Preliminary NAFTA Deal: A Win for Mexico?

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North American Free Trade Agreement (NAFTA) is a 24-year-old trilateral deal between the United States, Canada and Mexico. In August 2017, the United States called for the renegotiation of this agreement. After one year of rigorous negotiations, on 27 August 2018, the US and Mexico have arrived at an agreement. However, the US still needs to negotiate with the third partner in NAFTA, Canada. If no agreement is reached between Canada and the US, NAFTA might be replaced by a new deal known as 'the United States-Mexico Trade Agreement'. From a sneak-peak at some published abstracts, we gather that there are three clear wins and two losses for Mexico in this new agreement.

The first big win is that the free trade agreement between the US and Mexico will now survive. In his first 100 days at office, President Trump announced that the US intended to withdraw from NAFTA if it was not revised and renegotiated. Thanks to the very well experienced negotiators of Mexico and close support from private stakeholders, that fear of losing this trade deal altogether is now over.

The second win is the "sunset clause". The US and Mexico have agreed that the initial term of the agreement would be 16 years, with a review after six years when the parties can decide on whether to extend the agreement for another 16 years. Mexico wins as the US has backed off from an initial demand for a "sunset" clause that would have killed the pact unless it was renegotiated every 5 years. Such a clause would have reduced the potential of long term investment in the region due to uncertainty on whether the deal would survive after every 5-year review or not.

The third win is the "regional value content" requirements. The new deal requires 75 percent of the value of a vehicle to be produced in the United States or Mexico. The old deal had a similar clause with a threshold of 62.5 percent. The higher threshold is aimed to reduce the import of automotive parts from Asia, with the aim to boost North American automotive manufacturing and jobs. According to the Mexican Secretariat of Economy, 68 to 70 percent of Mexican automotive exports to the United States already comply with the new rules of origin, which will allow major part of the automotive trade to continue to flow without disruption. Off course, the remaining 30-32 percent of Mexican automobile industry that does not comply with the regional value content requirements at the moment might have to undergo substantial changes and adjustments in the future.

The two apparent losses seem to be the ongoing tariffs on steel and aluminium and the possible displacement of its automobile industry due to new labour value content requirements.

The first loss is the existing and ongoing US tariffs on the steel and aluminium imports from Mexico. Currently, Mexican steel and aluminium respectively is subject to 25 percent and 10 percent duty in the US. Mexico has retaliated against these tariffs by imposing duties against certain imports from the United States. Mexico has also challenged these duties at the World Trade Organization Dispute Settlement Mechanism. These actions clearly show Mexico’s frustration against these duties; however, it seems that Mexico has chosen to ignore this issue in its bilateral NAFTA renegotiation with the US. There is no statement from the US on whether these tariffs will be removed from the Mexican imports now that there is a deal between the US and Mexico. Uncertainty remains.

The second negative impact could be coming from the new "labor value content" requirement. This rule will require that at least 40 percent of auto content and 45 percent of heavy truck content are made by workers earning at least USD 16 per hour. This rule can have the impact of shifting production and manufacturing of automobiles from Mexico to high wage rate areas such as the US. Once enforced, it can jeopardize the employment of workers in this industry in Mexico. The rule will create more jobs for workers in the US, as it will create a level-playing field between the Mexican and US workers employed in this industry.

As of today, we do not have access to the full text or draft of the newly agreed agreement between Mexico and the US. Unless we have more clarity on whether Canada will join the deal or not, and unless we gain access to the full text of the new agreement, analysis of this situation is only based on predictions.