

Trump politics towards Mexico. Renegotiating NAFTA while invoking the Monroe Doctrine¹

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Abstract

This paper considers the election of Donald Trump to the presidency of the United States of America, along with political events in Europe and other countries in the world, as the political expression of the economic crisis of 2008. It analyzes the proposals of the new US government, to find out that Mexico has been, since the campaign, a main objective in Trump's nationalistic offensive to gain the election. Mexico is the lowest political cost target, compared with China or any other country Trump has identified as a threat to United States national security. Under such context, the document enlists responses from Mexico stemming from the political and economic establishment towards national unity and the defense of sovereignty, in response to Trump's threats. The official responses have no legitimacy after their having aligned themselves for three decades with US politics and interests, partaking economic neoliberalism, NAFTA and globalization. President Trump has not changed his negotiating strategy. As recently as late August 2018 while announcing that both countries have found a win-win accord, President Trump reiterated his intention to bury NAFTA, since it: "has a bad connotation because the United States was hurt very badly by Nafta for many years" (Fortune, 2018).

Introduction

Two and a half decades after the adoption of the North American Free Trade Agreement (NAFTA), the US government demands its renegotiation, under the Damocles threat of pulling out of the agreement if its requirements are not fully satisfied. After seven rounds of negotiations, it seems clear that the United States is going to break the deal. In Mexico, calls abound for an economic shift away from depending heavily on direct foreign investment and towards new markets for Mexican exports and the supply of its imports, especially in agriculture. At the same time, some political and academic circles reiterate that, like in the love song *Encadenados*, Mexico and United States are, "fatally condemned to trade" (Solano, P. 2018), and "so chained to each other to never part". That fate was sealed when the Secretary of State, on the eve of his tour of Latin America, emphasized the relevance and importance of the Monroe Doctrine,² in managing the relationship between the United States and Latin America (Tillerson, 2018).³ The demand for a Plan B, the design of a non-NAFTA strategy, is gaining support among diverse sectors of Mexican society, in the midst of growing uncertainty about the possible end of an era that promised modernity and prosperous

¹ "In the war between those new Governments and Spain we declared our neutrality at the time of their recognition, and to this we have adhered, and shall continue to adhere, provided no change shall occur which, in the judgement of the competent authorities of this Government, shall make a corresponding change on the part of the United States indispensable to their security" President Monroe's seventh annual message to Congress, December 2, 1823.

² Institutionalized on December 2, 1823, the Monroe Doctrine established that the "Western Hemisphere would be dominated exclusively by the United States and Europe would abstain from interfering in its business. Along with the principle of the Manifest Destiny, "that set the precedent and supported the expansion of the United States on the American continent" (USA State Department, 2018). The main founding principal of the Monroe Doctrine: "America for the Americans" (read North Americans) was rejected by Secretary of State Kerry in a speech to the OAS when he declared relations between the United States and Latin America to be based on respect among equals (Kerry, 2013).

³ The Secretary of State said about the Monroe Doctrine: "So I think it clearly was an important commitment at the time, and I think over the years, that has continued to frame the relationship... So I think it's as relevant today as it was the day it was written" (Tillerson, 2018).

stability, Mexico's entrance into the club of industrialized and developed countries. The modernizing framework employed by the original NAFTA negotiators of the 1990s, the same group negotiating today, assured that by tying its economy to the United States, Mexico would inevitably advance along the path of progress and become a modern nation.

A second year into the Trump administration and after seven rounds of negotiations, there is now (March 2018) no doubt, if there ever was any, about the principles that have led the U.S. leader to attack Mexico; and the abandonment of NAFTA seems ever more feasible and linked to political events in the USA (Muller's investigation, midterm elections and the potential Trump's second mandate). Analysis of the effects of NAFTA, as well as the statements from a wide swath of business leaders in the United States, reveal that the motivations for abandoning NAFTA are political. This conclusion holds even after the bilateral pre-agreement between Mexico and the USA was signed in late August. Trump announced both countries found a win-win accord, reiterating his intention to bury NAFTA, since: "has a bad connotation because the United States was hurt very badly by Nafta for many years." (Fortune, 2018). Later on August 28, D. Trump reiterated his will to build the wall, making Mexico to pay the bill,⁴ forcing Mexican authorities to strongly deny their willingness to do so. Both the Mexican government, the acting president Peña Nieto and the Andrés Manuel López Obrador (who was elected president in the First of July elections) wanted any agreement signed before the first of December – the day when Lopez Obrador would take office. This was in order for Peña Nieto to be able to say that under *his* mandate NAFTA was saved, and so that López Obrador would avoid having to negotiate with Trump (in Mexico the time between an election and the newly elected present taking up office is five months). So, as in 1994 the agreement was signed at high speed, leaving many questions pending.

Measures passed almost immediately after Trump took office and his most recent statements, have shed light on the contents of *Make America Great Again*, ranging from white supremacy to nativism and isolationism, the health and tax reforms, the proposals to deregulate the financial system, to relax environmental regulations, and open up protected land to oil exploration, reveal that poor people will have no place in this Great America, that big money and corporations are the biggest winners. That is why the president felt so at home in Davos and received an almost affectionate welcome.

While U.S. negotiators reprimand the Canadians and Mexicans for not presenting counterproposals that satisfy the needs of the United States, Canada and Mexico reproach the United States for avoiding final agreement on issues like trade and agriculture. The seventh round of negotiations ended with chapters on corruption and best trade practices, issues that should be legislated nationally and not within trade deals. The rules that govern the automotive sector and the conflict resolution process in that sector were left unresolved because of the inflexible stance of the United States. Meanwhile, uncertainty and instability threaten the exchange rate, risk inflation and reduced growth in Peña Nieto's administration. The economic crisis and political uncertainty in Mexico is an echo of the more general crisis and uncertainty that Europe, the United States and the world has been experiencing since the 2008 economic crisis.

⁴ D. Turmp declared at a press conference held Aug 28, 2018 - "It will ultimately be paid for by Mexico," acceded at: *Politico*. <https://www.politico.com/story/2018/08/28/donald-trump-mexico-pay-for-border-wall-799072>

The Brexit referendum, the election of Donald Trump, the electoral gains of Le Pen in France, the extreme right in Germany, Austria and Italy, as well as the establishment of right-leaning governments in Poland, Hungary, Austria and Bulgaria – all these events, even if different in many ways, express the crisis of major political parties abandoned by their voters, a rejection of the economic, political and intellectual status quo and the hegemonic economic doctrines of the last thirty years (globalization and economic neoliberalism), and the rejection of immigrants blamed for poverty, violence and a loss of identity.

This essay considers the context of the election of President Trump and the development of his policy towards Mexico and foreign trade, created in his first year of office, as an expression of *a different geopolitical version of US imperialism*. To such an end, this paper is divided into the following parts: the first section outlines the political and economic context of the renegotiation of NAFTA; the second section presents the proposals of the new US government in terms of trade, taxes, immigration, national security and drug trafficking, within which Mexico is seen as the main enemy to US security. The third analyzes the how the United States, not Mexico, has been the greatest beneficiary of NAFTA, and the fourth discusses the evolution of the Mexican economy, pointing out various aspects that have reinforced its relative stagnation. The fifth section presents positions within Mexican society in regard to the negotiation and impact of NAFTA, using a review of over 600 declarations and statements made by actors in diverse areas of public opinion. It also outlines possible policy alternatives in view of the preferences expressed and the options for changing the economic course made possible by Trump's anti-Mexico and position.

I. Economic and political context

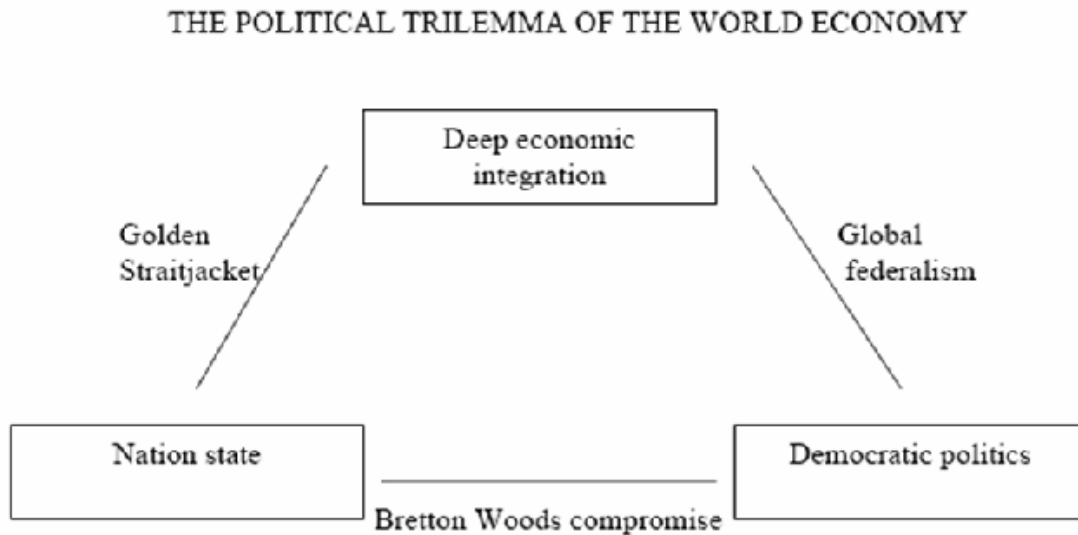
The 2008 crisis called into question the fundamentals of economic theory over which the model of global growth had been sustained for the last three and a half decades. Today we witness the crisis of liberal democracy and neo-liberal economics and the liberal internationalism, as well of the Social Democracy doctrine, the New Labor and waning The Third Way, and the fading out of the unrestricted support of globalization (Rodrik, 2017). Some foresee it as the end of the *Pax Americana*, or US hegemony established since the end of World War II and the world order that emerged thereafter (Roubini, 2017). For Trump, the costs of maintaining US imperialism are unacceptable; qualifying NATO as obsolete and its members as free riders and suggesting nuclear proliferation of Japan and Korea while keeping the USA “at the top the (...nuke) pack” (Trump, 2017) would be a sensible strategy, as it would reduce for the US the cost of defending these countries. In reality he is not an isolationist. He aims at controlling word order in his own terms: reinforcing the military power elements of the international security policy and discharging the elements of world peace that inspired the WWII peace agreements and described in F.D. Roosevelt 1944 State of the Union Speech (Roosevelt, 1944), for whom security was not only preventing foreign aggressions but avoiding any threats to economic, social and moral security, because a basic element of world peace is “a decent standard of living for all individual men and women and children in all Nations” (Roosevelt, 1944). Furthermore, for Roosevelt, peace depends on “...freedom from fear which is eternally linked with freedom from want” (Roosevelt, op cit.).

Exacerbated globalization has made clear the contradiction between liberal democracy, which proclaims equality among all human beings and a capitalism that sanctions inequality. Neoliberal economics and the Third Way political programmes, with its supply side model and its trickle down myths, intensified the innate tendency of capitalism toward concentration of

wealth and, by eliminating the mechanisms of distribution and countervailing measures, widened the universe of losers, mainly workers, and reduced that of winners, and rewarded the latter with ever growing profits. This mismatch is one of the effects of the synthesis of Regan-Thatcher market liberalism and social individualism with social democracy distributive policies. The market was the approach to tackle inequality and avoid social disintegration. The motto of European Social Democratic parties and left of the centre parties elsewhere was, “equal opportunities for all”, while pushing market oriented reforms in education and health. The crisis of 2008 evidenced the extent to which labor had been degraded, wages stalled and social mobility slowed, while services deteriorated and household debt prevented the deterioration of wages getting even worse. Fiscal discipline, or fiscal consolidation, evolved into a permanent austerity, enhancing the effects of the economic contraction, exacerbating inequality and deepening social discontent.

The neoliberal economy has aggravated the conflict between democracy and capitalism and, according to Rodrik, has given the green light to the trifecta of issues still unresolved by the global economy: “the incompatibility between democracy, national sovereignty and integration into the global economy; we can combine two of the three, but never have all three at the same time” (Rodrik, 2017), see Figure 1.

Figure 1



Source: From Rodrik, D. (2017)

Whether or not the trilemma portrays reality, it does highlight the conflicts revealed by Brexit and the election of Donald Trump and his trade and international relations agenda. It rejects the subjugation of national policies to the dictates of trade and transnational capital codified in multilateral or bilateral trade agreements and pacts like the TTP that go beyond simple trade and, according to the ex-secretary treasurer of the United Kingdom, A. Darling, to replace the “classic Keynesian model, in which government assistance to the economy has been substituted for austerity” (Darling, 2017), a change that the author considers demanded by the advancement of financial capital’s globalization. The result of this straightjacket is the almost three decades of lowered living standards, wages and economic security that led to Brexit and to Trump (previously cited), in the countries where neoliberalism was the most advanced. In the European Union it was the subjugation of decisions both private and public to the

dictates of an unelected technocracy, far from citizens and very close to the interests of large banks and corporations, as the Greek crisis illustrated.

II. The world according to Trump: Mexico the first enemy of the American Dream

There is not much difference in the content of recent speeches in Davos, the State of the Nation speech and the inaugural address in which Trump sketched out a United States society that, besieged and weakened by the harassment of internal and external enemies, has lost its dreams, its military hegemony, and the wealth of its middle class. In Davos and in the State of the Nation, Trump, although moderated to a degree, painted the picture of a dynamic country with a thriving economy, but surrounded by enemies that could and were trying to destroy it: immigrants, nuclear weapons, and unjust trade deals – that in defense of national interest it was important to protest against them unless they could be reformed appropriately and trade deficits could be eliminated. To achieve this he announces manipulating the exchange rate and imposing import duties on various products, and with the tax reform attracting capital and increasing the profitability of investments, even at the risk of worsening the concentration of wealth and reducing the middle class's income purchasing power (Galbraith, 2018).

As suggested by the growing debate over the kind of government that Trump will lead, it would seem that the nightmarish *Plot against America* might be close to reality. For some, this is all about the rise to the White House of a determinist leader, willing to affect all institutions, to “deconstruct the administrative state” (Bannon, 2017); for others, Trump is a right wing populist actor in form and language, devoid of ideology. There seems to be no doubt of his authoritarian character and his determination shake the system creating conflicts with world leaders, both close and distant allies; with the judiciary power, the intelligence institutions, the media, members of his party, with women, ethnic minorities. He also fuels conflicts in the Legislative power between the two parties, given the Republican's willingness to accept all presidential initiatives and to excuse all his outbursts and the conflicts of interest that he decides to defiantly ignore. To this date, everything announces that he is willing make his proposals a reality without abandoning his rhetoric in which truth is not a requirement. How far he will reach is not clear, but the latest changes in his inner circle of secretaries and advisors confirms that he is determine to fulfill all his promises except to improve the wellbeing of the poorest segments of the USA population. It looks clear that the conservative party has closed ranks to defend him as the president since his is advancing the very ultra conservative agenda point by point and looking toward the November 2018 and 2020 elections.

Trump has not abandoned the belligerent tone of his inaugural speech where he sketched an American society that, besieged and weakened by the harassment of internal and external enemies, has lost its dreams, military hegemony and middle class wealth. Migration, made up of criminals and terrorists, bleeds the nation and globalization destroys the social fabric by ruining the productive sector through the export of jobs. Since *protection leads to great prosperity*, the recipe to “make America Great Again” boils down to: *buying made in America, by American workers*. In Trump's *alternative realism*, there is no room to talk about the crisis of 2008, nor about the ravages of financial deregulation and huge mergers, all of which lead to the dominance of large corporations and financial capital in the global economy and the consequent intensification of inequality.

Today, the US economy is growing at a faster rate than any other similarly developed ones; the number of people receiving unemployment insurance is lower than in 1996, and

unemployment nears 4.1% of total labour force and real medium wages have recently increased and approached the 2007 level. All that suggests that the economy is close to full employment – if the low participation rate is not accounted for. This reality calls into question what Trump means when he promises “to bring jobs back home”: more employment? Or higher productivity, with superior technology and robotization? We think that he aims to eliminate and replace jobs in Mexico and for robots in Detroit. Certainly, the Labor Secretary candidate is neither a champion of the workers nor the defender of labor income, minimum wages or labor unions. Trump structures his economic cabinet with officials from Wall Street corporations and has gone in the direction of undoing previous reforms to the financial system, approved after the crisis of 2008. Indeed, it is not an agenda in favor of workers and the middle classes. Neither has he changed his view of Mexico since the campaign. In fact, on January 18, 2018, he said, citing national security, and as a condition of letting dreamers remain in the country, the financing of the wall, “We need the Wall for the safety and security of our country. We need the Wall to help stop the massive inflow of drugs from Mexico, now rated the number one most dangerous country in the world. If there is no Wall, there is no Deal! (<https://twitter.com/realDonaldTrump>). The rhetoric of the first State of the Union brought together immigration, terrorism; drug trafficking, crime, and trade, adding that he would renegotiate the agreements until they were just and reciprocal, once the borders were secure, and immigration under control.

III. Mexico: the greatest enemy of the United States

Regardless of whether or not Trump can fully enforce his *economic nationalism* agenda, it is clear that he intends to carry out the vision outlined in his inaugural speech: “Decisions in trade, immigration taxes, and foreign affairs will be taken only for the benefit of American workers and American families” (Trump, inaugural speech). The issues chosen by Trump consist of various things that create internal and external conflict.

Trade

Trump proposes reducing the trade deficit, punishing exchange manipulation and retaliating against unfair trade practices, exercised against the North American interests by non-market economy countries and countries with non-transparent and corrupt trade practices. The main points of the new government agenda were outlined in a draft of the “annual trade policy agenda” of the United States Trade Representative (Council of Foreign Relations, 2017). To protect national interests, Trump decided to bilaterally renegotiate multilateral or bilateral trade agreements, especially NAFTA, for him “the worst agreement ever signed”. He protested against the TPP, signaling the end to the strategy to promote economic integration as the way to prevent the resurgence of nationalist sentiments and violent conflicts of interest. That was the idea behind the construction of the European Union and of the mega trade projects: the TPP and the TTIP, which were the instruments to consolidate USA geopolitical supremacy and to restore the political balance disrupted by the emergence of China as a main political and economic player. Furthermore, Trumps intends to circumvent the WTO, considered a medieval institution in which the tyranny of the majority made it impossible to imposed USA hegemony (Lamy, 2003). Trump is looking to rearticulate trade rules to “defend national sovereignty over trade rules and to strictly enforce USA trade laws” (Council of Foreign Relations, 2017). The National Security Strategy for the New Era published in December 2017 (White House, 2017) reiterates, without the language of the campaign and the inaugural address, the same rhetoric: that trades need to be fair and reciprocal, and that the United States is a victim of the disloyal practices of its partners, the sole cause of the

country's trade deficits that threaten its prosperity. In terms of trade the president hasn't budged an inch, as was reiterated by the USA trade representative R. Lighthizer, "I don't think the president's views have changed at all. His view has been that if we can get a good agreement we should have one" (Donnan, 2018). The strategy is to eliminate the trade deficits through bilateral negotiations in which the entire weight is placed on the concessions of partners.

Taxes are part of the new trade policy. Trump has proposed a border adjustment tax, to compensate for the value-added tax some countries implement. The VAT tax has been incorrectly described as an unfair tax on imports. Secondly, he has proposed revision of corporate tax, to roll back the Dodd Frank Act and to amend the Volcker Rule. These measures would favour big capital and endanger economic stability as they recreate the conditions which lead to the 2008 crisis. The recently approved tax reform might be the only achievement of the Trump administration and is the object of multiple criticisms by analysts of various disciplines (Galbraith, 2018; Skidelsky, 2018). The reform highlights the distribution of income from low and middle income levels to higher ones, and there are no assurances that tax breaks to corporations will transform into investments and job creation. The bonanza to high income brackets and the repatriation of capital may revalue the dollar with the well-known effects of slashing import prices, raising export prices and punishing employment. If, by this mechanism, the trade deficit widens, it is possible that Trump will react by accusing partner countries, imposing tariffs and demanding greater concessions in the NAFTA negotiations.

Migration is at the same time an economic issue due to its impact on US wages and, more importantly, a matter of national security, due to Trump's belief that those who emigrate to the United States are terrorists, violent people, rapists or drug dealers. All this reverberates in the urgency to build the wall on the southern border and in the controversial executive **order** forbidding migration from seven Muslim countries. Such criminalization of immigrants echoes the stance towards Afro-American and Latino communities, has historical roots and illuminates the political and ideological motivations of D. Trump when he proposes the wall and the renegotiation of NAFTA. In order to change his position and no longer protest the agreement, he will demand of Mexico the maximum concessions. This will be the price to pay in order to maintain integration with a country and a nation that in his mind doesn't deserve it. The racist roots of the attitude towards Mexico are visible in the War on Drugs⁵ and the immigration policy and form a part of the United States citizens' ideas about Mexicans, in which Mexicans are associated with negative characteristics. Highlighted among them is violence due to marijuana use.⁶ These elements are also visible in the history of immigration policy, as suggested by FitzGerald and Cook-Martín (2014) and other recent studies carried out in response to the proposed measures of D. Trump.

⁵ It's well known how drug use was and is associated with certain ethnic groups that are considered inferior: opium with the Chinese, cocaine with African Americans, and marijuana with Mexicans. See Block 2013.

⁶ In 1911, a Captain in a Texas police department said "...A Texas police captain claimed that under marihuana's baneful influence, Mexicans became "very violent, especially when they become angry and will attack an officer even if a gun is drawn on him. They seem to have no fear, I have also noted that when under the influence of this weed they have enormous strength and that it will take several men to handle one man while under ordinary circumstances one man could handle him with ease." (Abel, 1980). The police officer went on to say that under the influence of this weed, men lose their sense of fear and become exceptionally strong, requiring the police to restrain them (Abel, E. no date). Even with the legalization of marijuana for recreational use, the violence, death, and lives destroyed in the centers of consumption remain regrettable. It's important to remember that this plant was brought to the Americas, where it is not native like corn, chocolate or potatoes.

Effectively, since 1790 immigrants were discriminated based on ethnicity, and the National Origins Act of 1924 imposed norms to limit immigration in order to preserve: "...the ethnic and racial composition of the United States" (FitzGerald, 2014). This law, enforced until 1965, discriminated against non-Anglo-Saxon whites, and of those, non-protestants (the Irish and Italians as Catholics and Jews) and the Chinese. Up until 1950 it denied them all paths to citizenship (ibidem). The Cold War led the United States in 1965 to reduce restrictions and provide visas to people from countries recently de-colonized and Latin America, relaxing norms that were then quickly re-restricted towards Latin Americans under various pretexts, principally drug trafficking (Kramer, 2017). Since the attack on the twin towers, the restrictions have increased and combine the control of drug trafficking with that of terrorism, with the discriminatory criteria towards countries and religions, the starting point for Trump's further restrictions on immigration, accentuating further a latent xenophobia. By linking migration to terror and crime, Trump makes every migrant an enemy to be put on jail or expelled from the USA, with Mexico the main source of refugees and law offenders.

In **international relations** there are conflicts with China, an emerging power with the ability to challenge US supremacy in the Pacific. There are also the USA's conflicts in the Middle East and North Korea, but these are not named as frequently as drug trafficking and the flow of immigrants perceived as potential terrorists under the motto "... to get gang members, drug lords and criminals out" (Trump, 2017). President Trump's national security team resounds the militaristic stance of the government which is confirmed by the high increases for the military in the projected budget and the institutionalization of the National Security Strategy, presented in December of 2017. An expression of this position in relation to Latin America was presented by the Secretary of State at the end of his visit to the region, in which he at the same time praised the Monroe Doctrine, and praised the Latin American militants that fostered peaceful regime changes (Tillerson, 2018). In the National Security Strategy, Venezuela is a focal point of conflict and deep changes have to be stimulated in the name of USA national security. Trump, in a telephone conversation (February 2/2017) with President Peña, offered to dispatch US soldiers in order to contain Mexican "Bad hombres", as in Trump's perspective, in the Mexican failed Estate, civil and military authorities are unable or unwilling to do their job. Mexico is thus identified as a unique threat to the security of the United States in most of the issues raised in president Trump speeches and summarized in Table 1.

Table 1 Major threats to United States national security, wellbeing and prosperity, according to President Trump

	NAFTA		Central America	European Union	North Korea	ISLAMIC STATE			CHINA	JAPAN	NATO	Germany
	Mexico	Canada				IRAN	SIRIA	IRAK				
ASUNTOS EXTERIORES												
SEGURIDAD	X				X	X	X	X	X	X	X	
TERRORISM	X					X	X	X				
MIGRATION	X		X			X	X	X	X			
Home Security												
DRUGS	X											
VIOLENCE	X				X	X	X	X				
EMPLOYMENT	X	X		x					X			
CURRENCY MANIPULATION	X*	X**							X	X		X
VALUE ADDED TAX	X	X	X	X					X	X		X
TRADE deficit	X								X	X		X
*Subsidies that affect the effective rate of exchange												
** Subsidies on wood and diary products												

Source: Own elaboration

NAFTA, a trade deal not good for the USA. Really?

For Trump, NAFTA is the most damaging trade agreement to US interests ever signed and Mexico is the greatest threat to national security and U.S. employment, which is why in his first State of the Union address he said: “The era of economic surrender is over. From now on, we expect trading relationships to be fair and to be reciprocal (Trump, 2018). NAFTA is the triumph of astute Mexican negotiators full of commitments prejudicial to the American national interest. He repeatedly highlights Mexico as the exclusive culprit (with no mention of Canada) of having deceived the US during the negotiations. Nothing could be farther from the truth. He reiterated his menaces to abandon NAFTA if the deal he wishes just after the bilateral Mexico-USA negotiations reach a partial agreement: “There is no political necessity to keep Canada in the new Nafta deal. If we don’t make a fair deal for the US after decades of abuse, Canada will be out. Congress should not interfere w/ these negotiations or I will simply terminate Nafta entirely & we will be far better off” (Cited in Polity, 2018).

Such an untruthful picture of the agreement calls for an objective depiction of the negotiating process and a brief illustration of the trajectory of Mexican economy since NAFTA, to demonstrate that Trump’s criticisms are ill intended and a pretext to impose a new round of negotiations under conditions of extreme power. At the press conference in Davos he said: “NAFTA’s a horrible deal, we’re renegotiating it. I may terminate NAFTA, I may not – we’ll see what happens. But NAFTA was a – and I went around and I tell stadiums full of people, I’ll terminate or renegotiate” (NBC, 2018). He adds negotiations are hard and risky because Mexico and Canada harvest all the gains.⁷ As late as March 5, 2018, D Trump reiterated (in tweets) his assertion on the menace to American security from NAFTA and Mexico drug trafficking.

The statement that US negotiators accepted under NAFTA concessions detrimental to US national interests is untrue. To get NAFTA, Mexico engaged in a negotiating game marked by deep asymmetries emerging from: a) the different level of economic development of the two countries and diverging weight in the regional market; b) the dissimilarities in each country’s economic model and the gap with the implicit model of the agreement; c) the different subjective utility assigned to the non-agreement alternative; and d) the differences in the institutional building process and traditions. By way of Alessina’s (2006) war of attrition, the debt crisis (1982) was an opportunity to enforce the macroeconomic reforms, liberalizing the economy, privatizing sector public enterprises, and joining GATT, even if these were not at the roots of the crisis. President Salinas (1988-1994) and the political and technocratic elite in power, considered the signing of a free trade agreement with the US as the instrument to make irreversible the reforms and the modernization both of the Mexican economy and Mexican society. Blocking up reforms would increase stability and investors’ confidence, reassuring the inflows of capital needed to maintain the economic growth (Ros, 1994).⁸ Therefore, for the Mexican government any other alternative to NAFTA had little value, and

⁷ Trump said on January 8, 2018, in a meeting with farmers, “When Mexico is making all of that money, when Canada is making all of that money, it’s not the easiest negotiation. But we’re going to make it fair for you people again”, (Trump 2018A). Adding that otherwise he will abandon NAFTA. Similar remarks were sustained in Trump, 2018 B, and earlier in Trump, 2017. He reiterated these menaces in after the bilateral pre-agreement recently signed with Mexico.

⁸ Baghwati expressed an abrasive opinion about the reasons and the urgency of the Mexican negotiators to reach the agreement: Mexican architects of NAFTA have a point of view that encouraged them to look at problems from the prism north of Rio Bravo. They were impressed by the US and wanted to emulate it. They said, “The US has done well. If we join with North America, all our problems will be over” (authors translation), Bhagwati, Jagdish N., *El Financiero*, November 22, 1999, p. 24.

US negotiators were well aware of this. Consequently, Mexico, the smaller economy and the weaker state, took the initiative to begin negotiations; it was the demander, looking for a safe haven for its exports, and willing to negotiate reciprocity by opening its economy even further, after implementing a far-reaching unilateral liberalization to join GATT.

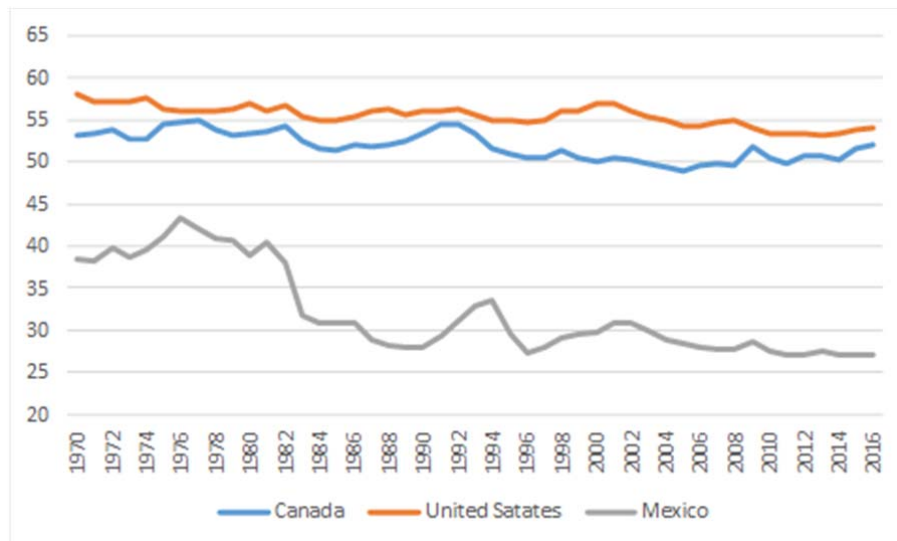
What were the objectives and interests of the USA behind NAFTA? The USA considered that there were no important changes in prices, nor gains from specialization due to marginal changes in tariffs, because practically all Mexican exports entered the USA almost free, with a 4% average tariff. USA exports to Mexico faced several times higher border and non-border trade barriers. So, the US was interested in extracting from Mexico, on top of a drastic cut of all tariff and non-tariff trade barriers, all the concessions Mexico was willing to give. And the country was prepared to pay all the costs just to reach the agreement (Heilleiner, 1991). These included trade and non-trade and even non-economic incentives that could legitimize the United States signing free trade agreement with Mexico. And it was agreed, as early as 1990, that “Mexico would not be treated as a developing country in the negotiations, meaning that it would not receive preferential treatment in matters such as transition periods for the elimination of tariffs” (Puyana 2003). Mexico granted the USA larger tariff preferences than the ones it received. And in the first year of NAFTA, 50% of the tariff advantages in the US market were lost due to trade agreements the USA signed with countries with an export offer similar to Mexico’s. Since the Mexican economy was more protected and regulated, Mexico had to make larger adjustments in the form of “side payments” as entry fees in the “new issues,” which were eventually included in the agreement, namely trade in services, regulations and protection of intellectual property rights and in foreign investment, considered the jewel in the crown won by the United States. NAFTA was also a pioneer in the Investor-state dispute settlement, later incorporated into the Uruguay Round within GATT, which allows private companies to sue states for policies purportedly damaging to their interests. Furthermore, Mexico wholly and hastily liberalized agriculture and accepted that the US maintained its Farm Bill stimulus, which would later create a dumping effect and losses to Mexican farmers of up to \$ 13 billion dollars in constant 2005 prices (Wide, 2009). It is also calculated that no less than 5 million rural laborers abandoned this sector, while the imported content (completely from US origin) of the apparent consumption of Mexican staples (maize, beans, barley, rice, soy, among others) grew up to 50%, sometimes even close to 80%, which constitute a serious corrosion of food security. Moreover, Mexico absorbed all the costs of the institutional changes demanded by NAFTA and adopted the USA ones. Therefore, NAFTA did not entail any cost to the United States (Clinton, 1997). In this context, the increase in Mexican exports under NAFTA is more of a consequence of – on the one hand, the revaluation of the dollar rather than the tariff reductions in favor of Mexico – and on the other, to the increasing imported content of Mexican manufactured exports (USITC, 2003).

The Mexican economy under NAFTA

Certainly, global economic liberalization went too far and Mexico did liberalize at higher speed and intensity than Latin America and the world average, especially regarding financial deregulation, large corporate mergers that nullify the market as well as ever growing transfer of national decision-making centers to supranational non-elected entities, of the policies that affect society, creating a sense of denationalization in everybody’s daily life. However, liberalization and the structural reforms eliminated or reduced state interventions on commodity, labor, and financial markets, but did not act to reduce the large concentration of capital or take measures to control its effects. From then until now, the trend of the Mexican

economy has been less favorable since the end of the 1940s, with the smallest GDP growth rates (close to 1.2% per year), with low labor and total factorial productivity, wage repression, declining tradable sectors in GDP and employment and the explosion of informal labor, which is today about 60% of the total labor force employed. If inflation has been controlled, it has been through internal devaluation and permanent fiscal austerity, amidst very low direct taxation (effective tax revenues represent 14% of GDP, excluding oil income. All this has led the economy to a low-growth equilibrium with low-income, limited aggregate demand, limited investments. This trajectory has implied a redistribution from labor towards capital, in which Mexican labor appears as a big loser when compared to American labor (Figure 2). This change in the functional distribution of income occurred in most countries of the world, but only few present a scale of change similar to Mexico's. Between 1980 and 2016, the share of wages fell by 11.7 percentage points, a decrease 2.3 and 3.8 times higher than the one in the United States and Canada, respectively, and the highest among OECD countries (OECD, 2016).

Figure 2 Labor share of GDP in the United States, Canada and Mexico, 1970-2016



Source: Own calculations based on OECD.Stat2016, accessed 10 February 2017 at: <https://stats.oecd.org>

Mexican GDP expanded near 4 times more than national wages, compared to 1.9 in the US.⁹ Before the reforms, between 1970 and 1980, the disparity between Mexico and the US was in the opposite direction. In the Mexican manufacturing sector labor productivity grew twice as much as real wages per worker. The high presence of investments implies that Mexican workers handed over income in favor of external foreign capital, basically from American origin, the largest foreign investor in the country. This transfer of labor income to capital is a result of having converted the wage bill into the main element of international competitiveness, therefore a production cost to be abridged and not a constituent of the domestic aggregate demand. Average real wages for 2015 represent 75% of those for 1980 and real minimum wages, only 35%. This fall in labor income has meant that average real wages in Mexican manufactures are lower than those in China and is ironically presented as

⁹ Mexico was, amongst the 36 countries listed in the OCDE data base, the country with the biggest labour losses in primary distribution of income, after Ireland and Portugal and closely followed by the United Kingdom, which occupied fourth place.

an achievement in productive efficiency unleashed by liberalization and NAFTA, as explained by former Mexican Secretary of Economy and main NAFTA negotiator, Jaime Serra (Serra, 2014).

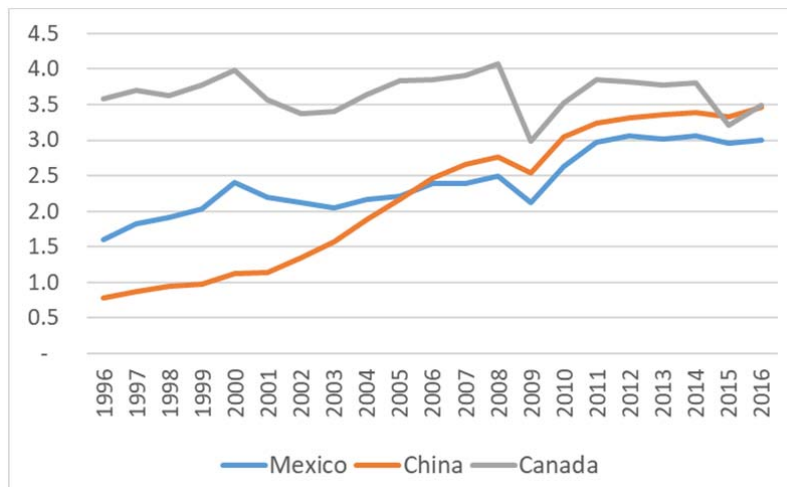
Who depends on whom?

Another fictitious and permanent argument is that disadvantageous trade with Mexico, China and other countries made the US economy dependent on such partners. This assertion does not fit the reality, for reasons we attempt to explain based on Mexican experiences with the liberalization of national economy and NAFTA: the degree of openness of the economies, the broad geographical diversification of US trade and the morphology of Mexico's trade deficit.

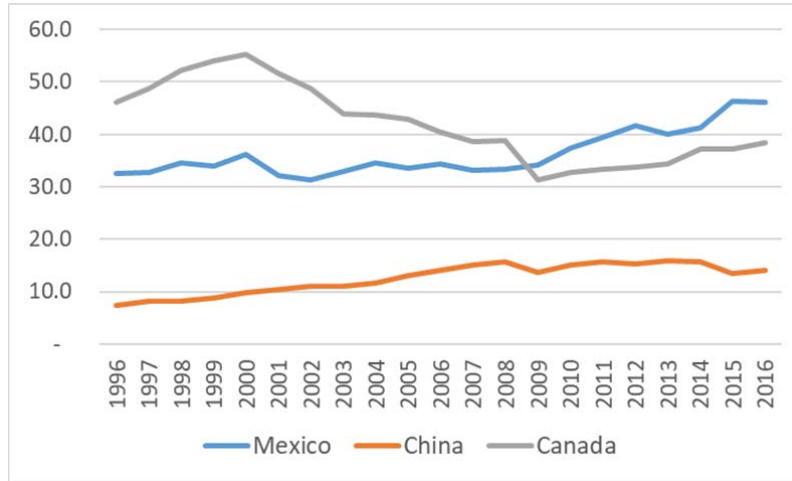
The US economy is considerably less open than that of Mexico, Canada and China, and practically all OECD countries. The external index of an economy (the total trade of a country as percent of its GDP) shows the degree of openness of an economy to global competition, that is, how much of its product is imported and exported. The United States appears as a relatively self-contained economy with relatively limited penetration of its domestic market by imports and comparatively limited exports. Mexico and Canada are the most open and China is relatively closed. With an external coefficient of 728% of GDP (37.5% imports and 35, 4% of exports), the Mexican economy is 2.6 times more open to competition in domestic and external markets, than the American one. Even Canada appears less open than Mexico. So it is hard to understand how the US could be dependent on the Mexican or the Chinese ones. While Mexico depends much more on trade, for the US domestic demand is more relevant.

Figure 3 Dependency of the economies of Mexico, Canada, China and the United States as % of GDP. 1996-2015

Panel A. USA dependency regarding Mexico, China and Canada



Panel B. Mexico dependency regarding USA, China and Canada



Source: Own calculations based on World Bank, WDI 2016

In the context of the aforementioned trade openness, we define dependence as the weight of reciprocal trade in the GDP of each participating country. As shown in Figure 3, about 3.3% of the GDP in the US is linked to trade with China and about 3% to trade with Canada and Mexico (Panel A). The dependence from the opposite side (Panel B), surprising, if not alarming: 46.5% of Mexican GDP depends on trade with the US, a dependency 15.7 times more than the one US has from Mexico. In contrast, China's dependence with respect to US trade is almost three times lower than that of Mexico, while the Canadian is 10 points below. With these parameters in mind it is hard to accept that the US depends on Mexico. On the contrary, what stands out is the asymmetrical dependence of Mexico on USA economy.¹⁰

Second, the diversification of markets of origin and destination of exchange moderates US commercial dependence. Only three countries each account for more than 10% of total imports (China 22%, Canada 13% and Mexico 13%) and of exports (Canada 18, 3%, Mexico 16% and China 8.3%). Contrasting these proportions with Mexico's, the United States is the primary destination of 85% of its external sales and the origin of 40% of imports. Worthy of attention is that China accounts for 21% of USA imports and only 7.3% of US exports. This asymmetry is most noticeable considering that the Chinese economy is 7.4 times larger than the Mexican and could capture a larger proportion of US exports. In 2016, the trade deficit of the US with China was 18 times greater than the Mexican one, reaching up to 319.3 billion dollars. In this context, the Mexican trade surplus with the United States must be weighed. The surplus grew from 18 to 58 billion dollars between 1996 and 2016, a trend explained by the automotive sector, which concentrated 79.3% of the imbalance, followed by electronics. Mexican total sales of automobiles and auto parts account for 26% of total US automotive imports, but only 2.3% of its total ones.

Like no other sector, automobile manufacturing reflects the problems of global value chains: approximately 40% of the exported value are inputs, components and parts, imported from the US companies or from Japanese, Korean and European USA subsidiaries. Mexican manufacturing exports are intensive in imported value added, which varies in the different

¹⁰ The Mexican dependence on trade with USA is higher than we reported in our 2017 article on Trump policies on Mexico. See Puyana, 2017.

branches. Exports with highest imported content are precisely those activities with greater technological content and greater presence of foreign investors. Those are precisely the activities in which the Mexican trade surplus with the US is higher: electrical, electronic and optical equipment, transportation, machinery. In contrast, Chinese external sales contain less imported content, except for some commodity-intensive products.

The highly imported content of Mexican manufacturing exports intensifies the propensity to import and aggravates the external restrictions facing Mexican economic growth: for each point of increase in GDP, the imports increased by almost 5%. The final effect is a weakening of the link between growth in manufacturing exports, sectoral and total GDP, and employment (Puyana, 2015; 2017).

The decline in GDP manufacturing is associated to a smaller but significant decrease in employment starting in the year 2000, the reason why sector productivity has not grown as would be expected by the progress of the sectors' openness, similar to that of GDP Total. The deindustrialization of the Mexican economy is real, despite its volume of exports.

The trade of manufactured goods between Mexico and the US is vertical intra-industry exchange, in the sense that the two countries exchange goods classified in the same tariff category, which are differentiated by quality and intensity of factors: Mexico exports to the US goods with lower economies of scale and low technological content for lower income markets, and imports the same goods of more technological sophistication and with higher prices. The effects would be similar to those of inter-industry trade (Puyana, 2003). With these considerations, taxes on companies that produce in Mexico and export to the US, either in the form of a Border Adjustment Tax or import taxes, as stipulated in Trump's Tax reform, would raise consumer prices in a differentiated manner, punishing mostly consumers in the lower income group. Mexican manufacturing production is found in the most labor-intensive fragments of production process of the global value chains and represents a tiny share of the value of each product. Therefore, its return to the US will not represent a huge increase in jobs creation but could imply some inflation, especially when considering it parallel to a large plan of public investment.

What to do?

Two facts look certain: first, Trump and his team will follow campaign promises; second, the US presidency is advocating economic nationalism aiming to increase both total production and the profits of major corporations without necessarily moving home the American global value chains¹¹ ("National Trade Policy Agenda for 2017, presented to the Congress the March 1 2017). This change of focus has left a void for the Mexican leadership, be it in the public or the business sector. The American president pretends to legitimize chauvinist nationalism, presenting it as economic protectionism in defense of employment and asserting that previous governments forgot to defend the national interest. As if the USA were a developing, commodity-dependent country, Trump says that the US suffers from the effects of an "impoverishing trade" which de-industrialized the country, turning it into a low-value manufactures assembling economy. De-industrialization is not a phenomena resulting from trade, but from a higher degree of development, higher per capita income and the consequent change in the structure of demand. Trump's ideological positions which guide the

¹¹ National Trade Policy Agenda for 2017, presented to Congress March 1, 2017

formulation of the trade strategy (USTR, 2017) emerge from the false premise “... that if other Nations are encouraged to raise their standards of living, our own American standard of living must of necessity be depressed” (Roosevelt, op. cit.).

Today in Mexico economic debate revolves around whether or not to renegotiate NAFTA or whether to take Trumps policies towards Mexico as the opportunity to revise the development model. In any case, the desirability of diversifying external markets is emphasized as well as reintegrating productive chains and strengthening the internal market, which are at odds with NAFTA. Past economic trends, employment wages, inequality and poverty reinforce the need for changes in economic policies, with or without NAFTA. Table 2 summarizes and groups the 604 views¹² of several representative sectors of the society with the number of declarations 67% larger than in Puyana (2017).

Table 2 Views of Mexican society in the face of changes in US policy towards Mexico and NAFTA

Sectors Reactions or proposals	Renegotiate and Defend free trade			No to a NAFTA renegotiation		To Transform Current Economic Model					TOTAL
	To Negotiate NAFTA	Defending free trade	Rejecting border tax	Not renegotiate NAFTA without mutual benefits	Abandon NAFTA and opt WTO	Diversify markets	Strengthen internal market	Decrease taxes	Protect Agriculture	Industrial policy, infrastru.	
Government	44	26	19	27	13	28	18	7	13	15	210
Political actors	17	13	2	10	12	11	6	2	4	6	83
Private sector	47	16	7	24	11	37	21	8	17	22	210
Labor unions, social movements	3	2	1	4	5	3	2	0	6	3	29
Academia	11	5	2	5	6	17	12	2	6	5	72
TOTAL	122	62	32	70	47	96	59	19	46	51	604
Actors Answers. Absolute values	216			117		174			97		604
Actors Answers. Relative values	35,8			19,4		28,8			16,1		100

Source: Author's elaboration

Mexican society seems divided in terms of how to respond to the situation posed by President Trump. This division is evident even within the government, as is visible in the first line of the three first columns of Table 2. Effectively, if 89 of the 210 government spokespersons prefer to renegotiate, a group of 121 or 58% ask that there be no renegotiation and that the country take the issue to the WTO, while 39% consider it convenient or necessary to transform the current model, look for new markets and revisit the design of sectorial and productive political policies, defending manufacturing and the agricultural sector. In total, more than half, (58%) of government actors prefer no NAFTA and to modify the model, diversifying markets and stimulating internal demand. Some 117 of a total of 604 actors vote to “modernize” NAFTA and preserve the free trade ideology that sustains the economic model of supply. They also reject taxes on imports and exports, national and foreign.

In total, the defenders of free trade make up 36.5% of the responses, a proportion 22 percentile points less than those that prefer a change in the economic direction. This free trade standpoint stems from the premise that Mexico is an important part of the NAFTA region, a fully integrated production area that exports to the world. In that context, any protectionist measure would weaken the region's competitiveness in the world. Therefore, they propose to seize the opportunity to deepen liberalization and expand NAFTA to areas not initially included, such as communications, the energy sector, as well as to extend agreements on the electronic sector, intellectual property, including anti-corruption rules.

¹² Opinions expressed in 604 articles in daily and weekly papers as well as specialized publications with high levels of circulation, published between August 1, 2016 and February 2018, that covers the period between the start of the negotiations and the end of the seventh round of negotiations. The table includes 604 opinions from government representatives, political leaders, union leaders, NGOs, academics and businesspeople.

To strengthen its preferences, the government integrated a group of experts to define the negotiating strategy and lead the negotiations, with the same economists who negotiated NAFTA in the first place. The group has already stated the main tenets. First, to educate society as to the benefits of NAFTA, which have already been fulfilled to a greater extent than expected. Second, to reiterate that the greatest beneficiaries of the agreement are the consumers, hiding the fact that the economy has not grown and without mentioning that consumers are first and foremost also producers and workers whose real incomes have severely deteriorated. Third, to extend NAFTA including themes agreed for the TPP and also discussed in the TTIP, eliminating all restriction to trade and to capital, which aim to agree on regulatory convergence on such dissimilar subjects as rules of origin, corruption, intellectual property. It is still in doubt whether these proposals to “modernize” NAFTA would not intensify the wage repression experienced by the Mexican labor sector since the reforms and NAFTA, and as some critics of TTP and TTIP suggested would happen (Bivens, 2015; Felbermayr et al., 2013).

The business sector, with its 210 responses appears divided. While some 33% of them proposes to negotiate NAFTA, around 16% take a moderate stance, either rejecting the negotiations in the face of uncertainty and fear that the results will be negative in comparison, and 50 % want to expand markets, strengthen the domestic market and to redefine sectoral policies, industrial, agricultural, energy and technology policies.

A diverse group of 25 out of 101 – academics, politicians, and unionists – advocates renegotiating the agreement on condition that it is beneficial to the country and that the wall is not built and the border adjustment taxes or any other taxes are not imposed. If it proves impossible to reach an agreement positive for Mexico or if the US decides to abandon NAFTA, the preferred alternative is to go the WTO. Finally, there is a relevant group of political, intellectual and academia actors, proposing not to negotiate, to abandon NAFTA and to go straight to the WTO and to reformulate the economic model

The positions that favor modifying the macro-economic policies are strengthened by 64% of respondents calling to reform them, with or without the renegotiation of the NAFTA, in the event that a beneficial agreement for the country is not feasible, with industrial policies that reintegrate productive chains, generate added value and national employment, as well as provide protection to agriculture, all with a view to strengthening the market. Finally, the movement for the diversification of the destination of export markets is gaining strength. Some of these proposals would clash with government preferences, but echo Trump’s policy. Almost all of these priorities contradict the liberal NAFTA economic policy model.

Conclusions

It is our opinion that Mexico must seize the current opportunity, redefine the policies institutionalized because of NAFTA, and undo the mistakes made in the initial NAFTA negotiations and the structural reforms since the mid-1980s up to now. The answer to this external shock, induced by the stubborn will to change the norms that have governed bilateral relations for the last 24 years, could be the opportunity of a serious reform to the model of national development. There will be losers and winners, it is true. Depending on the players who would lead the changes, it would be expected that balance will not be adverse to labour as it was for the last 30 years.

With oil running out and the US restricting investments and imports of goods made in Mexico and repressing remittances, the country would not have the resources to invest, accumulate capital and expand production. As in world crises and wars, it is necessary to change course, reindustrialize Mexico and strengthen agriculture, through a new social pact that will integrate groups excluded since the mid-1980s.

Following are some premises for change, emerging from our own recollection and lecture on public opinion in Table 2:

- i) To figure first the direction of the country and its economy and, in this context, structure our relations with the US and the rest of the world;
- ii) The trajectory of the national economy must rest on sustained and sustainable growth, the generation of more and better jobs to reverse the decline of labor in the functional distribution of income, and reduce inequality;
- iii) Protect agriculture so as to ensure food security, as the US, EU, Japan and China already do, reversing the imported content of apparent consumption of maize, beans, rice, soybeans and other primary food products;
- iv) An agricultural policy with increases in yields and productivity, not oriented exclusively to exports, but to ensure food security and supply inputs to manufactures;
- v) To launch an active industrial policy that incorporates labor and added value, promotes research and, in reaction to the border tax and the import tax, a tariff policy that eliminates negative effective protection and protects national value added;
- vi) To structure an energy policy for development, in which the oil that still remains becomes a development factor in integrating clean and alternative energies;
- vii) To reject in the economic restructuring process elements accepted in the TPP, either as a negotiating strategy with the US or as a policy to expand Mexico's export markets. They aggravated the structural problems generated by the way NAFTA was negotiated, and they will deepen the now questioned denationalization of the economy;
- viii) In this context, the academy, unleashed from political and economic power centers, must study and explain reality and propose objective interpretations and lines of action.

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SUGGESTED CITATION:

Alicia Puyana, "Trump politics towards Mexico. Renegotiating NAFTA while invoking the Monroe Doctrine", *real-world economics review*, issue no. 85, 19 September 2018, pp. 123-141, <http://www.paecon.net/PAEReview/issue85/Puyana85.pdf>

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