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**OUTCOMES OF NORTH-SOUTH REGIONAL TRADE AGREEMENTS: MEXICO AND
THE NAFTA/USMCA INTEGRATION PROCESS**

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Abstract

The Regional Trade Agreements (RTAs) are a trend for economic integration since decades and are increasing, according to the empirical evidence of the World Trade Organization (WTO). The importance to elaborate on North-South RTAs is motivated by the idea that there might be more agreements with a mixed membership in the upcoming years, since the world is experiencing the rise of developing economies. However, the literature about the integration processes of the Global North-South countries is not wide as the one related to North-North or South-South agreements. Because of that, it is necessary to explain that developing countries present less development than their partners when they join in an RTA; thus, they experience asymmetries, resulting in different outcomes. To elaborate on that, this thesis contributes to the current literature and scholarly projects, specially to the Krapohl and Fink classification of integration processes, taking the North America Free Trade Agreement as the studied region and Mexico as the test case. This thesis argues that there is a type of integration between developed and developing countries, where the developing state achieve its economic purposes and develop specific institutions and virtues based on the interaction with its developed partners. To explain that, this project creates a model of three outcomes composed by data that explain economic, bureaucratic and institutional, and social outcomes. It is possible that developing countries will present data from the three outcomes; however, one of them will be more abundant. Finally, I propose a classification of three scenarios based on the outcomes, arguing that, even when the RTA generates negative social impacts, the developing member will be part of it because of the more positive benefits in its economy or bureaucracy and institutions.

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I would like to start saying that this thesis is not only mine, is the end of a common sacrifice; teamwork between my family and my chosen family. This achievement is entirely dedicated to the memory of my aunt Liz, my grandfather Ernesto and my father Martin. There is no pandemic or suffer that can put me far from them now. I might not listen to their voice, eat or laugh with them once I am back in Mexico City, but they will live in every single step, every breath, every smile and every memorable time that I will have the rest of my life and with the marvelous family that I still have. *¡Gracias, familia! ¡Viva México y viva Yucatán!*

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Introduction

The North America Free Trade Agreement (NAFTA) is a unique Regional Trade Agreement (RTA) established between a developing country and two developed members. Its integration process can be understood as “co-operation games of a regional group in multiple issue areas”,¹ as Krapohl and Fink says referring to the case of the European Union (EU, a unique case of integration that considers free movement of people and institutional development, among other things), or better as “an agreement between two or more partners [that are] discriminatory [for non-member countries] as only their signatories enjoy more favourable market-access conditions”.² However, the integration process of countries with different development level creates an asymmetrical relation, where the most developed country is the most powerful in the RTA.³ The developing country might accept that because has the goal to achieve its development. Within this goal, some positive and negative impacts are generated. For some experts, the goal of the members in RTAs will be to maximize the positive outcomes and diminish the negative ones,⁴ like asymmetries. These play a major role in the integration process,⁵ and can be present in the economic markets,⁶ for example. But besides the economic asymmetries, there are political ones, like in the relation between Mexico and the US, where the South country has a lower geopolitical power and capacity of negotiation than the North one.⁷ Moreover, negative outcomes are also present because of trade. According to Bivens, “growing trade will boost inequality and place downward pressure on the wages”⁸ of some workers, especially

¹ Sebastian Krapohl and Simon Fink, “Different Paths of Regional Integration: Trade Networks and Regional Institution-Building in Europe, Southeast Asia and Southern Africa”, *Journal of Common Market Studies*, 51:3, 2013, p. 472.

² WTO, “Regional trade agreements and the WTO”, 2020. Available in: https://www.wto.org/english/tratop_e/region_e/scope_rta_e.htm

³ María del Pilar Ospina, “El proceso de toma de decisiones en el Mercosur y el TLCAN: la disyuntiva entre integración regional y soberanía nacional en América Latina”, *Colombia Internacional*, 100, 2019, pp. 254-255.

⁴ Francesco Duina and Jason Buxbaum, “Regional trade agreements and the pursuit of state interests: institutional perspectives from NAFTA and Mercosur”, *Economy and Society*, 37:2, 2008, p. 211.

⁵ *Ibid.*, p. 213.

⁶ Javier Emmanuel Anguiano-Pita and Antonio Ruiz-Porras, “Dinámicas e integración de los mercados financieros de los países del TLCAN”, *Lecturas de Economía*, 92, 2020, p. 72.

⁷ María del Pilar Ospina, *Op. Cit.*, pp. 255-256.

⁸ Josh Bivens, “Adding insult to injury”, *Economic Policy Institute*, 2017, p. 7.

in the lower and middle classes.⁹ Because all of that and taking Mexico as the test case of developing country, this thesis will try to demonstrate the reasons that developing countries consider to join in an integration process with more developed partners, even when negative outcomes are present.

Regarding to the literature about North-South agreements, this is scarce in contrast with the South-South (see Arita),¹⁰ North-North (see Krapohl and Fink)¹¹ or other unique cases like the European integration (see Bruszt, Lundstedt and Munkacsi).¹² In other words, some of the literature related to integration only consider agreements between more homogeneous groups, but not mixed groups, and some of the explanations of the outcomes of the integration processes are mostly related to Europe or other regions, or are not always adaptable to the case of North America.¹³ Hence, there is a necessity to analyze the outcomes and expectations that developing countries might have once they decide to join in an RTA with developed economies. Because of that, the thesis will give the answer to the next research question: How do RTAs as integration processes between developed and developing countries generate different outcomes for their less developed members? If gains are not obvious why do they decide to join in? By answering this, I will demonstrate that the outcomes of integration processes based on trade can be positive and negative for the less developed members, and the reasons to join in. The novelty of this research project will be the contribution to the uncommon modelling of the outcomes of integration processes between North-South countries and the consequences for the less developed members. Besides, it is necessary to explain NAFTA differently considering its own regional characteristics. To achieve that contribution, the present research project will elaborate a set of outcomes based on economic, bureaucratic and institutional, and social impacts.

⁹ Cody Jacobs, "Trade We Can Believe In: Renegotiating NAFTA's Labor Provisions to Create More Equitable Growth in North America", *Georgetown Journal on Poverty Law & Policy*, 17:1, 2010, p. 132.

¹⁰ Shawn Arita, "Do emerging multinational enterprises possess South-South FDI advantages?", *International Journal of Emerging Markets*, 8:4, 2013, pp. 329-353.

¹¹ Sebastian Krapohl and Simon Fink, Op. Cit.

¹² Laszlo Bruszt, Ludvig Lundstedt and Zsuzsa Munkacsi, "Collateral benefit: the developmental effects of EU-induced state building in Central and Eastern Europe", *Review of International Political Economy*, 2020, pp. 1-22.

¹³ The research from Krapohl and Fink, for example, explains widely the South-South and North-North integration processes, but based on their definitions and characteristics, it is not compatible for North-South cases.

Chapter One will be the literature review of the three outcomes mentioned above. Also, it will point out how can the literature be improved or adapted to the NAFTA case. Specifically, the gap in the explanation of the outcomes related to RTAs between developed and developing countries. For that, the first part will present the literature for the economic outcomes, considering a classification of integration processes and economic results from Krapohl and Fink. Then, the bureaucratic and institutional outcomes will be explained considering the work of Bruszt, Lundstedt and Munkacsi and others that wrote about the development of practices and spillovers. And finally, the social outcomes, considering mostly the analysis of Bivens and Frieden and its relationship with inequality, labor, wage problems or loss of sovereignty.

In Chapter Two, this thesis will explain a research design section based on a conceptual framework about development, RTAs, eclectic conceptualization, the use of a holistic approach and variables with data that will be categorized in three different outcomes: economic, bureaucratic and institutional, and social. It is important to underline that the empirical proofs of this thesis cannot always discard the effects of other factors. Also, after the data of the test country is evaluated, it will be classified in one of three possible scenarios: “relatively more positive”, “minimalist” and “relatively more negative”. The explanation of everyone will be done. Finally, the methodology will be represented by a thick description of the outcomes.

In Chapter Three I will assess what happens to Mexico with NAFTA. Through thick description, I’ll consider the factors that suggest causation for the three outcomes previously explained. Based on this, I will argue that Mexico will be part of one of the three scenarios for integration processes between North-South countries: “Relatively more positive” if has more bureaucratic and institutional outcomes, “minimalist” if has only economic outcomes, and “relatively more negative”, if has more social negative impacts. In other words, the country will decide to join based on which outcomes are more abundant.

In the Conclusion, besides a brief summary of the project, it will detail some final considerations regarding the scenarios, and it will be explained why Mexico joined NAFTA,

considering the impacts that the country presented in the model of the three outcomes. And with that, I'll finally present my contribution to the model of integration processes of Krapohl and Fink, suggesting a fourth category to their model that will be explained later.

Finally, NAFTA has been exceptional at the time as it combined two advanced developed countries with a developing country.¹⁴ Now, it is not possible to see other similar cases of developing countries in an RTAs that has the only goal of free movement of goods and services with enough data and years. In the future, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) will be a good case to explore. In sum, this project contributes to the literature of the integration process between North-South countries, taking NAFTA as the RTA in evaluation and Mexico as the test case, and demonstrating that they produce different consequences, but at the end, one set of outcomes prevails for the developing country, being the reason to join.

1. Chapter One - Literature Review

The literature about the integration processes is broad and helpful to explain cases with a more homogeneous membership. It is possible to find and understand the processes between developed countries and the other ones between developing members, but the literature that explains the cases and outcomes of mixed RTAs is not too wide. Because of that, a literature review about North-South RTAs is necessary to understand where the special case of NAFTA is located and why this thesis is a contribution to fill an existing gap.

To clarify in the review how RTAs as integration processes between developed and developing countries generate different outcomes for their less developed members and why they decide to join, I'll make a division of the literature that is related with three branches. For the first category, the economic, I'll consider the literature about exports, economic benefits for developing

¹⁴ Ayca Tekin-Koru and Andreas Waldkirch, "North-South Integration and the Location of Foreign Direct Investment", *Review of International Economics*, 18:4, 2010, p. 696.

countries in North-South processes, such as FDI or PPP GDP, and the Krapohl and Fink classification of integration mechanisms to see how NAFTA relates to that.¹⁵ Then in the second, the bureaucratic and institutional, I'll will consider the generation of spillovers by the integration process (and how some authors consider them positive) to explain the NAFTA/USMCA outcomes. Finally, the social impacts that have negative outcomes because of the RTAs; specifically, the generation of inequalities and loss in sovereignty. This division will be helpful to look for gaps and improvements for the literature and will help to understand elements of the upcoming chapters.

1.1 Economic impacts

In terms of the process of integration, experts like Venables argue that low income countries are better served by integration with high income countries, in other words, developing countries are likely to be better in “North-South” than in “South-South” agreements based on their comparative advantages.¹⁶ This is important to understand North-South RTAs but it is necessary to go deeper in the causes that motivate developing countries to join. For Stender, developing countries have generally benefited from RTA participation because of market access for their exports. However, there is a considerable variation in market access conditions for developing countries, depending on the choice of integration partners and economic sectors.¹⁷ For example, Tekin-Koru and Waldkirch argue that the reduced trade barriers facing exports from Mexico into the US increase the incentive for firms to locate in Mexico, whose labor costs are low compared to the US and other developed countries, and use it as an export platform.¹⁸ The only issue with their explanation is that the authors do not go deeper in the unexpected, negative or not desire outcomes of the integration process, something that will be analyzed later in this section.

¹⁵ Sebastian Krapohl and Simon Fink, Op. Cit.

¹⁶ Anthony Venables, “Winners and losers from Regional Integration Agreements”, *The Economic Journal*, 113, 2003, pp. 747–761.

¹⁷ Frederik Stender, “Sign Here, Please! On Developing Countries’ Market Access Conditions in Regional Trade Agreements”, *Review of Development Economics*, Wiley, 23, 2019, pp. 1361-1362.

¹⁸ Ayca Tekin-Koru and Andreas Waldkirch, Op. Cit.

Going deeper in the impact of export in an integration process, Krapohl and Fink argue that some integration processes generate a developmental path base on trade liberalization that will causes an increasing interdependence between the countries;¹⁹ however, they did not explain the case of an RTA with a mixed membership like NAFTA. Their study only has three types of integration processes: 1) between developed countries that increases the supranational institutions because of their interdependence, 2) between developing countries where all of them are similar and depend on a foreign force to trade with, and 3) between developing countries where one of them is slightly bigger and use the regional organization for its own well-being to pursue its benefits.²⁰ NAFTA/USMCA might fit in the first category, but not in reality because of Mexico, thus this thesis will advance arguments for a fourth missing category that will be useful to explain the North American case (between developed and developing countries) and others in the future, like CPTPP (a free trade agreement with a mixed membership) but also to understand why countries in economic disadvantage like Mexico decide to join based on the virtues of integration. To achieve that with the case of NAFTA, a mixed-membership-RTA must be studied based on the simple differences of its countries. For example, US and Canada have a similar PPP GDP per capita, but Mexico has a lower one (US has three times the PPP GDP per capita of Mexico and Canada 2.5 times more).²¹

Another element to consider besides PPP GDP per capita as economic impact of an RTA is Foreign Direct Investment (FDI). This is present in the integration process as a positive outcome, and in the case of NAFTA it is considered an “expected outcome”, due it composes one the parts of the agreement. Moreover, this relation is backed up by the literature. Mondher and Dreger provide an analysis that gives evidence that openness to trade and financial markets are triggers of FDI, where RTAs affect the regulatory framework conditions under which investors operate.²² However, they stipulate the necessity of business-friendly institutions as a condition for that. Also, the authors argue

¹⁹ Sebastian Krapohl and Simon Fink, Op. Cit., p. 474.

²⁰ Ibid., p. 473.

²¹ World Bank data. Available in: <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=CA-MX-US>

²² Cherif Mondher and Dreger Christian, “Do regional trade agreements stimulate FDI? Evidence for the Agadir, MERCOSUR and NAFTA regions”, *Rev Dev Econ*, 22, 2018, p. 1263.

that a positive impact on FDI is expected when the RTA coincides with economic liberalization and stability in the member area. Kahouli and Maktouf also demonstrated that, in the case of NAFTA: the implementation of the RTA led to an increase of FDI within the region, but they pointed out the necessity of improve national infrastructure to reduce costs and time of transactions.²³ Those elements and paths described by the authors are useful to measure the outcomes of NAFTA in Mexico and will be used in the upcoming Chapters.

1.2 Bureaucratic and Institutional impacts

Although PPP GDP per capita, exports or FDI are important to measure the development of the countries, they are not the only elements that matter in integration processes. The existence of spillovers or virtues, more than the expected results, can be put in this context as the literature suggests. According to Acemoglu, García-Jimeno and Robinson, there is a spillover in prosperity because of the interaction of different agents or a network, more than just the wealth created by the states.²⁴ Also, Jinji *et al.* argue that “the formation of RTAs enhances technology spillovers among members, on average, and that the depth of integration in RTAs is also important for technology spillovers particularly in the North–South integrations”.²⁵ All that might imply that there are some tangible factors such as institutions, and other intangible, like cooperative practices, that can be present as evidence for spillovers or virtues between partners.

In terms of institutions, Laszlo Bruszt *et al.* explored the EU case and found that it is the “only integration regime that has developed encompassing programs designed to comprehensively upgrade numerous core state institutions in lesser-developed countries”,²⁶ and to achieve that, there were two

²³ Bassem Kahouli and Samir Maktouf, “The determinants of FDI and the impact of the economic crisis on the implementation of RTAs”, *International Business Review*, 24:3, 2015, pp. 518-529.

²⁴ Daron Acemoglu, Camilo García-Jimeno and James A. Robinson, “State Capacity and Economic Development: A Network Approach”, *American Economic Review*, 105:8, 2015, p. 2405.

²⁵ Naoto Jinji, Xingyuan Zhang and Shoji Haruna, “Do deeper regional trade agreements enhance international technology spillovers”, *The World Economy*, 42:8, 2019, p. 2329.

²⁶ Laszlo Bruszt *et al.*, Op. Cit., p. 2.

interlinked challenges: 1) making and implementing shared rules and policies, and 2) that the implementation of uniform rules could produce negative developmental externalities in less-developed economies.²⁷ Those challenges are also relevant for NAFTA and can be employed in its context. For example, in the EU case, the European Commission monitored the progress of the judiciary and bureaucratic capacity building of future member states from Central and Eastern Europe after 1997. In the case of NAFTA/USMCA that did not occur. It was an RTA negotiated from the beginning as an integration scheme without provisions for institutional capacities or bureaucracy improvement, for instance.

1.3 Social impacts

Despite the positive outcomes in the developing country, the economic integration of a North-South RTA might generate negative effects such as domestic weaknesses for the South member. One way to define those outcomes is the loss of sovereignty, or when the weak country loses autonomy in the negotiation or decision-making processes.²⁸ According to Ospina, one of the premises of regional integration is the transfer of sovereignty and the affectation of the traditional structure of the national states; however, the countries join in because the gains are bigger than the loss of sovereignty.²⁹ To go deeper in this, it is possible to understand NAFTA as a process of intergovernmentalism, where this “assigns a central role to heads of states”.³⁰ Mattli argues that the leaders “circumscribe any sacrifice of sovereignty that may become necessary in order to attain common goals [...] Big states exercise a *de facto* veto over fundamental changes in the rules of integration.” In the case of Mexico, it was interesting to see how the country yield autonomy and equality terms in the regional level of NAFTA but in order to achieve national and international presence,³¹ or also in the renegotiation of the USMCA (which impact will be explain in Chapter Three).

²⁷ Ibid., p. 3.

²⁸ María del Pilar Ospina, Op. Cit., p. 246.

²⁹ Ibid., p. 242.

³⁰ Walter Mattli, “Explaining Regional Integration Outcomes”, *Journal of European Public Policy*, 6:1, 1999, p. 6.

³¹ María del Pilar Ospina, Op. Cit., p. 240.

In terms of social inequality, Bivens explains in detail three other elements to consider as sources of inequality in the society: 1) Passing trade agreements that consistently undercut workers' economic leverage while generate protections for corporate profits, 2) Failing to secure reasonable compensation for the losers of free trade, and 3) Failing to address currency misalignments that have generated large trade deficits and losing employment in manufacturing.³² Some explanations argue that in the case of NAFTA, it is possible to see clear winners in Mexico (as workers in manufacturing sectors), but also losers (as farmers of basic grains, such as corn).³³ To understand this better, the approach of Frieden is useful to comprehend the distributional implications of cross-border capital movements and the impact of the policies applied in the national level when there is a high degree of international capital mobility.³⁴ Moreover, Frieden argues that a labor-rich country will tend to export items that use labor intensively. In this case, the more the country trades, the more labor will be used and the higher the wages will be. Following that model, the higher the capital mobility is, the higher the benefits in capital will be from the sectors where it is abundant, and the hurts will be in the sectors where capital is scarce. That means that a country where the rate return is higher, for example, will present high local interest rates and low local wages; labor will be disfavored and capital favored.³⁵ This model is useful to explain the case of Mexico as a labor-rich country that has exported products that use labor intensively, as cars and auto parts, for example. However, his approach can be improved in one key area: the model fails to predict that the mobility between sectors can be cross-national because of the international migration flows, and according to Bruszt, high levels of migration is also a symptom of a negative consequence of integration.³⁶ Bruszt *et al.* give other two elements that impact society in integration processes: social and political strains and an increased

³² Josh Bivens, Op. Cit., p. 1.

³³ Michael E. Conroy and Amy K. Glasmeier, "Unprecedented Disparities, Unparalleled Adjustment Needs: Winners and Losers on the NAFTA 'Fast Track'", *Journal of Interamerican Studies and World Affairs*, 34:4, p. 14.

³⁴ Jeffrey Frieden, "The Politics of National Economic Policies in a World of Global Finance", *International Organization*, 45:4, 1991, pp. 426-434.

³⁵ Ibid., p. 435.

³⁶ Laszlo Bruszt *et al.*, Op. Cit.

need for financial transfers from the core to the periphery.³⁷ All those concepts will be useful to explain the case of Mexico within NAFTA/USMCA in upcoming chapters.

In sum, the existing literature describes the outcomes of the integration processes, but there is a gap in their explanation of the outcomes related to RTAs between developed and developing countries. For this reason, this thesis will be guided by the question: how do RTAs as integration processes between developed and developing countries generate different outcomes for their less developed members? If gains are not obvious why do they decide to join in? By considering NAFTA/USMCA as my case, I will demonstrate that the outcomes of integration processes based on trade can have bureaucratic, institutional and economic outcomes, as well as a social impact with negative consequences, as the literature that describes other types of RTAs suggest. The outcomes that will be modeled in the next Chapter will help to illustrate why Mexico decided to join NAFTA in Chapter Three, and how the outcomes of its integration in North America were produced.

2. Chapter Two – Conceptual Framework and Methodology

In this chapter, first I will consider some concepts and their respective scholarly foundations that will help to conceptualize and frame the outcomes and scenarios for integration processes of North-South countries. That will be inspired by the classification of outcomes of Krapohl and Fink for other types of memberships. It will be conceptualized, first, what development is and why developing countries want to achieve it; also, the definition of RTA must be explained. Moreover, the holistic approach and conceptual eclecticism will be justified for the development of the thesis. Then, the outcomes of the integration process will be explained, the variables that are related to them and the issue of “How does the reader know that this outcome is originated by the RTA?” in every case. Besides, a brief definition of the scenarios of the integration process will be done and the process to classify the test country. Finally, the methodology will explain the general use of data and thick description.

³⁷ Laszlo Bruszt *et al.*, Op. Cit., p. 3.

2.1 Conceptual Framework

First, for this thesis it is assumed that developing countries have the goal to modernize their nations and achieve their development. The differentiation between developed and developing country is based on the United Nations (UN) classification of income and development, putting Canada and the US in the former and Mexico in the latter category, in the case of NAFTA.³⁸ Related to this, development will be used in one of the upcoming scenarios and is understood as the condition when one country has “sustained rates of growth of income per capita to enable a nation to expand its output at a rate faster than the growth rate of its population”.³⁹ In addition, it is also a “planned alteration of the structure of production and employment so that agriculture’s share declines and that of the manufacturing and service industries increases”.⁴⁰ Rodrik argues that development, based on long-term growth, is also achieved when fundamental capabilities are present inside the country in the form of human capital and institutions; and it “entails moving workers from traditional, low-productivity activities to modern, high-productivity activities that are quite different in terms of location, organization, and technological characteristics”.⁴¹ On the other hand, Bruszt *et. al.* argue that judicial capacity is most important for inducing developmental change related to international trade. Also, an increase in bureaucratic professionalization will be a precondition for the emergence of state capacity that is sufficiently able to support development,⁴² which is represented by the state production of public goods.⁴³ These elements and definitions will help to map better the evolution of integration in North-South processes.

³⁸ UN data. Available in:

https://www.un.org/en/development/desa/policy/wesp/wesp_current/2014wesp_country_classification.pdf

³⁹ Michael Todaro and Stephen Smith, “Economic Development”, Pearson, Twelve Edition, 2015, p. 16.

⁴⁰ Ibid.

⁴¹ Dani Rodrik, “The Past, Present, and Future of Economic Growth”, *Challenge*, 57:3, 2014, pp. 7-23.

⁴² Laszlo Bruszt *et al.*, Op. Cit., p. 18.

⁴³ Ibid., p. 2.

RTA is defined by the World Trade Organization as “any reciprocal trade agreement between two or more partners [...] These deals, by their very nature, are discriminatory [for non-member countries] as only their signatories enjoy more favourable market-access conditions”.⁴⁴ In this processes, it is expected that national representatives or leaders of the countries advance the interests of their states only in part.⁴⁵ Considering that, those leaders will build the basic architecture of RTAs to increase positive results and minimize negative ones.⁴⁶ That implies that an RTA can also generate unwanted outcomes. Finally, this thesis considers that RTAs between North-South members generates asymmetries between them; this is because “asymmetries in the power of key domestic actors influence how member states formulate their preferences on important issues at particular points in time”.⁴⁷ Considering the concepts presented above, for this thesis the upcoming variables and data will be organized in three groups of outcomes to demonstrate the impact of the integration process on specific sectors: economic, bureaucratic and institutional, and social. However, it is important to underline that the empirical evidence of this thesis cannot always delineate the effects of other factors. (More of this will be discussed later.)

It is important to point out that not a single theoretical framework will be used to explain the outcomes. Instead of that, a holistic approach and conceptual eclecticism will be developed in this thesis. The purpose for using an eclectic conceptualization is because eclecticism takes on problems of broad scope, develop complex causal stories, and implicitly seek pragmatic engagement within and beyond the academe.⁴⁸ Sil and Katzenstein say that it “increases the chance that scholars and other actors will hit upon hidden connections and new insights that elude us when we simplify the world for the sole purpose of analyzing it through a single theoretical lens”.⁴⁹ Also, other authors

⁴⁴ WTO, Op. Cit.

⁴⁵ Francesco Duina and Jason Buxbaum, Op. Cit.

⁴⁶ Ibid., p. 195.

⁴⁷ Ibid., p. 213.

⁴⁸ Rudra Sil and Peter J. Katzenstein, “Analytic Eclecticism in the Study of World Politics”, *Perspectives on Politics*, 8:2, June 2010, p. 421.

⁴⁹ Ibid., p. 426.

have used a holistic approach to explain trade relations in complex cases.⁵⁰ This approach is helpful to study the agreement as multifaceted: if there is something else, besides its legal document, that is originating the outcomes. Using another approach might generate to see the RTA outcomes not as complements but as contradictions, and as it is detailed above the RTA might be a phenomenon composed by several outcomes (economic, bureaucratic and institutional, and social).

Finally, this thesis is focus on Mexico, based on the unique elements of the country and the nature of NAFTA. However, this do not imply that the research is not parsimonious. There is a potential further study in the case of the CPTPP, where the three outcomes and scenarios, and the elements described in this thesis (RTAs between developing and developed countries) might apply to countries like Vietnam, Chile, Malaysia and Peru. It is not possible to do comparisons or research on those countries now (2020), because CPTPP entered into force on December 30, 2018, and it might be difficult to measure the outcomes of it with only one year of data and the Covid-19 pandemic that impacts trade and socio-economic life in general.

2.1.1 Economic outcomes

Every single RTA has a legal purpose stablished with concrete goals. These goals are mostly about creating economic benefits to participants. To evaluate its success, **PPP GDP per capita** will be used to measure improvements in the economy of the test country and explained as a source for its development. Here, it will be difficult to confirm that only the integration process generated that improvement. But one way to be surer about the relation is considering the **increase in the percentage of the exportations** of the country in terms of its GDP, and then see if the country is exporting almost all their products to the other member states of the RTA. Thus, there might be a case where the exportations are increasing at the same time as the GDP. Moreover, statistics from the Ministry of Economy of the test country and demographic decentralized institutions can be used

⁵⁰ Rostam J. Neuwirth, "China and the 'culture and trade' debate: a Holistic approach", *International Journal of Cultural Policy*, 25:5, pp. 629-647.

to measure the **quality and improvement of trade**, elements that can cause a positive outcome of commerce as Collings says;⁵¹ or Rodrik, who says that it is expected that a country that have high-productivity activities will demonstrate improvement in its development.⁵² Specifically, the increase of high-tech net exports and high-skill net exports of goods (as a percentage of the GDP) from the test country to the other members must be considered. From this, it will be possible to know that there will be an improvement generated in the context of the legal purposes of the RTA. Moreover, in order to demonstrate relation, although not correlation, the **FDI evolution** in the developing country must be considered in the context of integration between the member states and to avoid other impacts on that, only the investment within the RTA is used. With that, it could be argued that because of the special mechanism of protection of the enterprises that an RTA created, the FDI has been able to flourish in the South country. However, it is possible to consider if other trade agreements of the country increase the inflow of those countries, but only if the percentage of that inflow is considerably high or representative. This argument can include illustrations with interviews from local officials.

2.1.2 Bureaucratic and Institutional outcomes

The relation between the member countries of an integration process (whether limited to an RTA, or something more ambitious in scope) can generate virtues or institutions, as Acemoglu *et. al.* argue.⁵³ Bruszt *et al.* suggest the variables of **judicial capacity and bureaucratic professionalization** as causes of virtues like democratic processes and institutional improvements.⁵⁴ To be able to link an RTA to improvements in judicial capacity, bureaucratic professionalization or democratization, it is important to consider the opinion of national experts. However, as a primarily tool to measure the country's improvement along the years, the Doing Business ranking from the World Bank, an annual

⁵¹ Harry Collings, "Foreign Trade and Increased National Wealth", *The Annals of the American Academy of Political and Social Science*, 115, 1924, p. 244.

⁵² Dani Rodrik, "What's So Special about China's Exports?", Op. Cit.

⁵³ Daron Acemoglu *et al.*, Op. Cit.

⁵⁴ Laszlo Bruszt *et. al.*, Op. Cit.

survey that measure how fast decisions are taken or how easy is to do businesses in the country, will be used. It is important to always consider the impact of other agreements of free trade in the test country. Some developing countries might be part of more agreements than the one being analyzed, and this is something that can affect the model. The data selection must be from years where other agreements have no chance to affect the outcome. On the contrary, the impact of the other free trade agreements must be considered, measuring their share in the total exports of the test country. Considering that, the reader will be more confident about the evolution of the RTA that is being studied. Also, the **political understanding** between the members will be considered as a cause of institutional outcomes, as Mattli considers.⁵⁵ To know that the RTA is producing that, illustrations from the national experts are useful, as well as the development of concrete shared institutions, joint statements and work between the RTA politicians. For that, the Executive and Legislative powers, such as summits of the Heads of state or inter-parliamentary reunions among legislators are useful. It might be impossible to exclude other factors that might affect the cooperation in the previous branches, but to limit that scope, it is necessary to consider only the forums between the member states, instead of the multilateral. Finally, other variables for this section are the establishment of **environmental laws**, like Parsons suggests,⁵⁶ and **labor reforms**, as Caulfield proposes.⁵⁷ Even if it is not possible to demonstrate a correlation, it might be data that suggest a relation. For example, the renegotiation of the agreement that incorporates those elements might suggest that the variables have been present as outcomes of the relation for years.

⁵⁵ Walter Mattli, Op. Cit.

⁵⁶ Cameron Parsons, "NAFTA and the Environment in Mexico", *Modern Latin America: web supplement for 8th edition*, Brown University Library. Available in: <https://library.brown.edu/create/modernlatinamerica/chapters/chapter-12-strategies-for-economic-developmen/nafta-free-trade-and-the-environment-in-mexico/>

⁵⁷ Norman Caulfield, "NAFTA and Labor in North America", University of Illinois Press, 2010, p. 70.

2.1.3 Social outcomes

An RTA can have social implications. Bivens argue that **disparities in income and the job losses in key sectors** are variables that can demonstrate the social implication of the trade agreements.⁵⁸ It is possible to identify those key sectors with an evaluation of the local debate in the country. In other words, finding key areas that are generating local discomfort. The Frieden's specific-factors model commented in Chapter One is useful to find those key sectors of winners and losers within the RTA.⁵⁹ It might be the case that some of the key sectors of a developing country will be present in the rooted agricultural tradition of the state. Also, finding pieces from the media or within the legislative initiatives are also important to discover those possible key sectors. Moreover, it is likely that those key sectors in the developing country will present a disparity between their wages. To know that the RTA is causing that, it is necessary to demonstrate that the consequences are generated because of the enterprises or economic sectors located in the more developed partner. Also, the **impact in sovereignty** of the traditional and autonomous structure of the developing states must be analyzed, as Ospina suggests.⁶⁰ Here, it is expected that the country in order to achieve their goals will obey the desires of the biggest trade partner. That will be present in the negotiation, renegotiations or decision-making processes within the RTA.⁶¹ Finally, the variables of Bruszt *et. al.* can be adapted in North-South integration processes: the **social and political strains**, the **high levels of migration** and the **increased need for financial transfers from the core to the periphery**. Those can be explained with data from official offices or national institutions, international aid between the RTA members, and the social strains can be explained by reporters from the media that recorded the possible tension produced by the agreement.

⁵⁸ Josh Bivens, Op. Cit., p. 7.

⁵⁹ Jeffry Frieden, Op. Cit., pp. 426-434.

⁶⁰ María del Pilar Ospina, Op. Cit., p. 242.

⁶¹ Ibid.

2.1.4 Scenarios for the test country

Considering the above-described outcomes (economic, bureaucratic and institutional, and social), this research project argues that three possible scenarios can be explained by a combination of that data: these are defined as “relatively more positive”, “minimalist” and “relatively more negative”. These scenarios recognize that there are always winners and losers, and that is why they are “relatively”. However, to define where the test country is located, one group of outcomes will be considered dominant based on the quantity of results. For example, if a country has no positive developments in bureaucratic and institutional outcomes but achieved its economic goals and probably some social negative outcomes, then it will be in the “minimalist” scenario.

2.1.4.1 Relatively more positive

For this scenario, not only the membership of the RTA and the accomplishment of the main legal purposes of the agreement are important, but the development of the test country, the good practices among the members, and the presence of virtues or institutions that are generated by the relation between them. In other words, if the country has detectable bureaucratic and institutional improvements as well as economic benefits, then the test country will be located here; that will be the reason to join in the RTA. Also, the presence of economic and some social outcomes does not mean that the country cannot be categorized as “relatively more positive”.

2.1.4.2 Minimalist

In this scenario, there are no virtues present in the data from the bureaucratic and institutional outcomes, just the expected benefits detailed in the chapters of the RTA document. In other words, only economic benefits are present and that is the reason to join in. This does not mean that if the RTA has no bureaucratic improvement data, the integration process failed, that means that it achieved only its economic purpose. Moreover, even when the RTA achieved its economic purpose, some negative effects in the social sphere might be present, but those must be less than the positive ones.

2.1.4.3 Relatively more negative

This scenario is mostly characterized by negative aspects of the integration process. Most of the positive outcomes of an RTA might only be focused on the macro numbers of its results, but inside the countries, harmful results might be generated to the detriment of a specific sector of the population. To know that negative outcomes from the RTA exist, the negative social effects must be more salient than some economic benefits or bureaucratic and institutional outcomes (if they exist). The presence of some economic outcomes does not imply that the test country does not belong to this category. It is just the predominance of negative social effects that define this category.

2.2 Methodology

Besides statistical data, empirical facts from literature will help to define the economic, social or bureaucratic and institutional outcomes of the integration process of North America. It will be necessary to use an interpretative and qualitative analysis of the data based on descriptive statistics and social effects. To illustrate some outcomes, interviews with domestic actors will be useful. Historic data to demonstrate the positive and negative outcomes of the RTA will be used. Rankings and data from the OECD, World Bank, UN, country agencies, institutes and decentralized institutions will be employed to elaborate some arguments and find the relation between the variables explained in detailed above. The analysis regarding the case study, Mexico within NAFTA, will be done by a thick description of social life, through which broader interpretations and generalizations would be made. According to Cyrenne, an advantage of the use of thick description is that it allows to know what actually happened or how things really work if it is possible to “ask the people involved, read the local media, do good ethnography, make judgments based on years of fieldwork, or appraise current events in light of that region’s recent or much longer history.”⁶² Also, Thompson and Geertz see the virtues of thick description as “a means to discover and reveal the depth of meaning that

⁶² Chad Cyrenne, “Is Thick Description Social Science?”, *Anthropological Quarterly*, 79:3, 2006, p. 535.

human actors inscribe in their language and actions”.⁶³ That will help to know how are the outcomes of NAFTA/USMCA in Mexico and why the developing country decided to join in.

3. Chapter Three - The outcomes of the North America integration process in Mexico

In this chapter I'll assess what happened to Mexico post NAFTA. I'll test the data in the country from the three previous outcomes detailed in Chapter Two. First, I'll explain the results for the economic outcomes, then I'll do the same for the bureaucratic and institutional outcomes and I'll finalize with the social outcomes. At the end of the chapter and based on the explanation of the scenarios in Chapter Two, I'll explain the scenario where Mexico fits based on a thick description of its results. It is expected that the developing country will experience different outcomes from its integration process with developed partners and the scenario where is located will explain why this country decided to join in.

3.1 Economic outcomes

Since its creation, NAFTA had clear economic objectives and goals that met years later according to the empirical evidence. Specifically, Mexico experienced an export diversification and benefits from the intra-region trade, improvement of quality of its exportations and the rise of FDI inflows from the NAFTA members. To explain the economic outcomes, it is necessary to point out that it is almost impossible to confirm that NAFTA is the only reason of the improvements of the Mexican economy; however, there is some data that suggests that NAFTA could be a major player in that role.

In some cases, the economic growth of a country originated by trade transform and lift “hundreds of millions of people from deep poverty and help to improve health, education and other

⁶³ C. Geertz in W. B. Thompson, “Policy making through thick and thin: Thick description as a methodology for communications and democracy”, *Policy Sciences*, 34:1, 2001, p. 66.

social standards”,⁶⁴ and it is possible to study the likely relation between those standards and trade with PPP GDP.⁶⁵ In fact, the PPP GDP per capita of Mexico went from 8,556 dollars in 1993 to 20,397 dollars in 2018, and increase of 238% during NAFTA.⁶⁶ Even when it is difficult to say that NAFTA totally originated that growth, it is necessary to point out that before the RTA, the average growth rate of PPP GDP in Mexico was less than the half of the growth presented during the agreement (see Graph 1 in Annex).

Along its increase of PPP GDP per capita, the government also increased the social expenditure such as cash benefits, direct in-kind provision of goods and services, and tax breaks with social goals since NAFTA. The RTA allowed Mexico to collect more fees from commerce in the first years of the agreement when there was still a percentage of them in customs and the circulation of goods was growing. Mexico also increased the social spending from 3.79% of the GDP in 1993 to 7.52% in 2016.⁶⁷ An example of the social improvement are the *Progres*a and *Oportunidades* programs, that reduce the food poverty in the country population during the first decade of NAFTA from 37.4% to 14% (see Graph 2); and the heritage poverty from 69% to in 42.9% (see Graph 3), primarily because of cash transfers to families. Two different governments from two political parties rule in that period, suggesting that the political alternance was not a cause of those improvements based on the economic preferences of the ruling parties.

Another goal of NAFTA was the increase in Mexican exports. The trade of Mexico with the world has increased from 140 to 916 billion dollar when NAFTA came into force and until 2019, and from that quantity, the commerce with its RTA partners increased from 110 to 602 billion dollars.⁶⁸ That means that two thirds of the total trade of Mexico take place within the NAFTA region. (See Graph 4). Moreover, Mexico is now the biggest trade partner of the US. Also, the intra-regional trade

⁶⁴ Dani Rodrik, “What’s So Special about China’s Exports?”, *China & World Economy*, 14:5, 2006, pp. 1-2.

⁶⁵ Andrea Weber, Class about Economics and Inequality, CEU, January 2020.

⁶⁶ World Bank data. Available in: <https://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD?locations=MX-US-CA-L4>

⁶⁷ OECD data. Available in: <https://data.oecd.org/socialexp/social-spending.htm>

⁶⁸ Ministry of Economy of Mexico data, PDF File, 2020.

between the three members quadrupled from 1993 to 2019.⁶⁹ NAFTA is the reason of the export success; it is possible to confirm it considering the other free trade agreements of Mexico. Besides US and Canada, the other eight countries that complement the Mexican Top 10 export destinations are distributed in the whole world: 4 in Asia, 2 in Latin America and 2 in Europe. According to that, Asia is the second region more important for Mexico within its Top 10 and there is no free trade agreement with that region, only a bilateral one with Japan (the 9th export destination). (See Map in Annex). Finally, the exports of Mexico represented 12.3% of its GDP before NAFTA and then increased until 39.3% in 2018,⁷⁰ remarking the importance of its principal partners for its economic growth (see Graph 5).

Other sources for economic success are export-diversification and high-tech exports. NAFTA diversified the pattern of exportations of the country: before the RTA, 80% of the exports were oil and its by-products, and now that number is just 7%. Mexico is now the 6th vehicle producer and 4th world exporter of that, and at the same time is the 8th exporter of food products in the world.⁷¹ Additionally, Mexico is the only one that improved within the RTA its medium and high-tech exports as a percentage of its manufactured exports (see Graph 6). That improvement is a way to measure the economic success of trade for developing countries.⁷² In 1993, almost 70% of the exports of Mexico were linked to the medium and high-tech industries and in 2017 that percentage growth until 80.3%.⁷³ Besides, the destiny of those were the US and Canada with an amount of 358,667 million dollars, which is 80% of its total exports; before NAFTA, the amount was only 44,497 million dollars.⁷⁴

A positive economic success is also present in the increase of inflows of FDI in Mexico since NAFTA and, according to the UN Conference on Trade and Development, Mexico is now the 13th

⁶⁹ Ibid.

⁷⁰ OECD data. Available in: <https://data.oecd.org/trade/trade-in-goods-and-services.htm>

⁷¹ Luz María de la Mora, Interview for this thesis, 2020.

⁷² Dani Rodrik, Op. Cit.

⁷³ World Bank data. Available in: <https://data.worldbank.org/indicator/TX.MNF.TECH.ZS.UN?locations=MX-CA-US>

⁷⁴ WITS data. Available in: <https://wits.worldbank.org/countrysnapshot/es/MEX/textview>

country with more inflows in the world. Its inflows increased from 4.9 billion in 1993 to 33.7 in 2019.⁷⁵ But to demonstrate that NAFTA has a relation in that outcome, the inflow from its partners is crucial: 46% of the current inflows comes from only two countries: Canada and US; besides, in 1993 the US FDI was 3,503.6 million dollars, and in 2019 was 12,654.7, an increase of 361% during the NAFTA era.⁷⁶ For Canada, the tendency is the same: in 1993 it was 74.2 million dollar and now is 2,936.3, a growth of 3,957%.⁷⁷ The increase of the FDI from the Mexican partners to the developing country might be explain by the Chapter Seventeen of NAFTA that guarantee the intellectual property rights, and the Chapter Eleven, that allows all transfers between countries freely and without delay, enables the free management of the enterprises, guarantee a national treatment for foreign investments and restricts the expropriation. In fact, the USMCA will now include a mechanism to guarantee certainty in the investment transactions and will explicitly combat corruption within the institutions.

In sum, NAFTA achieved its economic purpose in Mexico, and this can be illustrated with the RTA performers. In an interview for this thesis with Luz María de la Mora (former NAFTA negotiator and current Under-Secretary for Foreign Trade), it was asked about the general impact of NAFTA in Mexico, and her answer was that the RTA has been “favorable” in terms of the growth of trade and the diversification of exports of Mexico, a country that is able to supply the US and Canadian market according to their high quality demand. One of the reasons to join NAFTA was to transform the production base to stop relying on oil exports, be pioneer to achieve trade integration with two super economies and increase certainty to attract more FDI.⁷⁸ In sum, NAFTA allowed the export diversification of Mexico base on technological exportations; increase the intra-region trade; FDI inflows from the developed partners, among others. Considering the overall of Mexico’s economic outcomes, NAFTA has had a positive impact in the developing country.

⁷⁵ Ministry of Economy of Mexico, Op. Cit.

⁷⁶ Ibid.

⁷⁷ Ministry of Economy of Mexico data. Available in: <https://datos.gob.mx/busca/dataset/informacion-estadistica-de-la-inversion-extranjera-directa>

⁷⁸ Luz María de la Mora, Op. Cit.

3.2 Bureaucratic and Institutional outcomes

Trade can create some virtues for the “developing countries directly and indirectly through cultural, social, scientific, and technological exchanges”.⁷⁹ One causation of that idea is the “faster diffusion of productive ideas, such as a shorter time between innovation and adoption of new technologies around the world”.⁸⁰ With this, some virtues are present in the bureaucracy enhancement and other improvements in Mexico, and can be related to NAFTA.

Between the virtues, the democratization in Mexico was boosted by NAFTA, according to the experts,⁸¹ but it is hard to demonstrate a positive correlation. However, the relation is not excluded, and it is possible to see one concrete example. From the beginning of the negotiation of NAFTA and until two years after entered into force, the judicial power was completely replaced or reformed substantially, the federal legislation related to the various sectors of the economic activity was changed in order to achieve an economic infrastructure more rational and predictable for an articulated market economy.⁸² The new RTA required new legal structure. Also, in terms of democratic processes, the presidential election of 1994 was the first one to have international observers: 86,620 people,⁸³ most of them from the US, the new Mexican RTA partner. In this way, the economic integration process generated other virtues that favored the democratic practices.

Another spillover is present in the bureaucracy. Mexico occupies the 60th position of the Doing Business ranking of the World Bank, evolving positively from the 73th position since the existence of the ranking. That improvement is related with the security in the processes of hiring or firing workers, the speed to do business in the country, the legal protection of investments, the

⁷⁹ Michael Todaro and Stephen Smith, Op. Cit., p. 601.

⁸⁰ Ibid.

⁸¹ Raúl Benítez, “Seguridad nacional y transición política, 1994-2000”, *Foro Internacional*, 41:4 (166), 2001, pp. 963-964.

⁸² Sergio López-Ayllón, “Las transformaciones del sistema jurídico y los significados sociales del derecho en México”, UNAM, Mexico, 1997, p. 203.

⁸³ Ciro Murayama, “La observación electoral en México”, *Revista Mexicana de Derecho Electoral*, Num. 4, 2013, p. 13.

registration of property and the licenses. Besides, Mexico reduced the time for doing business and simplified the required permits. Now, it is possible to create and register online and free of charge a business in just one day thanks to a new reform.⁸⁴ The way NAFTA, as an international alliance that strengthened learning and good practices,⁸⁵ impacted those outcomes are explained by the dispute resolution mechanisms, the creation of an environment of certainty and security for investments, and the federal and local state behavior in favor of foreign businesses.⁸⁶ Although the ranking' improvement in Mexico occurred also while the free trade agreements with Japan and the EU were in force, the majority of the businesses in Mexico were made with its NAFTA neighbors, as it is specify in the economic outcomes section. Moreover, in the case of the EU, its agreement with Mexico was more limited than the one with NAFTA. The participation of European states in public tenders with local governments of Mexico was limited. Only the federal cooperation was promoted for public projects with European enterprises,⁸⁷ decreasing in that way the possibility to have a spillover in all the corners of the Mexican bureaucracy, an opportunity that NAFTA had. Now, the renegotiation of the new agreement with the EU include that possibility and reinforces the cooperation with the labor and environment sectors. Probably in the future Mexico will have a better impact of spillovers due that interaction.

As a complement of those spillovers, the political understanding has been present in the protection of the environment, something that is not considered as one of the objectives of NAFTA or as a specific chapter; only the preamble of the treaty underline that this can be an area of further cooperation. In this way, the North American Environmental Cooperation Agreement exists since 1994 because of the integration process based on trade. Besides, in 2018 the Agreement was renovated to adapt it to the new changes. Also, it created the Commission for Environmental Cooperation that has the objective of conserve, protect and improve the environment shared by the

⁸⁴ OECD, "Startup América Latina 2016", Estudios del Centro de Desarrollo, París, 2016, pp. 133-134.

⁸⁵ Ibid.

⁸⁶ Luz María de la Mora, Op. Cit.

⁸⁷ European Commission, "Acuerdo comercial EU-México: del acuerdo actual a uno nuevo", April 2018.

three members and works in: *a)* Climate change mitigation and adaptation strategies, *b)* Green growth, and *c)* Sustainable communities and ecosystems.⁸⁸ Likewise, the Commission has promoted an effective application of environmental legislation in Mexico. Also, the commitment with the green agenda has been present in other areas: the three Heads of states reunite in summits (producing common statements at the end); and in the summit of April 2012, they agreed on introduce regulatory measures to ensure environmental protection. Two months after, Mexico enacted the General Law on Climate Change. In the last summit of June 2016, the three members committed to create “an ambitious and enduring North American Climate, Clean Energy, and Environment Partnership that sets us firmly on the path to a more sustainable future.”⁸⁹ The data give evidence of an improvement since the RTA: North America reduced 2.6% their CO₂ metric tons emissions per capita since NAFTA entry into force, while the average of the world increased almost 1%.⁹⁰ Furthermore, there is also cooperation in the Legislative bench: the inter-parliamentary reunions between the legislators of the NAFTA countries have included the protection of the environment as major topic of the agenda in six times out of 30 reunions since NAFTA entered into force.⁹¹ In sum, the RTA did build institutions and outcomes to address the worries about the environmental community in North America.⁹²

But the environment is not the only one, there is another side-agreement that conform the circle of virtue regarding the labor improvements in Mexico. The North American Agreement on Labor Cooperation is in force since the existence of the RTA and the text created international and national institutions: the international institution represented by the Commission for Labor Cooperation (with a Council and a Secretariat), and the national institutions, which are the

⁸⁸ Strategic Plan of the Commission for Environmental Cooperation. Available in:

http://www.cec.org/sites/default/files/documents/planes_estrategicos/strategic_plan_2015_2020_sp.pdf

⁸⁹ US Embassy in Mexico, “Leaders’ Statement on a North American Climate, Clean Energy, and Environment Partnership”, 2016. Available in: <https://mx.usembassy.gov/leaders-statement-north-american-climate-clean-energy-environment-partnership/>

⁹⁰ World Bank data. Available in: <https://data.worldbank.org/indicator/EN.ATM.CO2E.PC?end=2014&start=1990>

⁹¹ Enrique Sevilla, “Los poderes legislativos y su injerencia en la configuración de América del Norte”, in *América del Norte, retos y oportunidades en el siglo XXI*, Marcela Guerra (coord.), Mexican Senate, Mexico, 2015.

⁹² Cameron Parsons, Op. Cit.

governmental advisory committees and the National Administrative Offices. That agreement has the goal to boost the development of labor conditions in the region through cooperation, and to provide a mechanism for arbitrating labor disputes. Between the virtues that this mechanism has created are the protection of certain rights regarding the NAFTA industries, the right to strike, prohibition of forced labor, labor protection for children and young people, compensation because of injuries or illnesses, or elimination of discrimination. Moreover, in 2020 with the USMCA, it will be incorporated the progressive rise of the wages in Mexico for the manufacture sector and the guarantee of the collective bargaining rights for workers. One year before, the Labor Reform in Mexico was passed, to guarantee a new system of labor justice, union democracy and a new federal center for conciliation and labor registry.⁹³ For that, NAFTA has resulted in the increased scrutiny of Mexico's labor relations system and the enforcement of workers' rights.⁹⁴

In sum, the RTA created a circle of virtues and external benefits to Mexico originated primarily by the improvement in social rights, spillovers, bureaucracy improvements, political understanding, judicial evolution and democratic processes, and its parallel agreements about environment protection and labor rights. About the last two, it is important to underline that NAFTA was not designed to achieve those goals *per se* in the legally binding obligations of Mexico, thus their presence is a virtue.

3.3 Social outcomes

In the Mexican public debate, some politicians and productive sectors argue that the integration process created negative outcomes in society. Even when it might be a generalized assumption, negative results are present in the country and it is possible to demonstrate them. To do that, it is necessary to understand the roots of the negative outcomes in the Mexican society. Some experts argue that “the benefit to be derived from foreign trade is [people] getting the largest quantity of

⁹³ Ministry of Labor of Mexico data. Available in: <https://reforma laboral.stps.gob.mx/>

⁹⁴ Norman Caulfield, Op. Cit.

want-satisfying goods of the best quality, for the least amount of effort. [And reducing] units of labor required to obtain consumption goods is the essence of economic progress”.⁹⁵ This means that the negative impact will trigger damages in the sectors of Mexico that cannot adapt to the new consumption patterns or face foreign competition; improve their technology in the new export-oriented sectors,⁹⁶ or reduce its units of labor required for production. Those outcomes might produce inequalities inside a country.⁹⁷

The inequality in Mexico is a pending issue for NAFTA. It is impossible to generalize that because of NAFTA Mexico cannot improve its levels of disparity; however, some key elements can help to exemplify the existence of a relation. First, trade can generate inequality, because “many people living in poverty could find it all the harder to break out of poverty traps without concerted public action—for example, if human capital fell below the minimum needed to engage the global economy”,⁹⁸ that demonstrates that when some sectors are improving, other may be left behind. In the Mexican case, it is possible to see one emblematic example. In the case of NAFTA, foreign trade is unable to assimilate and deal with the consequences to some significant native products, such as corn. The 64 native crops of corn have been part of the Mexican identity since centuries as well as part of its food sovereignty, because their flour is the nutrition base of almost every one of the 126 million Mexicans. However, the industry suffered because of NAFTA.

In 1995, one year after NAFTA entered into force, corn imports from the US to Mexico were equivalent of 391 million dollars, and in 2015, US corn farmers sent 2.4 billion dollars to Mexico.⁹⁹ That export success in the North created a harm in the South, producing poverty for the Mexican corn farmers. NAFTA opened the Mexican market to US corn producers who were subsidized. According to Mexican authorities, the country lost 2 million agricultural jobs with NAFTA and generated

⁹⁵ Harry Collings, Op. Cit.

⁹⁶ Ibid.

⁹⁷ Andrea Weber, Op. Cit.

⁹⁸ Michael Todaro and Stephen Smith, Op. Cit., p. 602.

⁹⁹ Azam Ahmed and Elisabeth Malkin, “Mexicans Are the Nafta Winners? It’s News to Them”, in *The New York Times*, January 2017. Available in: <https://www.nytimes.com/2017/04/02/world/americas/mexico-corn-nafta-trade.html>

economic consequences to their families.¹⁰⁰ Moreover, selling Mexican corn became difficult. Cheap-subsidized corn entered to Mexico from the US, reducing the national production because of the competition. “Much of the corn that Mexico consumes comes from the US, making it America’s top agricultural export to its southern neighbor”.¹⁰¹ In 2018, the consumption of corn in Mexico was 43.4 million tons, of which 27.1 million were produced in the national territory; 17.1 million tons were imported, and only 908,000 tons were destined for export, according to the Ministry of Agriculture and Rural Development of Mexico. Moreover, most of the farmers in Mexico had to work in the informal sector and now do not have a stable salary; they live from their irregular sales. Those consequences for the farmers and their families generated by NAFTA can be contrasted with more optimistic outputs in other sectors of the Mexican economy, such as the development of the car industry that developed entire communities, for example. With that, it is demonstrated that an RTA can generate inequality in the developing country. Moreover, the inequality generated in Mexico can be understood with the Frieden’s specific-factors model: the industries with short-term fluctuations in the returns [the Mexican car industry] are more politically relevant and successful, while for the ones who are not [the corn farmers] it is difficult to find or relocate in a new job.¹⁰² Also, using Frieden’s model, it is possible to see that the principal beneficiaries of the increased financial integration have been internationally oriented firms linked to the most exported items [like car MNCs], and not the nationally based industrial firms [like the native corn].

The corn crops are an example of the struggle that NAFTA can create, but it is important to say that is a very specific (but important) negative spot within other agricultural winners. Since 2016, Mexico became the first source of US agricultural imports, outperforming the EU. It is true that NAFTA generated big winners in specific sectors of the Mexican economy, like motor vehicles, tractors or vehicle-parts, but also in other sectors like vegetables, fruits, roots, plants or spirits.¹⁰³

¹⁰⁰ Ibid.

¹⁰¹ Kirk Semple, “Mexico Ready to Play the Corn Card in Trade Talks”, in *The New York Times*, April 2017. Available in: <https://www.nytimes.com/2017/04/02/world/americas/mexico-corn-nafta-trade.html>

¹⁰² Jeffrey Frieden, Op. Cit., pp. 426-434.

¹⁰³ Ministry of Economy of Mexico, Op. Cit.

Other negative impacts can be described using the variables of Bruszt *et al.*: high levels of migration, the increased need for financial transfers from the core to the periphery and social-political strains. For the first aspect, it is not possible to demonstrate that the RTA created the flow of Mexican immigrants into the US. That started in 1960. During the 70s and 80s, the migration to the US increased considerably, going from half-million Mexicans in 1960 to more than 4 million in 1990.¹⁰⁴ However, the flow grew faster and was boosted in the first years of NAFTA, reaching more than 9 million in 2000 and skyrocketing until almost 12 million in 2010.¹⁰⁵ For the second aspect, the developmental cooperation from the US started in 1951. However, in the years of the RTA, the money flowed more abundantly. It started to grow significantly since the year of total elimination of tariffs (2008), while 2009 and 2010 were the years with more cash flows requested for Mexico in the US Congress (501 million dollars).¹⁰⁶ (See Graph 7). Regarding the third element about the social-political strains, the RTA fueled a social turmoil in the south of the country.¹⁰⁷ The Zapatista National Liberation Army made NAFTA a source of their complains, arguing that its free trade contributed to the economic problems of the Mexican underclass, the depopulation of the rural areas and the excessive growth of the cities; also, that the rural communities were voiceless and ignored during the negotiation of the agreement, causing suffering and misery.¹⁰⁸

Finally, another cause of social struggles originated by NAFTA was the issue with sovereignty. For Mexico, the imposition to raise the wages almost in ten times in key sectors with the new USMCA and the necessity to reform the national labor laws to comply with the petitions of the US are two examples.¹⁰⁹ The US House of Representatives conditioned the ratification of the

¹⁰⁴ Migration Policy Institute data. Available in: <https://www.migrationpolicy.org/programs/data-hub/us-immigration-trends#Diaspora>

¹⁰⁵ Ibid.

¹⁰⁶ US Government data. Available in: <https://www.foreignassistance.gov/explore/country/Mexico>

¹⁰⁷ Paul Rich, "NAFTA and Chiapas", NAFTA Revisited: Expectations and Realities, *The Annals of the American Academy of Political and Social Science*, 550, March 1997, pp. 72-77.

¹⁰⁸ Ibid.

¹⁰⁹ Alberto Nájjar, "¿Por qué México considera que no puede ni le conviene aumentar los salarios como piden Canadá y EE.UU. en el nuevo NAFTA?", in *BBC*, October 2017. Available in: <https://www.bbc.com/mundo/noticias-america-latina-41578169>

trade agreement in exchange for the Mexican Congress to comply with the changes to the law, aligned to the resolutions reached between the three countries in 2018.¹¹⁰ The approval of the last “labor reform is part of the commitments acquired after the renegotiation of NAFTA, which gave rise to the new USMCA”.¹¹¹ All that was seen by legislators and analysts as a loss of Mexican sovereignty produced by the wishes of a foreign public institution.¹¹²

In sum, although the interpretation of those outcomes can vary between some actors, it is possible to say that the integration process hit key sectors of the Mexican society. The key negative outcomes are some farmers and social inequality, as well as a variation in the levels of migration, the financial transfers from the US, the sovereignty issue because of the USMCA ratification and the social-political strains in the rural south of Mexico.

3.4 Prevailing scenario in Mexico

Based on the outcomes and previous assessments, I can argue that Mexico achieved the economic and legal purposes of NAFTA. The expected benefits written in the agreement were successfully done. An increase in Mexico’s exports, FDI, PPP GDP per capita, but mostly the diversification of its exports and improvements in high-tech items are some demonstrations. The economic benefits of its integration process with developed partners are present. However, the development of Mexico is also there based on the good practices produced by the RTA. The country enjoyed virtues from the integration, such as democratic processes, bureaucratic and institutional improvements, and political understanding with its partners. But most of all, the developing country obtained two parallel institutionalization processes, represented by the labor protection system and the environment regulation. The representation of this path is the official incorporation of the two agendas in the new

¹¹⁰ Price Waterhouse Coopers, “Reforma Laboral 2019”, PWC Mexico, 2019. Available in: <https://www.pwc.com/mx/es/reformalaboral2019.html>

¹¹¹ Ibid.

¹¹² Alberto Nájjar, Op. Cit.

USMCA agreement. This means that Mexico has detectable bureaucratic and institutional improvements as well.

Although the South state has positive outcomes, it also presented negative social outcomes because of its membership. The inequalities in some sectors of the Mexican agricultural force and the issues in its sovereign decisions during the negotiations with its developed partners are present; as well as the increase in the migration flow and the financial transfers from the US. Also, political and social strains produce by NAFTA are present. However, according to the model, the presence of outcomes from the social and economic outcomes does not mean that the country cannot be categorized as “relatively more positive”. Some negative effects in the social sphere are present, but those are less in comparison with the positive ones in the economy and the bureaucracy and institutions. The process of integration of Mexico with the US and Canada based on NAFTA is “relatively more positive”, demonstrating that the set of the positive outcomes in that scenario represent the reason for Mexico to join in.

Conclusions

In the present research project, I suggested a model to evaluate how RTAs as integration processes between developed and developing countries generate different outcomes for their less developed members. Also, the model helped to explain why they decide to join in. The necessity of doing that was the less abundant literature that explains RTAs between North-South states. Specifically, I was inspired by the positive and negative outcomes of integration that Bruszt *et al.* and other authors explained for some regions. Moreover, I elaborated on the negative outcomes with the elements considered by Bivens, among others, and illustrate them using the model of Frieden. Based on the literature, I elaborated in some crucial concepts, the holistic approach, the eclecticism, and presented the relation of some variables with three specific outcomes that Mexico experimented

as the developing member of the North America integration process: economic, bureaucratic and institutional, and social outcomes.

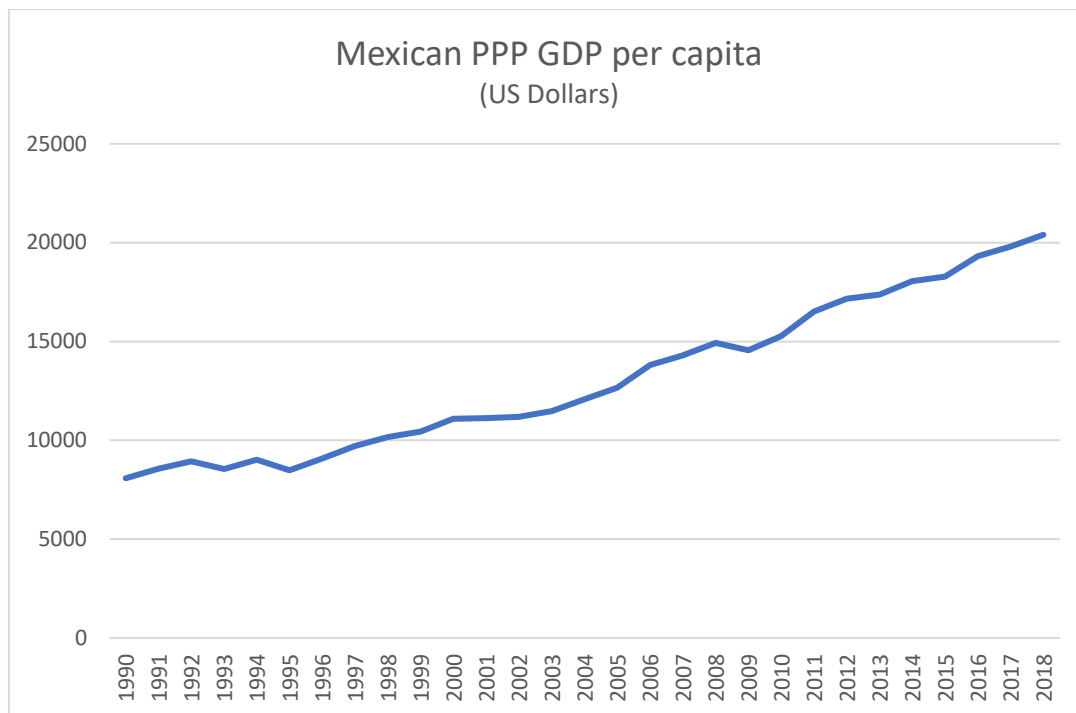
After measuring those outcomes, I explained and suggested three scenarios to locate the test country: “relatively more positive”, “minimalist” and “relatively more negative”. I considered the data and outcomes to locate Mexico in one scenario based on a thick description, in order to find why this country decided to join in even without 100% of gains. Thus, the integration process of Mexico in the context of NAFTA resulted to be relatively more positive for the developing country. This does not mean that the North American RTA has not areas to improve or crucial social outcomes to solve for the developing member. This means that it created more virtues and positive outcomes than negative ones, generating improvements in its bureaucracy and parallel institutions, specifically for the labor and environment areas. This conclusion has an empirical support: NAFTA was recently renegotiated in the new USMCA, a treaty that will preserve the competitiveness of the region, while maintaining a broad agreement that responds to the new conditions of international trade or the global economic reality. North America will be composed from July 2020 by the USMCA, an agreement with political willingness to seek a better social and economic condition for the entire region, and that promotes the well-being of the population, and not only from the economic and business field, but by considering the social spheres and cooperation for development.

It is important to remember that the empirical proofs of this thesis cannot always discard the effects of other factors, as it was said from the beginning of the modeling. Moreover, the evidence given in the set of outcomes must be understood as impacts from a complex integration process by North-South members, and that is why the evidence I tried to give is suggestive rather than totally conclusive. Also, the project is not bulletproof. The effort to assure that the outcomes originated only by NAFTA might be vulnerable for some information obtained by the sources. However, it is principally the clarity of the logical relations and the elements presented, based on the scholarly support and the thick description of the data, that allows me to justify the explanations.

Specially, my model suggested a fourth category to the classification of integration processes of Krapohl and Fink. As it was explained before, they define three types: 1) between developed countries that increases the supranational institutions because of their interdependence, 2) between developing countries where all of them are similar and depend on a foreign force to trade with, and 3) between developing countries where one of them is slightly bigger and use the regional organization for its own well-being to pursue its benefits. With my research I can argue that there is a fourth type between Global North and South countries, where the developing state achieve its economic purposes but also develops specific institutions and virtues based on the interaction with its developed partners.

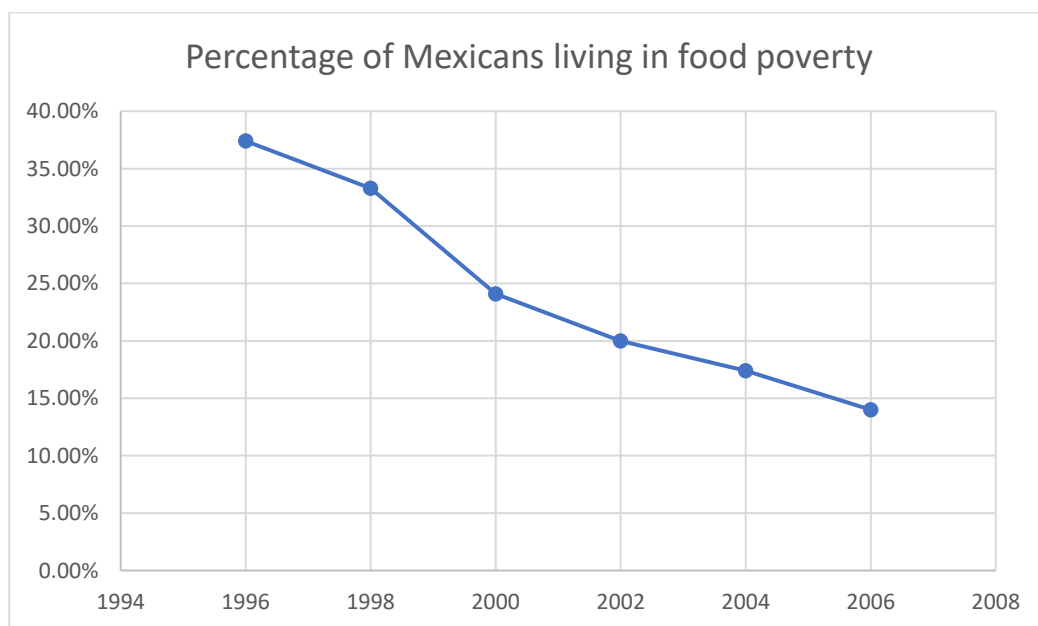
ANNEX

Graph 1



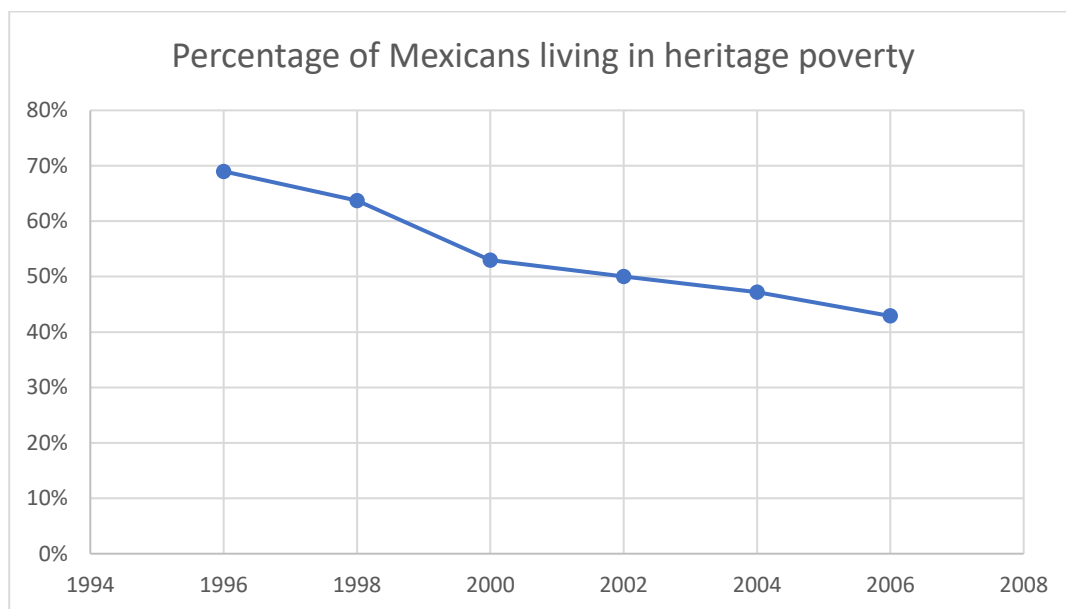
Source: elaborated with data from the World Development Indicators database of the World Bank.

Graph 2



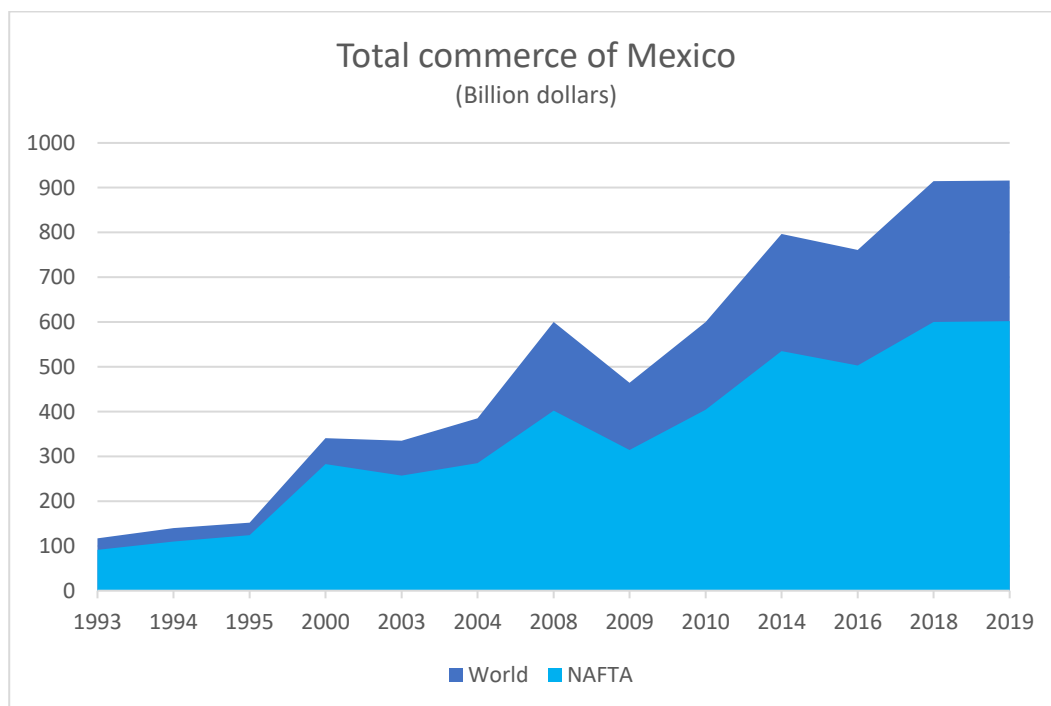
Source: elaborated with data from the National Council for the Evaluation of Social Development Policy of Mexico for the period from 1996 to 2006.

Graph 3



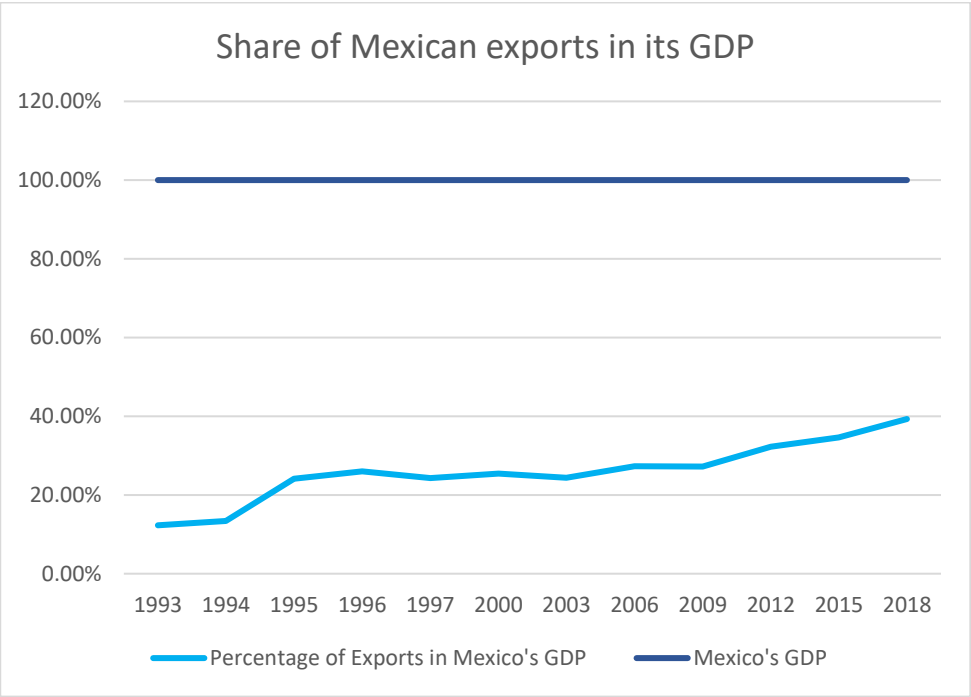
Source: elaborated with data from the National Council for the Evaluation of Social Development Policy of Mexico for the period from 1996 to 2006.

Graph 4



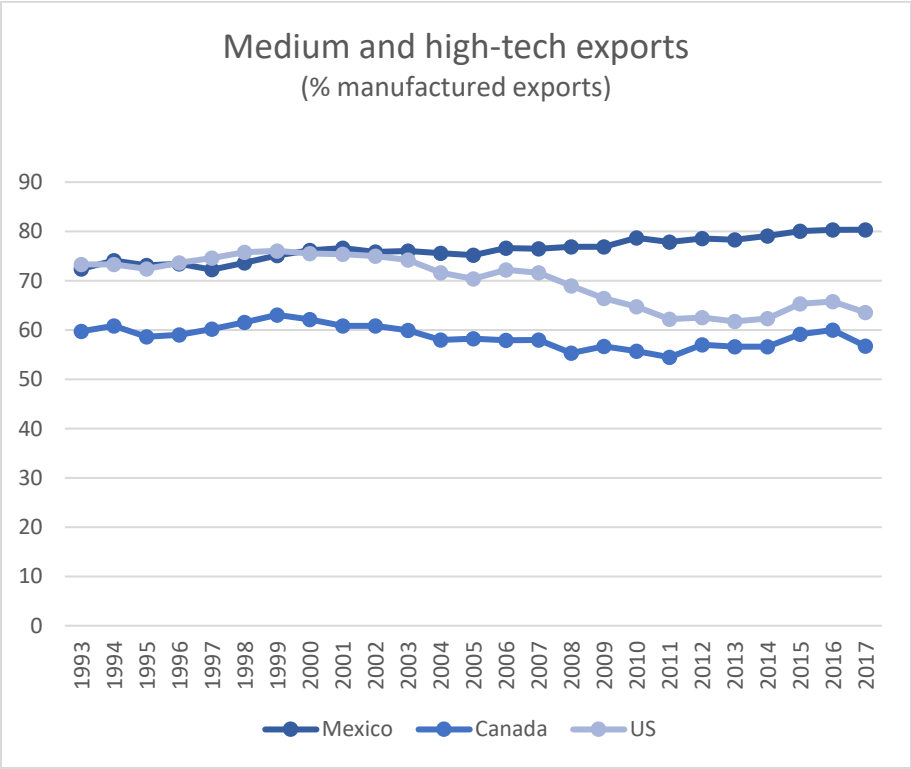
Source: elaborated with data from the Central Bank of Mexico and National Institute of Statistic and Geography for the period from 1993 to 2019.

Graph 5



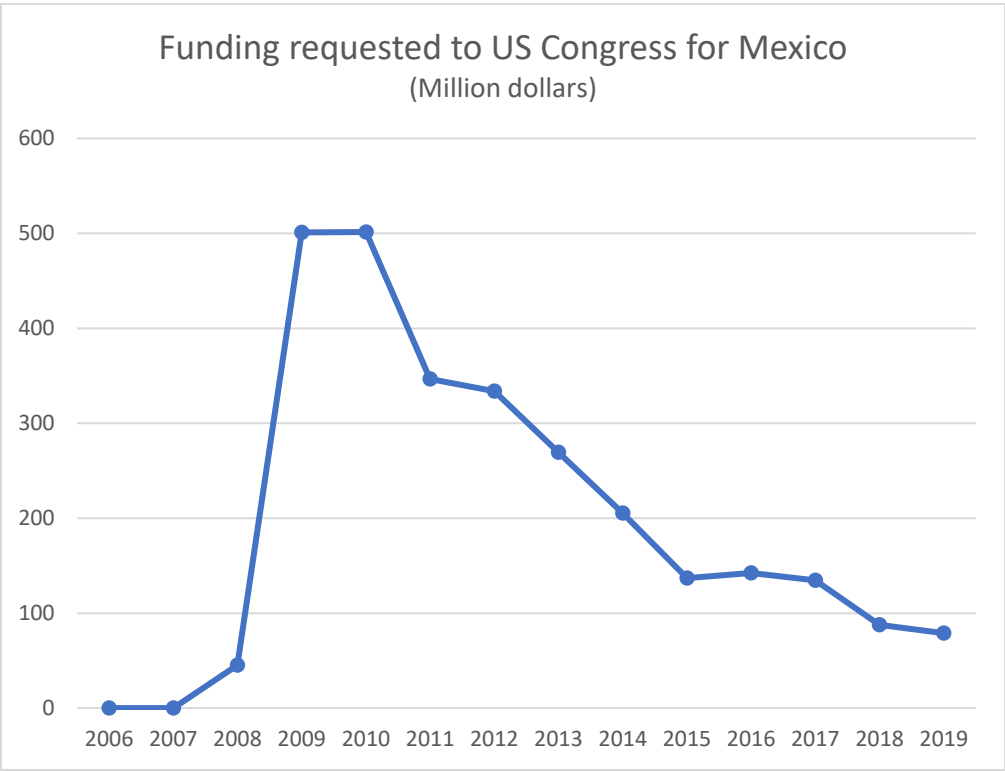
Source: elaborated with data from the OECD from 1993 to 2018.

Graph 6



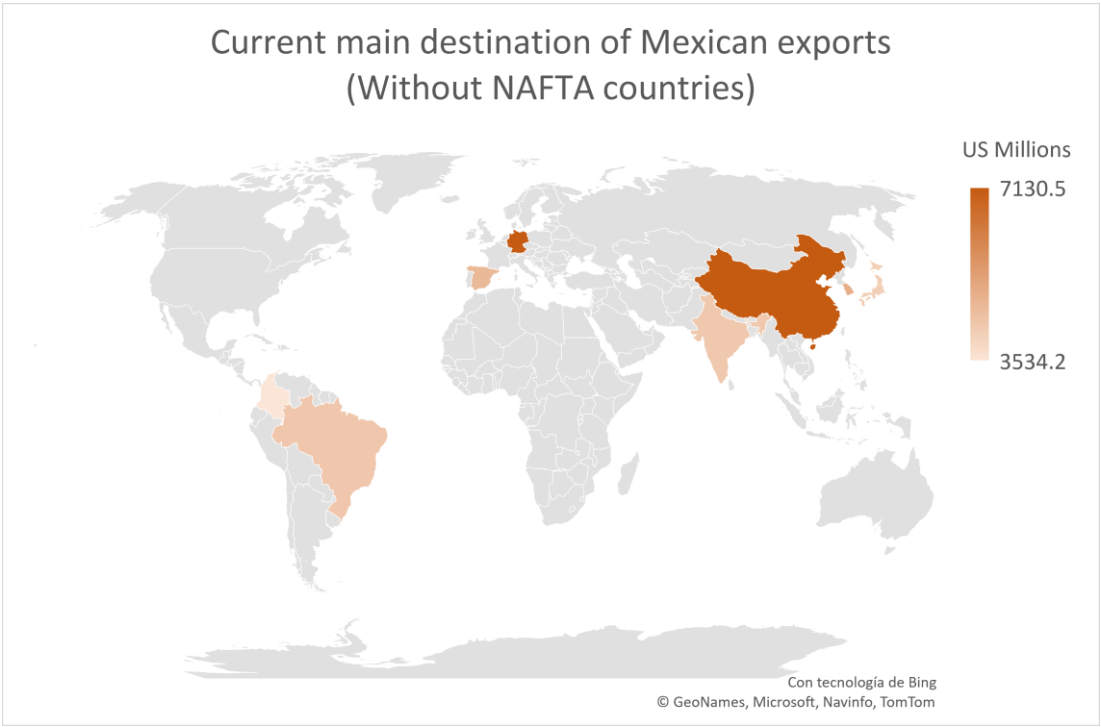
Source: elaborated with data from the OECD from 1993 to 2018.

Graph 7



Source: elaborated with data from the US Congress foreign assistance programs.

MAP



Source: elaborated with data from the Ministry of Economy of Mexico for 2019.

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