A Long-term Vision of Commercial Integration between Mexico and the United States: Coincidences and Disagreements

Una visión de largo plazo de la integración comercial entre México y Estados Unidos: coincidencias y desencuentros

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Abstract:
This article reviews the history of trade integration in North America, which has been conditioned by political and ideological circumstances that go beyond economic factors. One hundred and seventy years of disagreements came to an end with the entry into force of the North American Free Trade Agreement (NAFTA), followed by the negotiation of the United States-Mexico-Canada Agreement (USMCA), both of which are the result of a historical moment in which the positions of Mexico and the United States coincided.

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Resumen:
En este artículo se revisa la historia de la integración comercial en Norteamérica que ha estado condicionada por coyunturas políticas e ideológicas que trascienden las variables económicas. Fueron 170 años de desencuentros que cambian con la entrada en vigor del Tratado de Libre Comercio de América del Norte y la negociación del Tratado Comercial entre México, Estados Unidos y Canadá (T-MEC), ambos procesos son el resultado de una coyuntura histórica en la que las posturas de México y Estados Unidos coincidieron.

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Key Words:
Integration, trade, protectionism, liberalism, NAFTA, USMCA.

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Palabras clave:
Integración, comercio, proteccionismo, liberalismo, TLCAN,T-MEC.

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Why do countries trade? This is a question that the great thinkers of classical political economy addressed and that economists have continued to subject to rigorous analysis over the past century. For Adam Smith, trade was an activity inherent to human beings that enabled the division of labor to deepen. For David Ricardo, international trade was a mechanism to increase wealth measured in terms of consumer goods. In the 20th century, the famous Hecksher-Ohlin model emerged to explain trade as a response to differences in the factor endowments of countries, where the abundance of those factors determines the nature of trade.

However, this does not explain why two countries decide to institutionalize their commercial relationship in order to deepen and provide certainty to trade between them. For that to happen, a rare coincidence is also required between national interests, the country's guiding project, and the dominant ideology among its leaders. For 170 years of history between Mexico and the United States, this coincidence did not exist. Bilateral trade found its way between the two countries, but ordering and institutionalizing it took much longer.

When, in the early 1990s, a proposal emerged to start negotiating a free trade agreement among the countries of North America, it was not strange to find, among the promoters of the idea in Mexico, arguments of the Hecksher-Ohlin type to justify the shift in Mexican trade policy. Seen from this perspective, commercial integration between Mexico and the United States was inevitable and, in a sense, the trade dynamics that had prevailed until then seemed like an inexplicable error.[1]

The reality is that this integration process did not begin with the North American Free Trade Agreement (NAFTA), but it has not been a linear process either. During the two hundred years of relations between Mexico and the United States, what we have seen is a long process of institutional construction that has allowed this relationship to deepen, but which, at the same time, has suffered significant setbacks at different historical moments. On the one hand, there is a process of economic growth in both countries that pushes towards trade integration. On the other hand, there is the action taken by both states that try to navigate, shape, halt or at least delay that relationship for reasons that go beyond merely economic matters.

In this article we review how the history of trade integration in North America has been determined by political and ideological conjunctures that transcend mere economic variables.[2] We identify the entry into force of NAFTA and the negotiation of the United States-Mexico-Canada Agreement (USMCA) as the result of a historical situation where the positions of both countries finally coincided. These thirty years of meetings are preceded by one hundred and seventy years of disagreements on this matter which we must also seek to understand, since they should at least serve as a warning. Integration is a historical process that cannot be explained through pure economic theory or a simple alignment of incentives. Behind the points of overlap and the disagreements, there is the evolution of the political economy of both countries in its broadest sense.

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1 See, *e.g.*, Jaime Serra Puche "Principios para negociar el tratado de libre comercio de América del Norte," in *Comercio Exterior*, vol. 41, no. 7, July 1991, pp. 653-660; the different articles dedicated to the discussion of the free trade agreement in *Comercio Exterior*, vol. 44, No. 6, June 1994, pp. 471-516; or *Economía Mexicana*, special issue, "El impacto del libre comercio en América del Norte," Nora Lustig, Barry Bosworth and Robert Lawrence (eds.), June 1993.

2 Maurice Dobb explains how the term *ideology* can be used in a sense close to the Hegelian idea of "false consciousness," that is, as something that obstructs our conception of reality, or it can be used to refer to the set of historically specific ideas that inform our relationship with reality. For the purposes of this essay we use the term in the spirit of the second definition offered by Dobb. Maurice Dobb, *Theories of Value and Distribution Since Adam Smith: Ideology and Economic Theory*, Cambridge, Cambridge University Press, 1973, pp. 1-37.

19th century: geography, needs, and distrust

The trading relationship between Mexico and the United States became important relatively late. During the early decades of the 19th century, the fact of being neighbors was not so significant: colonial inertia predominated, the respective trade baskets did not complement each other, and, above all, mistrust between the countries placed considerable limits on commercial exchanges.

Several decades apart, Mexico and the United States began their existence as independent countries focused on trying to revive the trading patterns they enjoyed as components of the Spanish and British empires. For Mexico, the War of Independence led to the collapse of the mining industry, directly affecting the country's exports, but also making it more difficult to finance imports. Although there was a liberal consensus on trade matters in the early decades of independent Mexico, reality soon set in: the fiscal conditions did not exist to liberalize even domestic trade, let alone external trade.

For its part, the United States began its independent life with a major debate on the advisability of allowing the federal government the power to regulate international trade. This was finally resolved at the constitutional assembly in Philadelphia, empowering the young American State to regulate its insertion in the global economy. In the following decades, the trade discussion focused on two issues: the debate, fundamentally political, between giving priority to the trade relationship with France or the United Kingdom and, on the other hand, the debate on the role of taxes on foreign trade, that is, protection versus collection. According to Douglas A. Irwin, both debates had a deep regional component.[3] The north, more interested in protecting industry, was also more dependent on trade with the United Kingdom; while the south saw the tariffs imposed on imports as a necessary evil, as a financing tool for the State. At the same time they were more willing to see France as an alternative to trade with Britain. In this context, the trading relationship with the southern neighbor lacked political significance.

3 Douglas A. Irwin, *Clashing Over Commerce: A History of US Trade Policy*, Chicago, The University of Chicago Press, 2017, pp. 31-124.

It was not until the end of the 1820s that the possibility of deepening the commercial relationship between the two countries became more attractive. However, that integration faced two major obstacles over the rest of the century: Mexican distrust and U.S. protectionism.

On the one hand, as Richard J. Salvucci points out, for the Mexican government, trade with the United States, particularly by land, heralded an existential danger: "The flag follows trade. Trading with the United States attracts its merchants, and its merchants bring trouble."[4] Salvucci maintains that, until the war between the two countries, Mexico used restrictions on U.S. trade as a weapon to reduce U.S. influence in the country. This strategy, according to Salvucci, could be criticized as failing to prevent loss of territory, but it was hardly irrational, as some U.S. politicians thought.[5]

Following the war with the United States, Mexican distrust was manifested in the great number of obstacles to bilateral trade.[6] However, the Ayutla Revolution brought with it new ideas, even in commercial matters. The generation of liberals who came to power in 1854 and who would later have to deal with the Reform War and the French Intervention saw trade as an important opportunity to boost Mexico's economic growth. During the Restored Republic and continuously during the Porfiriato period, Mexico's governments saw the integration of the country into the late 19th century wave of globalization as a key goal. Mexico's position on trade had already changed, although some fiscal obstacles remained, and political resistance would not completely disappear.[7]

However, a new obstacle arose: the political rearrangement in the United States after the end of the Civil War (1861-1865) favored the protectionist interests represented by the Republican Party, and this was reflected in several decades of trade restrictions, this time on the part of the United

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4 Richard J. Salvucci, "The Origins and Progress of US-Mexican Trade, 1825-1884: 'Hoc opus, hic labor est,'" in *The Hispanic American Historical Review*, vol. 71, no. 4, November 1991, p. 711.

5 *Ibid*., pp. 711-714.

6 *Ibid.,* pp. 716-717.

7 Luis Aboites reminds us that President Lerdo is credited with the phrase "Between Mexico and the United States, the desert" when promoting the rail connection with Veracruz, while delaying any plans for rail links to the north. Luis Aboites Aguilar, *Estudio sobre geografía tributaria mexicana, 1788-2005*, Mexico, El Colegio de Mexico, 2019, p. 52.

States.[8] The most important episode in this new period of disagreement was, without a doubt, the failed Reciprocity Treaty. It was negotiated in the early 1880s but never came into force, as it got stuck in the corridors of the United States Congress. Despite having the support of figures such as Ulysses Grant and the hard lobbying work of Matías Romero, the protectionist consensus of the time, as described by Irwin, ended up defeating the project.[9]

Such was the frustration of Mexican liberals with the protectionist attitude of the United States that in the midst of the International Conference of American States of 1889-1890, Matías Romero told the Argentine representative: "I am convinced that public opinion in the United States is not yet ready to adopt liberal-oriented foreign trade measures, not even with the sister republics of this continent."[10]

Despite this obstacle, geography did its job. By the penultimate decade of the 19th century, the United States was already the main commercial destination for Mexican products, and there was significant U.S. investment in Mexico. In addition, the trade basket was diversified, with Mexico importing manufactured goods and capital goods from the United States, while other products such as henequen and coffee were added to Mexico's traditional mining exports.[11] However, political disagreement hindered the attempt to institutionalize the relationship.

Faced with the inability to institutionalize the rules for this trade through a bilateral treaty, Mexican mistrust revived, although now in another form. Instead of using trade restrictions as a "weapon" to counterbalance any potential territorial ambitions of the United States, the Díaz government

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[8] D.A. Irwin, *op. cit*., pp. 221-275.

[9] During these years, Ulysses Grant was the leader of the Republican party. He favored the treaty despite his party's inclination to protect industry. Matías Romero was the extraordinary envoy and plenipotentiary minister of the Mexican government in the United States and, a few years later, became the first Mexican ambassador to the country.

[10] Quoted in Graciela Márquez and Sergio Silva, *Matías Romero and the Craft of Diplomacy: 1837-1898,* trad. Alison Steward, Mexico, Matías Romero Institute-Mexican Ministry of Foreign Affairs, 2019, p. 96.

[11] Sandra Kuntz Ficker, *Las exportaciones mexicanas durante la primera globalización (1870-1929)*, Mexico, El Colegio de México, 2010, pp. 125-128.

promoted economic relations with other commercial powers, particularly Europe, but also in Asia: during this period there was even an attempt at making a trade agreement with China, though it never ratified due to the beginning of the Boxer Rebellion.[12] The idea was not to eliminate trade with the northern neighbor, but to make it compete with other regions. Since then, the diversification of Mexican trade has been a task as urgent as it is complex.

From the Revolution to the Second World War: political tensions

At the beginning of the new century, the economic policy of the Porfiriato and its costs for the population led to widespread political and social malaise. Against this backdrop, the outbreak of the Mexican Revolution and its consequences radically changed the bilateral political and economic dynamics for almost forty years. In addition to the revolution, the Great Depression and the Second World War shaped the commercial relationship.

The revolutionary process was the first moment of disruption. The direct intervention of the United States in the different stages of the conflict, from the participation of its ambassador in the coup against Francisco I. Madero, to the invasions of Veracruz and Chihuahua, provoked open rejection by the different Mexican governments and factions.[13] The lack of political understanding was reflected in the economic sphere; the governments of Venustiano Carranza and Álvaro Obregón faced difficulty in securing recognition

12 Mexico adopted a series of "defensive regulations" aimed at limiting the economic expansion of the United States in Mexico and strengthening the presence of the United Kingdom and other European powers. Examples of this were the Mining Law of 1909, the creation of the National Railroads of Mexico, and the granting of preferential concessions to British oil companies. Paolo Riguzzi, "México y la economía internacional, 1860-1930," in S. Kuntz Ficker (ed.), *Historia económica general de México. De la Colonia a nuestros días*, Mexico, El Colegio de Mexico/ Secretaría de Economía, 2015, pp. 396-397.

13 In 1914, the United States invaded the port of Veracruz to prevent the Huerta government from receiving arms shipments. Similarly, following Francisco Villa's attack on the town of Columbus, New Mexico, a "punitive expedition" of U.S. soldiers invaded Chihuahua looking for Villa, sparking a diplomatic crisis with the newly recognized Carranza government.

from the neighboring country, which, in addition to strengthening their internal position, would enable them to access foreign loans needed for the pacification of the country and the stabilization of the economy. In addition, the 1917 Constitution generated friction with the U.S. State Department, which supported the interests of its companies affected by the provisions relating to oil resources (Article 27). These complications would drag on for several years, limiting the possibility of reaching understanding in economic matters.

On the other hand, although there was no specific policy oriented by protectionist ideas, Mexico applied taxes to exports to obtain fiscal resources, as in the case of oil and mining.[14] On the other hand, the United States, despite reducing its tariffs between 1913 and 1921, used trade as a tool of political influence during the Revolution.[15]

Despite these complications, both the Revolution and the First World War led Mexico's commerce with its principal trading partner, the United States, to become even more concentrated.[16] Exports of non-monetary silver, fibers, and coffee continued, but came to occupy a smaller proportion of the total, as the country's export basket diversified to include new products with higher added value since the mid-1910s: manufactured copper, lead bars, new agricultural products, oil and its derivatives.[17]

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[14] The governments of Madero (oil in 1912) and Carranza (oil in 1914-1915 and mining in 1916) imposed taxes on the extraction and export of subsoil resources, triggering protests from companies and the U.S. government. Enrique Cárdenas, *El largo curso de la economía mexicana. De 1780 a nuestros días*, Mexico, Fondo de Cultura Económica/El Colegio de Mexico, 2015, pp. 302, 330-331.

[15] On the tariff reductions promoted by the Democratic presidency of Woodrow Wilson, see D.A. Irwin, *op. cit*., pp. 330-356. Examples of how the United States used trade to influence the Revolution were the occupation of the port of Veracruz in 1914 to put pressure on the Huerta government, the prohibition on the export to Mexico of certain supplies for the mining industry that could be used for military purposes, such as dynamite, or allowing the sale of arms and ammunition only to certain groups, such as the Carrancista faction.

[16] This was mainly due to the closure of the Atlantic trade routes with Europe. In those years, Mexico's trade with the rest of the world occurred through the United States. P. Riguzzi, *op. cit*., p. 399.

[17] Oil, in addition to being a strategic resource in times of war, was the only Mexican export product that, despite the revolutionary conflict, never stopped growing in export value during those

During the most intense years of fighting (1914-1916), the infrastructure dedicated to foreign trade, particularly in the north of the country, was devoted entirely to military purposes.[18] Under these conditions, foreign trade was greatly affected, leading to a drop of 29.6% in 1914 compared to the values exported in 1912, a level which would not be recovered until 1917.[19] Although it is often believed that the revolutionary chaos destroyed the national economy, the effects on the productive infrastructure were minor and activities were resumed as soon as the regions were pacified and the armies demobilized.[20] The economy resumed its course, but the political conditions had changed.

In the following decade, Mexican governments sought to ease tensions with the United States and secure diplomatic recognition. The closest rapprochement occurred during the government of Plutarco Elías Calles and Dwight Morrow's term as U.S. ambassador. Together, they reached understandings on oil matters that were behind the increase in the trading relationship in those years.[21] However, this incipient political reconciliation was cut short by international economic problems.

The Great Depression was a second moment of disruption in the commercial relationship, but with deeper and longer-term effects than the Mexican Revolution, since it led to a change in the paradigm of economic thought in the Western world. As a result of that crisis, the functioning of the free market began to be questioned and the role of the State in the economy and in society reconsidered.[22] Before the crisis erupted, the Mexican State had been building economic institutions that allowed it to guide its development

years. E. Cárdenas, *op. cit*, p. 301. The information on the evolution of the Mexican export basket is taken from S. Kuntz Ficker, *op. cit*., pp. 127-134.

18 Either to generate revenue and finance armies, in the case of customs, or for logistical purposes for the movement of troops and supplies, in the case of railroads.

19 E. Cárdenas, *op. cit.,* pp. 324-325.

20 John Womack, Jr., "La economía de México durante la Revolución, 1910-1920: historiografía y análisis," in *Argumentos. Estudios críticos de la sociedad*, no. 1, June 1987, pp. 34-37.

21 E. Cárdenas, *op. cit.,* p. 379.

22 *Ibid*., p. 403.

model and gave it the tools to better respond to external crises.[23] The United States, on the other hand, decided during the 1920s and 1930s to protect its national economy with high tariffs demanded by domestic market players—all politics is local—while Mexico and the rest of the world saw the end of the "era of exports" as a model of development.[24] These tariffs and the collapse of export prices due to the crisis reduced Mexican exports to the United States by 68% between 1929 and 1933. This had the collateral effect of forcing Mexico to begin a process of import substitution, which drove national growth beginning from the 1930s onwards.[25]

Finally, the Second World War forced cooperation and understanding between the two countries, since the stakes were too high. As a result, the tensions that had emerged in the Revolution came to an end under very different economic and ideological conditions. In previous years, Roosevelt's Good Neighbor policy and the problems in Europe allowed the Cardenista government to carry out land distribution and oil expropriation which, although they caused new difficulties, did not escalate to open conflict.

The war economy increased national exports, raised prices, and attracted new investment.[26] In addition, bilateral cooperation in diplomatic and labor

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23 Such as the National Banking Commission (1924) to regulate banks or the Bank of Mexico (1925), which gradually took over the issuing of paper money. Other credit and regulatory institutions were also created that made it easier for the government to use fiscal and monetary policy to counter economic crises. *Ibid.*, pp. 384-388.

24 In 1922, for example, the United States implemented the Fordney-McCumber Tariff, which not only increased tariffs, but implemented "a system combining prohibitions, strict sanitary surveillance, and licenses to effectively restrict importation," that is, a protectionist system with non-tariff measures. S. Kuntz Ficker, *op. cit.*, p. 91. Meanwhile, in 1930 the United States passed the controversial Smoot-Hawley Tariff Act, which increased import duties on more than 890 items. Although the initial intention had been to protect the agricultural sector, the law ended up protecting American industry, triggering a retaliatory protectionist reaction from many countries. D.A. Irwin, *op. cit.,* pp. 371-389 and 400-408. On the end of the export model and its causes, which were mainly external, see S. Kuntz Ficker, *op. cit.*, pp. 57-59.

25 The data on the reduction in Mexican exports to the United States is taken from P. Riguzzi, *op. cit.*, p. 405. On the import substitution process in the 1930s, see E. Cárdenas, *op. cit.*, pp. 455-458.

26 Between 1939 and 1945, Mexican exports increased 167%, particularly manufactured goods, which rose from less than 10% of total exports to 37.6% at the end of the war. Among manufactured products, textiles were the main export. *Ibid.,* pp. 494, 500-501.

areas[27] paved the way for the negotiation of financial issues that affected political relations and limited Mexico's ability to pay: the amount of compensation for expropriated oil companies was set (1941-1943), the external debt was renegotiated (1942), and the amount of railroad debt (1946). These were all favorable to Mexico, allowing the country to access new foreign loans.[28] In addition to the above, in 1943, Mexico and the United States signed a bilateral trade agreement freezing or reducing import tariffs, implicitly helping the United States and contributing to the war effort.[29]

These were the favorable conditions of rapprochement with its main trading partner under which Mexico entered the Cold War period. However, the dynamic of industrialization in Mexico was already underway, representing a major change to the national political economy. Very soon, the power of this new industry made itself felt politically, fostering a model of development that would once again make it difficult to institutionalize the bilateral trade relationship.

Cold War: Mexican protectionism, American liberalism

By the second half of the 20th century, political tensions ceased to be a problem for trade integration between Mexico and the United States.

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27 For a historical and diplomatic analysis of bilateral relations at the time of World War II, see Soledad Loaeza, *A la sombra de la superpotencia. Tres presidentes mexicanos en la Guerra Fría, 1945-1958*, Mexico, El Colegio de México, 2022, Chap. 2. In terms of labor relations, the bracero program implied the temporary transfer of labor of 52 000 Mexican workers to the United States per year, as well as 140 000 railroad workers, between 1943 and 1945. E. Cárdenas, *op. cit*., p. 503.

28 Compensation was set it at around 5% of the total value estimated by U.S. companies as loss (which included unexploited reserves). Regarding the renegotiation of debts, both agreed to pay around 10% of what was originally owed. *Ibid*., pp. 503-504. See also Juan Carlos Moreno-Brid y Jaime Ros, "La dimensión internacional de la economía mexicana," in S. Kuntz Ficker (ed.), *op. cit*., p. 761.

29 The agreement stipulated that the tariff levels for the main goods would remain constant and the tariffs of 203 items would be reduced, representing 29% of what Mexico bought from the United States in 1939. J. Ernesto López Córdova y Jaime Zabludovsky, "Del proteccionismo a la liberalización incompleta: industria y mercados," in S. Kuntz Ficker (ed.), *op. cit*., p. 708.

The commercial treaty of 1943 facilitated the trade relationship between the two countries. However, the prevailing economic ideas in Mexico and the United States on how to conduct their foreign trade policy began to move apart once again, until they were completely opposed. As a result, the treaty was terminated in 1951. While the Mexican government sought to promote the development of its national industry by protecting it from abroad, the U.S. government bet on a multilateral trade scheme. In both cases, this happened as a reflection of internal pressures from business in the respective countries.

At the end of World War II, demand for Mexican manufactured exports fell and imports increased due to the liberalization of exportable products in the United States, altering the trade balance. To control the deficit and with the intention of strengthening domestic industry, Mexico gradually implemented a protectionist policy that began as a temporary measure but lasted for the next thirty-five years, becoming a development model. In addition to granting tax incentives, from 1947 a system of import licenses and quotas was implemented that allowed the government to limit foreign competition.[30] Mexican industry covered the captive domestic market for consumer goods and raw materials, meaning that imports were more focused on machinery and other capital goods.[31]

On the other hand, the United States tried to open up the continent to free trade. At the Inter-American Conference in Chapultepec (1945), and at the United Nations Conference on Trade and Employment in Havana (1947), it proposed a system of free trade with clear and shared rules, with less State participation in the economy. That initiative materialized in the General Agreement on Tariffs and Trade (GATT), but neither Mexico nor most of the Latin American countries considered that it was in their national interest

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[30] E. Cárdenas, *op. cit.,* p. 541. J.E. López Córdova and J. Zabludovsky argue that the change to trade protection was also a consequence of pressure from business in Mexico, such as the Canacintra chamber of commerce which opposed the agreement with the United States. J.E. López Córdova and J. Zabludovsky, *op. cit.*, p. 708.

[31] The import of capital goods came to cover almost 40% of total imports at the national level in 1948, while by 1950 many industrial sectors (textiles, foodstuffs, beverages and tobacco, footwear, soap, rubber, glass, etc.) were already providing 95% of the consumer goods demanded by the population. E. Cárdenas, *op. cit.*, pp. 516-517, 533-534 and 565.

to open up their trade without any kind of restrictions.[32] For Latin America in general and for Mexico in particular industrialization and development have become synonymous. That 19th-century project of a prosperous Latin America based on the export of raw materials was left behind.

Under the state-led industrialization model, Mexico achieved broad economic growth from the 1950s through the early 1980s.[33] A favorable international environment, internal political stability and a good relationship with the United States helped to consolidate the political regime and its economic project. However, starting in 1958, Mexico began to face a chronic problem with its trade balance: exports were no longer enough to pay for the country's imports, causing the deficit to increase little by little, and it had to be covered with the export of services such as tourism and, later, by taking on foreign debt.[34] This was a structural problem, since the external sector was losing weight in the economy, increasing the imbalance.[35] Agricultural and mining exports lost volume and value, and oil ceased to be an exportable product by 1968.[36] The Government tried to encourage exports by offering tax benefits and subsidies, credits, promoting the assembly plants, as well as through the Mexican Institute of Foreign Trade, but imports continued to be higher. In addition the peso was overvalued, meaning Mexican exports were more expensive and imports cheaper.[37]

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32 For the Inter-American Conference of 1945, see José Galindo, "La Conferencia de Chapultepec (1945): El nacionalismo económico latinoamericano frente a la política librecambista de Estados Unidos," in *América Latina en la Historia Económica*, vol. 24, no. 2, May-August 2017, pp. 45-50. For the Havana Conference and its Geneva antecedents see D.A. Irwin, *op. cit.,* pp. 479-484 and 500.

33 From 1950 to 1962, the Mexican economy grew on average by 6.2% per year. Between 1962 and 1981 GDP grew by an average of 7.3% per year. Since 1982 a similar level of growth has not been seen again. E. Cárdenas, *op. cit*., pp. 508-510 and 570.

34 *Ibid*., pp. 550-551.

35 By 1970 the participation of foreign trade in GDP was 10.7%, while ten years earlier it was 15.3%. *Ibid*., p. 508.

36 Agriculture fell from representing 19.2% of national GDP in 1950 to 11.2% in 1970. Mining fell from 5% to 2.6% in the same period, affecting exports. J.E. López Córdova and J. Zabludovsky, *op. cit*., p. 714.

37 J.C. Moreno-Brid and J. Ros, *op. cit*., p. 768.

The discovery of oil in Mexico in the second half of the 1970s briefly improved the situation, but by then imbalances had accumulated and post-war international economic stability was collapsing. The sum of imbalances and the profound changes in the international scenario triggered a deep recession that is know in Mexico as the debt crisis. Against this backdrop, the United States supported Mexico in political and financial terms, given their interdependence had grown and many global interests needed our country to stabilize and continue to meet its financial commitments.[38] Of course, that support did not come without compromises.

The deep economic crisis in the country and the new global economic context of the 1980s forced the Mexican government to change its economic model. The commercial liberalization and the privatization of public companies were the most decisive steps. Mexico began to unilaterally liberalize imports in 1983, and two years later 64% of imports were already tariff-free.[39] A Bilateral Agreement on Countervailing Duties was signed with the United States in 1985, and Mexico joined GATT in 1986, institutionalizing the change of course and enabling non-oil exports to once again surpass oil exports.[40] Faced with this change, which was in line with the policy they promoted, the United States proposed a free trade agreement with Mexico in 1988. At the time it was not accepted, but two years later, with the international order undergoing enormous changes, the treaty was raised again, this time proposed by Mexico, negotiated by two different administrations in the United States, and incorporating Canada to create one of the most important economic regions and ambitious in the world.[41] Finally, the

[38] At the end of the 1980s, the United States government even interceded to pressure some banks there that did not want to renegotiate the debt with Mexico to accept the proposed terms. E. Cárdenas, *op. cit*., pp. 700-701.

[39] *Ibid.*, p. 673.

[40] In this Bilateral Agreement, Mexico agreed to eliminate export subsidies. J.C. Moreno-Brid and J. Ros, *op. cit*., p. 773. Oil exports dropped from representing 60% of the total in the years 1983-1985, to 9.6% from 1993 to 2003. Manufactured goods, on the other hand, climbed from representing 33% of exports to 87%, in the same periods. J.E. López Córdova and J. Zabludovsky, *op. cit*., p. 723.

[41] Unlike the unilateral liberalization of the 1980s, signing a free trade agreement provided reciprocal opportunities for Mexican companies to expand into new markets. *Ibid.*, pp. 719-721. On

crisis painfully aligned the project and the objectives of both countries, giving rise to the most important process of institutionalization and deepening of the trade relationship.

From NAFTA to USMCA

After one hundred and seventy years of a complex economic and trading relationship, full of practical and ideological disagreements, Mexico and the United States finally converged, both in terms of their economic projects and the decision to execute concordant public policies that, following the economic ideas of the moment, allowed them to formalize a commercial agreement. NAFTA completed the institutionalization of the relationship that had been built up over decades between the neighbors, one that had seen ups and downs that prevented ordering trade and providing it with certainty.

NAFTA endowed the trade relationship with a framework of rules that provided certainty to economic actors and allowed for a notable increase in trade and foreign direct investment. Despite this, from a long-term perspective it is clear that the Treaty did not trigger the economic relationship between the two countries—which was already there and functioned even without that framework—but rather moved it on to a different stage of understanding and agreement.

Assessments of the benefits of the Treaty and the fulfillment of the objectives it sought to achieve are matters of debate.[42] What is undeniable is that, as was to be expected, in those thirty years economic common sense changed again. Particularly after the global crisis of 2008-2009, the prevailing economic liberalism had to give way to voices that reintroduced discussion of the importance of addressing inequality, inclusion, and giving the State a more

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the negotiation process, the opposition of some sectors in the United States and the ratification process, see D.A. Irwin, *op. cit*., pp. 625-644.

[42] Gerardo Esquivel, "NAFTA: 20 años de claroscuros," in *Foreign Affairs Latinoamérica*, vol. 14, no. 2, April-June 2014, pp. 7-16, at *https://revistafal.com/el-tlcan-20-anos-de-claroscuros-2/* (date consulted: September 13, 2022).

important role in the economic process. In these adjustments it was only to be anticipated that disagreement could resurface, and indeed it did.

The arrival of Donald Trump to the presidency put the economic and ideological project of the United States out of sync with respect to the prevailing commercial relationship with Mexico. While the administration of Enrique Peña Nieto maintained its liberal position, tied to the NAFTA signed in 1994, the Trump administration decided to question the model of integration. Fortunately, the disagreement was not too deep to prevent vested interests on both sides of the border working in favor of a new negotiation that ended up being satisfactory for both parties. Thanks to this, today a renewed free trade agreement is in place, which has been updated to ensure it remains at the forefront of economic advances. The USMCA updated the governance of the trade relationship to ensure it matches the post-neoliberal priorities of our time, where inclusion, transparency and, more generally, the role of the State in terms of regulation cannot be victims of trade integration. Provisions on micro, small, and medium-sized enterprises, new technologies, and electronic commerce were incorporated, and non-commercial aspects relating to transparency and labor regulations were strengthened. In the end, at least seen in the light of the results, the practical and ideological overlap that serves as the foundation of the trade integration project was maintained.

However, the political process that called NAFTA into question due to the threat of one of the partner countries to withdraw from the agreement, the very fact of the renegotiation of the treaty and the new clause on the validity of the USMCA,[43] would have to remind us how complex the history of our commercial relationship has been, and how fragile is the status quo in favor of free trade. The possibility of new disagreements in the future cannot be ruled out.

Changes in the economic and political conditions of Mexico or the United States, or new evolutions in the dominant economic ideas, can still return us to that long period of divergence with the neighboring country. Mexico and the United States today enjoy a robust and deep economic relationship that impacts on practically every type of economic activity on both sides

43 The new treaty includes a clause that means it expires sixteen years after it enters into force, unless the three countries express their wish to renew it.

of the border. However, as in the last two hundred years, we must be clear that the commercial relationship is also a political relationship that is not limited to what comparative advantages dictate, but rather includes an ideological and practical dimension that plays both a decisive and changing role.