, economists recognized that trade liberalization and investment mobility would doubtless provoke job dislocations in Mexico, especially in the agricultural sector, which prior to NAFTA was heavily protected. Following a neoclassical approach, mainstream economists estimated that job dislocation in Mexico’s agriculture sector could be absorbed in the long run by new job opportunities in labor-intensive export manufacturing. From this perspective, trade and investment liberalization was the way to curb Mexican migration in the long term (Lederman et al., 2005, pp. 175–246; see also Commission for the Study of International Migration and Cooperative Economic Development, 1990). As discussed previously, this has not been the tendency since the 1990s. Furthermore, some labor-intensive Mexican exports to the United States, such as textile and apparel, have been drastically displaced by the growing number of Chinese exports to the United States.

By contrast, other economists, taking into consideration the asymmetrical allocation of technology and the effects of global markets, warned about a migration “hump” provoked by NAFTA (Martin, 2005). That hump would boost Mexican migration to above pre-NAFTA levels, due to job dislocation in Mexico and the impossibility of Mexican manufacturing to catch up with the creation of new jobs. At the same time, U.S. industries could benefit from this new influx of migrants by developing labor-intensive production chains at home and benefit from Canada and Mexico’s liberalized markets for channeling their exports. However, this NAFTA hump would decrease and eventually disappear as long as new job opportunities were being created in a prosperous Mexico (and as long as the “demographic bonus” disappeared). From the early 1970s to 2000, Mexico’s population doubled; this increase was due to high birth rates that peaked in 1970 and declined afterward. Currently, Mexico’s birth rate is closer to that of other OECD countries, so demographers anticipate a severe slowdown in Mexico’s population growth. What remains to be seen is whether Mexico will be able to regain pre-1980s economic growth rates in order to absorb the migration hump.

It would seem that the second approach more effectively anticipated the reality of NAFTA’s effects on Mexico’s mobility and migration. Mexico’s illegal migration more than doubled from 1995 (2.9 million) to its peak in 2007 (6.9 million) (Passel & Cohn, 2016). Specialists blame this historical increase on the peso crisis of 1994 and on the strength of the U.S. economy during those years. These two “externalities,” difficult for any economic model to anticipate, added to the eventual NAFTA hump. After 2007, Mexican illegal migration seemed to be in decline, due probably to the major financial shock of the subprime mortgage crisis in the United States. Despite the recovery of the U.S. economy since mid-2009, the flow of illegal Mexican migrants has declined, while illegal migrants of other nationalities—mainly Central American—appear to be increasing once again (Passel & Cohn, 2016). It is still unclear whether these events spell the end of the demographic bonus anticipated by the demographers, and it is still too early to anticipate how the escalation of violence in Mexico (due to the restructuring of drug cartels) will affect a new group of migrants (authorized and non-authorized) to the United States. It is
also uncertain how a new group of Central American and other migrants will affect U.S. border security and migratory policies—certainly a contentious issue during the Trump era.

This looming migration hump, provoked by NAFTA or by other external factors, has undoubtedly created a policy challenge, as Philip Martin argued, on how to manage Mexico-U.S. migration until mobility pressures subside in the long run (Martin, 2005, p. 455). This challenge points to the integration dilemma that Sidney Weintraub (1990) anticipated prior to NAFTA. As he warned, deeper integration between Mexico and the United States will escalate interdependence, provoke conflicts, and exacerbate vulnerabilities. This has been precisely the case with Mexican migration and dealing with the sudden hump. Positions on this point are severely divided between the United States and Mexico.

According to Mexican academics and public officials, the de facto U.S.-Mexican labor market must be regularized and protected by a respect for migrants’ basic human rights (Bustamante, 2010), which was precisely the core of the “NAFTA-plus” agenda pursued by President Fox before the terrorist attacks of September 11, 2001. By contrast, U.S. politicians and academics have discussed all types of policies, from the legalization of illegal migrants to their increased criminalization and stigmatization. Robert Pastor, a respected political scientist who advocated for the building of a North American community, proposed the creation of a Social Fund, fueled in part by Mexico’s oil revenues (at a time when oil prices were high) and in part by U.S. and Canadian transfers. This fund would emulate the regional funds implemented in the European Community that were crucial to reducing income gaps between the richer and poorer countries of the community (Pastor, 2001). He argued that as long as the wage gap between the United States and Mexico remains the same or becomes wider, it will be difficult to go further in the integration process. What Pastor called a “sense of community” will be hampered. His point remains valid if the strains provoked by the “marriage of convenience” must be tamed to prevent an eventual divorce.

However, U.S. border and migratory policies have followed the opposite path. Since NAFTA came into effect and until the present, the southwest U.S. border has become heavily militarized and less porous. Furthermore, the creation of the Department of Homeland Security after the 9/11 attacks and the incorporation of migratory agencies and tasks under its control have made illegal migrants the target of threats and mistrust; this situation has been exploited to the extreme by Donald Trump’s presidency.
Although the U.S. government has considered Mexico and Canada to be strategic partners since World War I (a role reinforced during World War II) it was the terrorist attacks on U.S. soil on September 11, 2001, and the “War on Terror” declared by President George W. Bush that reconfigured North America into a single perimeter of security. Under this new war-centered paradigm in which the “new enemies” were not solely “rogue” states but people networked worldwide, the protection of the homeland—not only its borders and territory but also its population, resources, and all their interconnections with the “outside world”—became a priority. This war-centered paradigm did not substitute the sovereignty-based one through which the U.S. government had constructed a barricaded border on the U.S.-Mexico line. The historically embedded territorial southern border was still to be protected against illegal aliens and commodities, but the focus shifted to those criminal aliens potentially linked to or exploited by terrorists.

The 9/11 terrorist attacks provoked the closing of U.S. territorial borders, causing serious and costly disruptions in all production chains supplied or demanded by its two NAFTA neighbors. The closure of the north and southwest frontlines, although done for critical reasons, showed the limits and flaws of the territorial border game of barricading and policing lines (see Andreas, 2003). Although isolationism and quarantine were extreme sovereign options for the United States to protect its territory and space, it was clear that these were not suitable for dealing with the new nature of the enemies that the country confronted. The attacks not only initiated a new endless state of war based on preventive and preemptive attacks—a state of war that has been maintained through the early 21st century—but also created a new sense of vulnerability, fear, and insecurity in U.S. public opinion that urged the U.S. government to revisit its security paradigms for the new “Era of Terror.”

It is in this context that “smart borders” were conceived as moving, changing checkpoints whose technology and knowledge-intensive mechanisms for screening and profiling suspicious or risky people aimed to build a threat assessment for the homeland (of which both Canada and Mexico became an extension). The smart-borders device was at the grounds of a new continental security regime, which in the George W. Bush era was called the North American Security and Prosperity Partnership (SPP) (Bélanger, 2011; Ramos, 2011).

Conceived not as a military alliance, the SPP at its origins was meant to reinforce intergovernmental policy cooperation for the protection of North America as a common territorial unit. The original bulk of initiatives and scheduled targets aimed at preempting the entrance (legal or illegal) of presumed terrorists and criminals to the overall region. The “prosperity” side of the equation was not rhetorical. It responded to Canadian and Mexican concerns about keeping security priorities from becoming a costly barrier in the continentalized economic space that could eventually affect the competitiveness of integrated networked industries. As Canadians had claimed since the setting up of the SPP, the new security regime must strive for protection without increasing protectionism. The establishment of the SPP created a new momentum for North American integration,
which rapidly waned once the U.S. government preferred to build up security policies with its two respective neighbors under a hub-and-spoke approach. However, it was this geopolitical redrawing of NAFTA and North America that stimulated a rich debate about the notion and eventual existence of a common North American space and a sense of community. In the last two sections of this essay, the most heated and contentious debates will be summarized.

North America Envisioned as a Regional Community

Robert Pastor (2008) has so far advocated the most for gearing North American integration toward a more communitarian process. Inspired by the European experience, but recognizing that the North American integration process was envisioned in a different way, Pastor argued for the need to set up the institutional and social conditions for better governing the region as a common space. He believed it would be impossible to forge a sense of community so long as the great asymmetries between Mexico and the two other partners continue to dominate. Although Pastor argued that the three countries of North America share key social, economic, and political values and had accomplished a successful first round of economic integration by relaxing barriers to trade, services, and investments, the “development gap” between Mexico and the two other NAFTA members has become a major barrier for moving into real trilateral policymaking in the years to come. Pastor asserted that at the end of the George W. Bush administration, North American integration had become a bilateral strategy (a Canada–U.S. and Mexico–U.S. strategy) that had exacerbated the debilitating asymmetries existing between the United States and its neighbors.

Pastor (2012) argued extensively for the means and policy options to reduce the economic gaps between Mexico and its two other continental partners. He called for the creation of structural and cohesive funds such as those put in place in the European Union. According to Pastor, apart from the bridging of gaps, the creation of relatively autonomous institutions was needed to draft and drive a common agenda that could address a panoply of issues, which might range from the extremely technical—such as the harmonization of standards or the creation of a customs union—to the very sensitive, such as liberalizing migration, moving into a monetary union, or building a common security perimeter. To accomplish such an ambitious task, Pastor called on North American political leaders to envision a “great idea” about how to govern a shared space.

While Pastor’s proposals remained highly normative and state centered, other studies have already approached North America as a geo-economic and geo-social space. Following political-economy approaches, some authors have identified the emergence of a continental region in North America by tracing the concentration of commercial exchanges in specific territorialities (Morales, 2008, pp. 77–121, 2016). Other authors have analyzed how libertarian U.S. values are becoming progressively shared by migrants in the United States, especially by Mexicans (Basáñez, Inglehart, & Nevitte, 2007).
Canadians have already traced the emergence of specific cross-border regions, linked to a sense of a north-south “regionness” between Canadian provinces and their respective neighboring U.S. states (Policy Research Initiative, 2005).

These studies suggest that the emergence of a continental region in North America, featuring common political institutions and a shared sense of a community, need not come from the top. This “regionness” did not necessarily have to be a by-product of a “great idea” or vision shared by the political leaders of the three countries, as was argued by Pastor (2012). The building of a region (a shared-value identity) and of cross-border communities are being constructed in many other ways. It raises a theoretical, methodological, and political issue: where does North America start and end? Europeans asked this same question after their post-Maastricht expansion with the East, when Turkey asked for membership in the European Union. All three North American countries have trade agreements with Central American and Caribbean countries. Migratory trends show the growing diaspora of Central Americans to Mexico or the United States. Does North America stretch from Alaska to Panama?

North America and the Co-Existence of Networked Communities

The emergence of new approaches for studying regions and regionalism, the so-called new, comparative, and networked regionalism schools (Boas, Marchand, & Shaw, 2005; Söderbaum, 2016; Laursen, 2013; Baldersheim, Vegard Haug, & Ogard, 2011) have inspired new types of analyses stressing the conformation of regions and the construction of regionness in parallel with or without state intervention. Migratory moves, legal or illegal, along the North American space are the backbone of the emergence of what we could call “cross-border polities.” This is if we understand a polity as the authority with the capacity to mobilize persons and their resources for valued political purposes and with a certain degree of institutionalization and hierarchy (Ferguson & Mansbach, 1996, p. 34). From this point of view, new studies shedding light on how diasporas and moving people along the North American space have created cross-border networked communities have emerged (Munshi, 2003; Santibáñez & Cruz, 2002; Gabriel, 2012). Studies focusing on the emergence or absence of cross-border civil-society organizations follow this trend (Ayres & Macdonald, 2012; Macdonald, 2012), as well as those that highlight the emergence of cross-border governance institutions dealing with climate change (Healy et al., 2014; López-Vallejo, 2014) or cross-border resistances of specific groups against a “top-down” integration agenda (Icaza, 2012; Allan & Vengroff, 2012).

Although corporate America has closed its links to Canadian and Mexican entrepreneurs, mainly after 9/11 and the fear of mounting protectionism in the United States, there are no major studies positing whether a “corporate community” is emerging in North America.

Finally, the continuing “war on drugs,” initiated by President Calderon in 2007—and marked by U.S. support under the “Merida Initiative”—have prompted social scientists to understand organized crime as coalesced in cartelized markets. From this approach,
illegal markets are not only regionalized but are also heavily affected by the changing fragmentation of global markets, since illicit goods are prohibited and vulnerable to states’ legitimized use of force. However, North American countries do not share a common security assessment of the problem. The U.S. government has persistently insisted that the flow of illegal drugs is a problem coming from the south, including Mexico, which is considered a convenient entry point into the United States. Mexicans have persistently claimed that the problem is regional, if not global. They argue that if there is a supply, there must be a demand, and the United States and Canada are on the strong demand side of the equation, entangled with an illegal arms traffic going from north to south. This illegal traffic has at times resulted in criminal organizations operating in Mexico that are better armed than the Mexican Army. What it is needed now are new studies that can shed light on how these criminal networked organizations operate—and how they are involved with arms trafficking and money-laundering organizations at the regional and global levels.

Conclusion

If NAFTA started as a foreign policy tool, as Paul Krugman described it back in the 1990s, it would be interesting to know how its current renegotiation will redefine the economic, political, and social relations among the three signatory countries. In August 2017, a few months after arriving at the White House, Donald Trump decided to renegotiate the trilateral agreement (after having buried the Trans-Pacific Partnership) on the basis that it had been harmful to the United States and that a fair renegotiation should favor the United States. To what extent is this renegotiation, whose final outcome is still unknown, equivalent to Brexit and Britain leaving the European Union? It is still too early to know. It is a fact, however, that “Trumponomics,” as the weekly magazine The Economist has called it, breaks with all the consensus that until now had existed between Republicans and Democrats about the role played by NAFTA, the successive NAFTA-like agreements, and the minilateral strategies followed by the U.S. government until the end of the Obama era. Trumponomics is a break with the commercial policy of its predecessors both for its overtly protectionist overtones—trade agreements that favor the United States—and for its nationalist rhetoric bordering on xenophobia.

The renegotiation of NAFTA has been subordinated to the U.S. government’s political priorities, especially before an electorate that brought President Trump to power. To this electorate he has promised renewed employment and investment in those manufacturing industries whose value chains have been repatriated outside of the country due to NAFTA and similar agreements signed since the 1990s. As a result Trump radicalized the debate between free trade, employment, and competitiveness that the Democrats had already started in the United States—but this time with an anti-globalization bias. Economists with both neoclassical and neoliberal leanings had recognized NAFTA as an instrument to raise the competitiveness of the three nations to compete more vigorously against the
European Union or China. This assumed a kind of division of labor in North America, where the United States accelerated its transition to a knowledge economy while manufacturing chains moved to Canada and Mexico. Trump’s strategy is to reverse this process and reindustrialize the U.S. economy again—even in traditional industries such as steel—as suggested by the tariffs he recently imposed on this sector. Such a policy has led to a real questioning of the foundation under which NAFTA was conceived. This foundation was formulated by Sidney Weintraub himself, shortly before the agreement was negotiated, in the sense that the economies of the three countries complemented each other and needed to improve their internal and international positioning. According to Trump, by contrast, the three economies compete against each other and the profits of Mexico or Canada end up being detrimental to the United States.

Such a drastic shift from what was expected of NAFTA forces us not only to reconsider the nature of the “marriage of convenience” under which it was founded but also the role of “strategic partners” hitherto agreed by the U.S. government with Canada and Mexico. In the current situation, NAFTA does not free them from the commercial wars that the Trump administration is determined to lead, as exemplified by the tariff hikes in steel and aluminum imposed on the two neighbors in spite of the renegotiation of the agreement. In other words, the renegotiation of NAFTA implies, regardless of the final outcome, a redefinition of the alliances and accommodations that Canada and Mexico had built with the United States under the agreement. This will impact not only the foreign policies of the United States, Canada, and Mexico but also their respective economic ambitions and the regional future of North America. The impact will be witnessed, then, in the ways NAFTA has been thought about, understood, and debated, both by academics and by public officials since the 1990s. However, similar to the potential impact of Brexit on the European Union, the crisis generated by the renegotiation of NAFTA in the United States, Canada, and Mexico has shown that regardless of the breaks and rearrangements that may happen, the geographical contiguity is not negotiable. Sooner or later these three nations will reach a new point of equilibrium from which they will redefine the role played by their respective economies and political-social systems in the future of North America.

Faced with the breakdown of the main consensus from which NAFTA was built, the dissents that already existed have begun to magnify themselves: whether betting solely on the integration of cross-border markets is the best formula for Mexico or Canada to maximize welfare gains; whether the illegal Mexican migration to the United States will end when full employment is achieved in Mexico thanks to its integration with the United States; whether deeper economic integration will lead to greater political integration and the construction of a North American identity; and whether Mexico and Canada should also redefine their geopolitical bets and re-articulate their economic and diplomatic relations with Europe, South America, and Southeast Asia (as well as many others). In the face of an uncertain future, this article does not offer a formula to overcome a major crisis but rather aims to articulate both the consensus and the dissent surrounding...
NAFTA over the years. A better understanding of these complex debates will also help the curious reader to understand them as discursive tools that were crucial for shaping and/or discarding policy options at specific junctures—or to look at them as a step toward thinking about and envisioning North America differently.

References


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Notes:

(1.) I use the term “minilateralism” in the way U.S. foreign-trade diplomats and analysts refer to bilateral or “plurilateral” talks and negotiations with other countries, as opposed to negotiations pursued and undertaken in multilateral fora such as the World Trade Organization (WTO) (see Walt, 2009). Minilateralism is opposed to multilateralism and does not necessarily imply the emergence of “regionalism.” North America is a de facto regional bloc, taking into account the integration of the respective key manufacturing industries and other transnational flows such as human migration and illegal trafficking. Minilateralism could be used as a policy tactic to reach FTAs within a region (i.e., North America), across regions (i.e., the Trans-Pacific Partnership), or among countries (U.S. FTAs with key Middle East and Pacific countries).

(2.) Most ADSMs under NAFTA have “teeth”—except for those covering the “side” agreements on labor and environmental cooperation. In case of a dispute, whether affecting the overall agreement or some specific chapters (i.e., unfair trade policies or investments) parties may consult and negotiate mutually satisfactory solutions or call for an arbitration panel whose decisions are compulsory. If a party does not comply with a decision, NAFTA and NAFTA-like agreements legitimize the use of retaliation.

(3.) This claim is not accurate, as is witnessed by the security and border disputes prevailing among South Asia-Pacific countries. Like in the Cold War years, U.S. trade diplomacy will continue to be accommodated to fit other strategic and geopolitical interests pursued by the U.S. government abroad.

(4.) The new term to refer to the “open-regionalism” agenda incepted since the 1990s.

(5.) ASEAN member states are Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand, and Vietnam.

(6.) See, for example, Foucault (2004) and Harvey (2005).

(7.) On how NAFTA has induced a neoliberal agenda in Mexico and Latina America, see Morales (2014); Castro-Rea (2014), and Knight (2014), among others. On how Canada and Mexico have been strategic partners in constructing U.S. supremacy, see Clarkson and Mildenberger (2011). On how NAFTA and neoliberalism have affected Canada, see Brunelle and Lévesque (2004).

(8.) In Weintraub’s (1990) own words: “But the deeper answer is that industrial efficiency would simultaneously reduce dependence, if that word is defined to mean the ability of a country to cope with internal economic and social problems” (p. 26).
(9.) It is difficult to estimate “trade creation” under NAFTA, since trade flows react not only to the abatement of tariffs but also to exchange-rate fluctuations and relocation of value chains by multinational companies, which are engaged in approximately 80% of global trade (UNCTAD, 2013, p. 138). See also the estimations about the impact of NAFTA into the Mexican economy in Brown (1992, pp. 44–47).

(10.) Many of the assumptions about Mexican gains from the deal became obsolete with a deep peso crisis at the end of 1994 and beginning of 1995. Although the crisis was linked to the Mexican government’s macroeconomic mismanagement, it affected exchange rates and monetary policies, which distorted trade and employment performances.

(11.) USITC’s econometric model showed industry gains in appliances, cotton, motor vehicles, and parts sectors; there were industry losses in grains, textile products, apparel, leather, and women’s footwear (O’Leary et al., 2012, p. 25).


(13.) According to a more recent time series published by the OECD, the labor-productivity gap between Canada and the United States has not narrowed, and Canada’s GDP per capita gap (estimated in PPP) averaged 80% of that of the United States from 2000 to 2013 (see OECD, 2015).

(14.) Mexico has embarked on major institutional reforms during the Peña administration (2012–2018), including the opening to private investment (whether national or international) of all production chains in the energy sector and a reform of education and of the fiscal, transparency, and electoral regimes, among others. These were long claimed by mainstream analysts as necessary to reap the benefits of the market-oriented reforms conveyed by NAFTA. It is too early to assess the effects of these recent institutional reforms.

(15.) Canadians estimated at that time that a one-hour assembly-line shutdown cost approximately $1.5 million. A 10% increase in border costs could reduce Canada-U.S. volumes by 25% (The Senate, 2003, pp. 7–9).

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