



# Mexico Pushes for a Successful Trilateral NAFTA



Since the end of the twentieth century, when the trade of goods and services quickly expanded worldwide, Mexico has secured several trade agreements with over 45 countries, the North American Free Trade Agreement ("NAFTA") being the most important one. As part of President Trump's agenda, the U.S. government initiated in May 2017 the renegotiation of NAFTA with the objective of increasing economic growth for the U.S.<sup>1</sup>

While it is true that NAFTA is a 23-year old agreement among Canada, the U.S. and Mexico that needs some modernization in several chapters, the agreement has vastly benefited all three parties. Companies from these countries have enjoyed lower overall supply chain costs thanks to NAFTA, which is why it is imperative that the agreement is not terminated but improved. Failure to do so will dramatically increase overall costs, resulting in a less competitive North America region facing its efficient counterparts in Europe and Asia<sup>2</sup>.

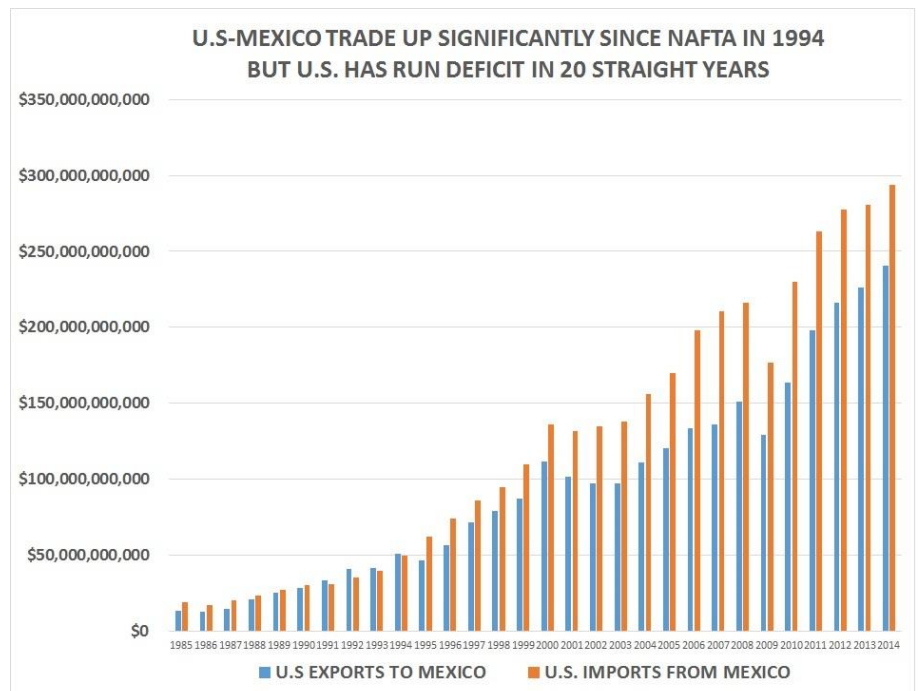
The U.S. is known for isolating its industries throughout modern history<sup>3</sup>; hence, given the current renegotiation opportunity, it is looking to protect its automotive and agricultural industries from a lower cost Mexican competition. This is particularly important for Mexico's Ministry of Economy ("MME"), key player in this negotiation, given that approximately 80% of the country's

exports are destined for the U.S. (Mexico is the fourth largest automobile exporter in the world).

Additional to the pure trade effect on all three countries due to potential tariffs, the termination of NAFTA would further cause the depreciation of the Mexican Peso against the U.S. and Canada's currencies, positively affecting the supply chain of cross-border

companies in the short term, before the inflation normalizes the temporary effect<sup>4</sup>.

Finally, several U.S. economists have predicted that if NAFTA is ended, the U.S. economy would slow its growth so much that it could even enter a recession given the immense benefits from the agreement<sup>5</sup>. Should this happen, Mexico's top customer would reduce its purchases, resulting in a direct impact on the country.



The negotiations have concluded four rounds which have mainly served as the introduction of proposals from the three countries. The next stage will be held from November 17th to November 21st in Mexico City with MME's Chief Negotiator for NAFTA, Kenneth Smith.

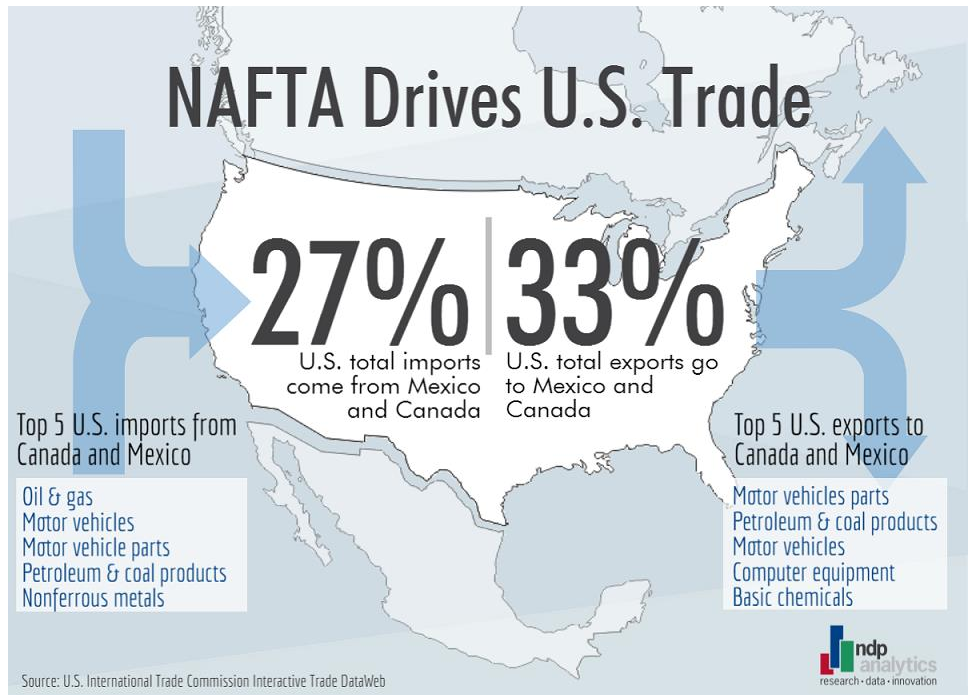
Up to the end of the fourth round, Mr. Smith has focused on learning the positions of his counterparts, as well as presenting his own proposals with the goal of modernizing the agreement to better reflect the current economic environment of the North American region<sup>2</sup>.

In parallel, MME is working closely with the private sector in Mexico to better understand exactly how and the magnitude of the negative effect resulting from an unbalanced outcome from negotiation of NAFTA or from the termination of the agreement. Mr. Smith is particularly interested in having all the details given that modernizing NAFTA and making more inclusive (e.g. include SMEs, allow more competition, enforce gender equality) is critical for the long-term economic prosperity of North America<sup>2</sup>. By making the agreement more inclusive, not only will the overall supply chain costs be reduced given economies of scale, but also the products and services of the region will increase in value and differentiation versus Europe and Asia.

The coming negotiation rounds will be central since the most relevant items will be discussed multiple times. Given the somewhat aggressive initial postures of the U.S. government in some of these items, probably due to orders from the "Chairman of the Board", MME's staff should focus on countering each one of them with data and

analysis-backed proposals. Mr. Smith must strengthen Mexico's and Canada's positive attitudes towards maintaining and improving NAFTA, so that they can jointly persuade the U.S. Administration with economically and financially logical arguments.

and that the deficit of the balance of trade is not uniquely dependent on its regional trade with Mexico and Canada, but mainly on its domestic consumer trade deficit.



Additionally, MME should focus on emphasizing the importance of long-term viability of the agreement by allowing enough flexibility to NAFTA for continuous revision and improvement from time to time without putting in peril the elimination of the agreement<sup>6</sup>.

It is imperative that Mr. Smith and his team demonstrate that NAFTA has greatly benefited the U.S. regarding regional trade,

A few questions remain regarding the future impact of NAFTA negotiations on supply chain management of companies in Mexico, Canada and the U.S. Would the U.S. jeopardize long-term viability and economic growth for a short-term political success? How will other industries (e.g. aerospace, technology) be affected as the countries further develop?

(753 words)

## Endnotes

1. Office of the United States Trade Representative. (2017, July). USTR Releases NAFTA Negotiating Objectives. Retrieved November 11, 2017, from <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2017/july/ustr-releases-nafta-negotiating#>
2. Smith, K. (2017, November 13). Renegotiating NAFTA. Speech presented at A Videoconference with Mexico's Chief Negotiator for NAFTA in Harvard Business School, Boston, MA, USA.
3. Donnan, S. (2013, October 24). Trade: Into uncharted waters. Financial Times. Retrieved November 11, 2017.
4. Rodriguez, B. (2017, November 14). Reforma Preven sin TLC dolar a \$22.30. Grupo Reforma. Retrieved November 14, 2017, from <http://www.reforma.com/>
5. Leubsdorf, B. (2017, November 9). Forecasters Predict NAFTA Withdrawal Would Slow U.S. Growth. The Wall Street Journal. Retrieved November 11, 2017, from <https://www.wsj.com/articles/forecasters-predict-nafta-withdrawal-would-slow-u-s-growth-1510239602>
6. Martin, E., Wingrove, J., & Mayeda, A. (2017, October 12). U.S. Offers Proposal That Could Kill Nafta in 5 Years. Retrieved November 11, 2017, from <https://www.bloomberg.com/news/articles/2017-10-12/u-s-is-said-to-offer-proposal-that-could-kill-nafta-in-5-years>