



Faculty of Legal Sciences

International Studies Career

**ANALYSIS OF THE EVOLUTION OF NAFTA
TO USMCA UNDER THE PERSPECTIVE OF
TRADE POLICIES APPLIED FOR MEXICO: A
GUIDE FOR ECUADOR**

**Degree dissertation prior to obtaining the degree
of Bachelor of Arts in International Studies.**

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DEDICATION

This work is dedicated to my whole family, starting with my dad, the "big boss engineer", who knew how to support me with his incredible advice day by day, besides cheering them up with his good humor; to my mom, who with her righteousness and seriousness straightens my path and takes care of every step I take; to my sister "Titi", the youngest of the family, who still reminds me of the child I once was, don't grow up, little girl. To my cousin "Doc", who to this day is still like a brother, the adventures and laughs with him are never lacking. To my maternal and paternal grandparents who have always been proud of the person I am; and the rest of my family to whom I will always be grateful.

THANK YOU

Special thanks to Professor Adrián Alvarado who, in addition to directing my degree work, has also become a friend during the process. I thank my friends from my last year of college, Paul, Paco, Luis and Paulo, whom my mom still doesn't accept, they make me forget the bad times with a "salidita" and give the best advice as friends; those from the university taught me so much about the world around me and made the university a place where I like to go any day. To my good friend Mario Jaramillo, who during my time at university was the unconditional support of my day-to-day life, never lacking in laughter. And finally, also to those who were supporting me, from my first day of college until the last, just around the corner from my house.

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Resumen:

El presente trabajo es una revisión de la literatura que tiene por objetivo recopilar y analizar información sobre políticas comerciales que hayan sido aplicadas en México durante su transición del NAFTA al USMCA, enfocándose en determinar cuáles han sido dichos cambios, precisar aquellos que resultaron ser ventajosos para México y finalmente realizar una reflexión para Ecuador. De la información recopilada de 239 artículos se extrajeron un total de 30 que ayudaron a sustentar la investigación. Los resultados alcanzados fueron: México dentro del NAFTA incrementó su participación comercial en localidades estratégicas, además de impulsar su agroindustria; mientras que el USMCA benefició su cadena global de valor automotriz. Aunque, todavía se ve afectada su participación comercial en otros sectores dada su economía en desarrollo. Con la serie de lineamientos de México, se enlistó una serie de observaciones que pueden ser aplicadas por el Ecuador ante un nuevo acuerdo comercial con Estados Unidos.

Palabras clave: Ecuador, México, NAFTA, Tratado de Libre Comercio, USMCA., inversión extranjera directa

Abstract:

This paper corresponds to a literature review that seeks to collect and analyze information on trade policies that have been applied in Mexico during its transition from NAFTA to the USMCA. The paper focuses on determining what these changes have been, specifying those that were advantageous for Mexico to finally make a reflection for Ecuador. From the information gathered from 239 articles, a total of 30 were extracted to support the research. The results achieved were: Mexico within NAFTA increased its commercial participation in strategic locations in addition to improve its agricultural business while the USMCA benefited its global automotive value chain. However, its trade participation in other sectors is still affected given its developing economy. With Mexico's series of guidelines, a series of observations were listed that could be applied by Ecuador in the face of a new trade agreement with the United States.

Keywords: Ecuador, Free Trade Agreement, Mexico, NAFTA, USMCA., foreign direct investment



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Analysis of the evolution from NAFTA to the USMCA under the perspective of applied tariff policies for Mexico: a guide for Ecuador.

1. Introduction

Regional integration is a formal unification process carried out by each state, such succession increases interdependence among its members to create greater exchange flows; however, such flows are not only focused on state processes, but also on market policies and civil society, although the latter is considered to be minority (Malamud, 2011). Historically, the American continent has faced failures in the creation of a solid regional group, such is the case of the Free Trade Area of the Americas (FTAA), which declined in 2005 after the IV Summit of the Americas (Kan, 2010); and there are also the dissolutions of the Latin American Free Trade Association (LAFTA) and the Union of South American Nations (UNASUR) in 1980 and 2019 respectively (Deutsche Welle, 2019; Hurtado, 2018). Although the latter have not disappeared in their entirety, they have lost relevance due to their limited contributions among members.

Given the above, the rapprochement between the U.S. and Latin America failed miserably because the FTAA did not share the same economic vision among its members; in addition, considering the hegemonic power that the U.S. began to have at that time, it came to divide the relationship between the U.S. and Latin American countries. If we analyze this trade agreement, some of the obstacles to distrust the FTAA were, firstly, the non-tariff barriers, since these did not show advantages for the less developed countries, in fact, tariff liberalization would have brought higher costs for them. Secondly, the internal political pressure imposed by the US, mostly from the textile and tobacco sectors, which were the most benefited by the restrictions; and finally, the anti-dumping measures, which were also aspects associated with political pressures, given their difficult control and negotiation (Dantas, 2006).

Despite not having a good track record that could have lasted in the long term, not all was lost. On January 1, 1994, the North American Free Trade Agreement or NAFTA, signed by the United States, Canada and Mexico, came into effect with the aim of achieving greater economic, wage and employment growth for these three countries. However, an economic integrative level such as NAFTA has implications such as those pointed out by Cervantes R. et al., (2016). economic systems involve exchanges of goods and services through payments with complicated systems in which there are diverse and changing relationships between buyers and producers in the processes of resource allocation, production and pricing.

On the other hand, after a series of reforms to NAFTA and during Donald Trump's presidency in the U.S. in 2019, NAFTA was labeled as inoperative given that the benefits provided were more in favor of Mexico. This agreement ended up being broken and the situation for the three countries worsened when aggressive trade tactics were used against the main trading partners of the United States, especially China. For this reason, the U.S. government gave way to a new phase for NAFTA, which entered into force in July 2020 under the name United States, Mexico and Canada Agreement (USMCA), updating and improving the previous agreement. (Beaulieu & Klemen, 2020).

The above information shows that, in order to be successful within trade agreements, these have had to change over time to apply the economic policies appropriate to the reality of each State. Therefore, this research work includes the main characteristics in the evolution of NAFTA to the USMCA.

1.1 Objectives

The objective of this research is to analyze the evolution of trade policies applied in Mexico during its transition from NAFTA to the USMCA and to develop a guideline for Ecuador, in addition to including three specific objectives, which are:

- To determine what have been the changes in trade policy from NAFTA to the USMCA.
- To compare the changes that have occurred between the two FTAs and determine those that represent an advantage in trade policy for Mexico.
- To make a reflection for Ecuador on the commercial guidelines that it can imitate from Mexico and which should be avoided.

1.2 Theoretical Framework

At present, according to Acosta Alberto et al (2006), FTAs are nothing more than a negotiation between countries to reach an agreement in which norms and rules are agreed upon regarding the exchange of goods, services and investments. And it is within them that we will find advantages such as: immunities,

reductions, tariff and non-tariff preferences within the exchanges that can be made between the signatory states (Hernández Daniel Julián et al., 2019). Although this was not always so, there are tools that were born with the first Free Trade Agreements or FTAs and that still exist today, a clear example is found in the first FTA agreed in human history, although it was something so rudimentary, it was functional for the contemporaneity of the nineteenth century. According to Tena-Junguito et al. (2012) their research points out that free trade spread throughout Europe thanks to the Anglo-French treaty called Cobden-Chevalier signed in 1860. This treaty was instrumental in reducing tariff protection through the spread of bilateral agreements containing the Most Favored Nation (MFN) clause.

But, according to the previous paragraph, what does this principle refer to, and are there any other principles in existence today? The answer is yes, according to the World Trade Organization (WTO), in the event that a country grants another country some kind of special trade advantage on a product, the country that applies is obliged to provide the same facilities to all other WTO member countries. However, countries may allow themselves certain exceptions within their bilateral agreements in which the WTO principles are disregarded (World Trade Organization, n.d.).

Continuing with the idea, from this point on, international groupings are established for commercial, political, social, environmental and other purposes. However, the focus of the present research is on economic integration itself which, according to the definition of the authors Tamames and Begoña G. (2010) is a process in which different markets converge or merge to form a single global market, thus breaking down certain imaginary barriers within each nation to give way to the phenomenon of market globalization. And it is thanks to the factors already mentioned, such as the convergence of markets and the breaking of imaginary barriers, that the old FTAs have evolved from being such a rudimentary instrument, to having current connotations and characteristics such as, for example, contemporary FTAs do not only establish how they want to trade among their members, but also the opening they will have with other countries; in simpler words, there is not only one type of economic integration since they can have different purposes depending on the objectives that are proposed and can be by means of: free trade zones, customs unions, common market, and the economic and political union (Malamud, 2011).

It is also important to recognize the positions that each of the members occupy not only within the trade agreements but also at the international level in order to recognize their competitiveness vis-à-vis other states, as determined by Verhun et al., (2020) this research also mentions that the world economy is not only influenced by the economic progress of each country, but even by the cooperation between several countries through trade agreements. Based on the words of these authors, the tariff policies that were presented both in NAFTA and in its transition to the USMCA are analyzed, focusing mainly on Mexico.

The evaluation of Mexico's trade policies is an interesting task, especially with regard to international trade, due to the fact that it has managed to stand out not only in its region but also at a global level thanks to the NAFTA and USMCA models. For this reason, it is relevant to conduct an in-depth analysis of the evolution of Mexico's tariff policies throughout both trade agreements, as this would allow determining the feasibility of an effective guide for Ecuador in this matter.

2. Methods

The methodology to be used in the present research work is the literature review of the authors Onwuegbuzie and Frels (2016). from their book called Seven Steps to a Comprehensive Literature Review: A Multimodal and Cultural Approach. This methodology will help for the evaluation, disaggregation and comparison of quantitative information in the present research, through the phases detailed as: exploration, interpretation and communication (Figure 1).

Exploration phase

1. Exploration of beliefs and topics

The research was carried out using a series of procedures that included the definition of objectives, a research question, a description of the problem, among other elements. As a result, the present research topic on the evolution of NAFTA to the USMCA and its trade policies as applied to Mexico has been developed.

2. Initiating the search

In this study, information on scholarly articles is collected using electronic databases. However, it has been decided to limit the use of digital libraries to Scopus, Scielo and ProQuest only, since these libraries facilitate access to the information required.

3. Storing and organizing information

In order to collect and organize the information on scientific articles from the different digital libraries, a matrix was created in Excel itself in which it was separated into different calculation tabs according to the origin of the articles. In addition, tabs were added with information from books, journals, reports of international organizations and public institutions that are not included in the digital libraries mentioned above. Each article is identified by a reference number starting with the prefix [A] followed by the corresponding study number; for example, [A1] for the first article, [A2] for the second and so on until the total of 239 articles is reached.

Columns with the title of the research, the DOI and a summary of the content have also been added in order to evaluate the relevance of the articles for this work. All this has been done in order to collect and organize the information effectively and efficiently.

4. Selecting/Deselecting information

For the development of this stage in the research, those articles or studies that contain relevant information regarding the topic of the evolution from NAFTA to the USMCA in trade policies were chosen. Therefore, this stage is one of the most valuable, because it helps in the timely selection of primary studies. Articles that meet the following requirements are included:

- Academic articles with relevant information on NAFTA in economic matters
- Academic articles with relevant NAFTA trade policy information
- Academic articles with relevant information on NAFTA investment information
- Academic articles with relevant information about the USMCA in trade policy
- Academic articles with relevant economic information on the USMCA
- Academic articles with relevant USMCA information on investments.

Excluded items are those that do not comply with the following characteristics or requirements:

- Academic articles whose title or abstract are not related to the following selected variables on the research topic (economics, trade policy and investment)
- Academic articles in a language other than English or Spanish
- Academic articles with unauthorized access
- Incomplete articles, books and conferences
- Academic articles with less than 4 pages

5. Expanding the search or MODES

According to authors Onwuegbuzie and Frels (2016), in order to expand the research, additional sources of information, such as media, observations, documents, experts and secondary sources of data should be sought. For the study, it has been decided to strengthen the research with the use of secondary sources, specifically statistics from the World Trade Organization (WTO) and digital newspapers such as CNN and Deutsche Welle (DW) that will allow for a more detailed analysis of the trade policy of the two trade agreements. The objective is to obtain a more complete and objective view of the situation, which will allow for a more rigorous and detailed investigation.

Interpretation Phase

6. Analyzing and synthesizing the information

Once the most relevant articles have been selected according to the inclusion and exclusion criteria, a matrix is created in a spreadsheet with three variables: economics, trade policy and investment. After reading each article, each column of the matrix is completed to separate the studies that focus on the variables mentioned above. In addition, those articles that partially meet the variables will be reviewed by an expert in the field to ensure their inclusion or exclusion in the research. In this way, the completeness and accuracy of the information collected for the study is guaranteed.

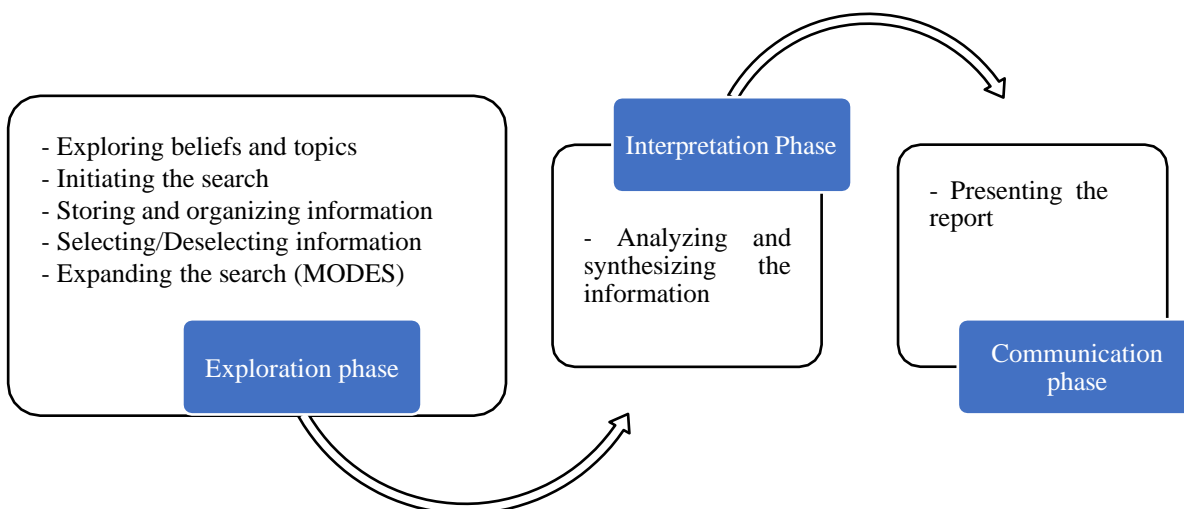
External applications of the methodology "Seven Steps to a Comprehensive Literature Review".

Several studies have employed the literature review methodology proposed by Onwuegbuzie and Frels (2016) with positive results. For example, Morris et al. (2018) applied the seven steps of the methodology to explain the importance of broadening the search beyond traditional databases. He concluded that interviews, both formal and informal, in any modality, can better enrich, inform, extend, and guide an investigation; another research in which the methodology was successfully applied is by authors Rahiem et al. (2020) in which they used it to explore digital folklore in childhood education by analyzing educational

models that employ digital folklore to teach about natural disasters in childhood, thus discovering more creative and engaging ways to enhance childhood education on disaster issues.

In general, the methodology proposed by Onwuegbuzie and Frels (2016) has shown favorable results for the generation of concrete reflections, which makes it suitable for the present research work.

Figure 1 Methodology "Seven steps to a literature review".



Source: Based on the book *Seven Steps to a Comprehensive Literature Review a Multimodal and Cultural Approach* by Onwuegbuzie A. J., Frels R. (2016).

3. Results

After an exhaustive review of the literature, a total of 30 articles directly related to the research topic were found from the different databases considered above. These selected articles offer a wide range of perspectives on NAFTA and the USMCA in their respective tariff policies, in addition to addressing crucial issues that have been the subject of research and debate. Some articles focus on the economic impact of the treaties, examining trade growth, foreign direct investment, and competitiveness of industries in the participating countries; while others explore the social and labor implications of the agreements, analyzing job creation along with labor conditions in each sector analyzed.

The geopolitical perspective is also present in these articles, because NAFTA and the USMCA not only have economic implications, but also influence the relations between the countries involved and their positioning on the global stage. It examines how these agreements have shaped Mexican dynamics and their influence on trade relations with its northern allies. Therefore, for a better understanding of the results, the most relevant issues have been divided as follows: economic policies - trade, and production and FDI, and specialized sectors of Ecuador.

3.1 Economic policy

In Mexico, the implementation of NAFTA tariff policies revealed a significant increase in trade flows for the country's economy, since it has gained strength in the second half of the 1980s by the implementation of new openness practices; the access to the two international markets, US and Canada, exports increased their value seven times, from 1993 to 2016, experiencing an average annual growth of 8.97% as stated by authors Dávila Flores et al., (2018). Such economic increase was manifested due to the fact that tariffs were reduced in the three markets and therefore imports increased along with foreign direct investment or FDI within the Mexican territory. Although Mexican manufacturers adapted the technological innovations coming from the US and Canada to improve jobs and even create new ones, there were still concerns about unfair competition and the loss of jobs in sectors that were not prepared to compete in a globalized market, such as the agricultural sector and the textile industry, so Mexico maintained strong protectionism in these two sectors as stated by Villarreal (2010) in his research.

Some of the benefits for Mexico came after the implementation of certain domestic macroeconomic reforms such as: privatization, the complete separation of the government from the country's economy, financial and trade liberalization policies, market deregulation, among others; and even the new rules adopted by NAFTA, since these also had positive effects on Mexico's fiscal performance. According to the authors Moreno-Brid et al (2009) the indicators used to measure in detail the advantages of NAFTA were domestic inflation and participation in global markets, after all these changes formed a single set for the benefit of the country, exports at that time, 2009, also experienced a notable increase in non-oil products; even though the value of crude oil had increased, the shares of oil exports remained low, accounting for more than 80% of total sales in the market for manufactured products.

To contrast certain changes, the author Puyana (2020) claimed that Mexican authorities show optimism about the effects that the decisions on labor standards, the automotive sector and SMEs in Mexico will have; in fact, there are differences between the changes that are presented in the private sector and the public sector, for example the USMCA strengthens the free market economy implemented at the beginning by NAFTA by including new areas, and expanding the rules of origin and labor in different sectors such as agriculture, automotive, hydrocarbon, electronics, among others. Given the above, Gómez Tovar and Ruiz Nápoles (2021) point out some of the main alterations in the private sector that affect Mexican industry during the transition from NAFTA to the USMCA and are as follows:

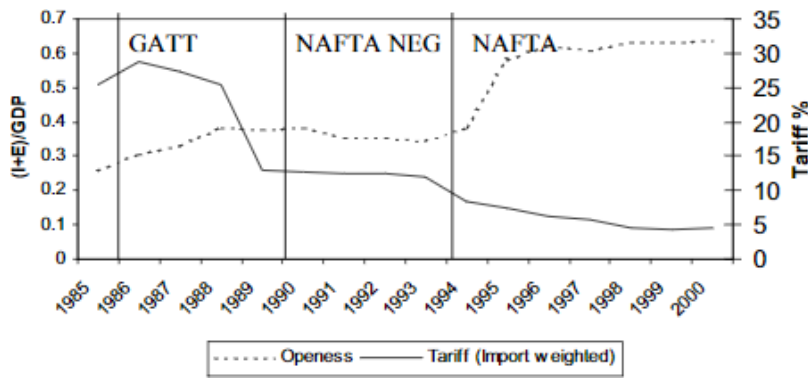
Rules of origin: if a U.S. import does not comply with the requirements of the rules of origin, the corresponding tariff rates are applied; in order for Mexico to provide tariff preferences to imported goods, these must be governed under the following circumstances; first, a regional good is considered as such if it contains materials transformed enough within the same region to change its tariff classification; second, if the goods contain materials from non-treaty countries, then these must meet at least a certain level of U.S. content in order to enter with the benefits (Gómez Tovar & Ruiz Nápoles, 2021).

Labor legislation: within the USMCA, the parties are required to adopt and maintain in their statutes, regulations and practices the workers' rights established in the ILO (International Labor Organization) Declaration of Labor Rights, as well as acceptable labor conditions in terms of minimum wages, working hours and occupational health. This standard was established by the U.S. government and is therefore largely aimed at Mexico, since these labor provisions are intended to ensure that liberalized trade does not have greater competitive advantages in developing countries compared to industrialized countries, due to the lack of adequate standards in this country (Gómez Tovar & Ruiz Nápoles, 2021).

Currency management: in the past, no such provisions were included within NAFTA; however, when the USMCA enters into force, it incorporates obligations to protect against currency manipulation, such inclusion is due to the concern of U.S. officials who have expressed concern that foreign countries may use foreign exchange policies to gain an unfair advantage over the country; In simpler terms, the FTA countries agreed to establish and maintain an exchange rate regime with a commitment to refrain from competitive devaluation, including through intervention in the foreign exchange market (Gómez Tovar & Ruiz Nápoles, 2021).

Continuing with the investigation, it is important to understand that before joining NAFTA, Mexico was part of the General Agreement on Tariffs and Trade or GATT, for its acronym in English. This agreement, in general terms, had the purpose of regulating the global economy of its member states, and later joined the Council for Trade in Goods of the World Trade Organization (WTO, 2023). (WTO, 2023). This is why the Central American country experienced certain changes in exports during the period from 1994 to 2002 during its passage through NAFTA; these were led by manufacturing exports (Figure 2).

Figure 2 Degree of openness of the Mexican economy before and during its entry to NAFTA



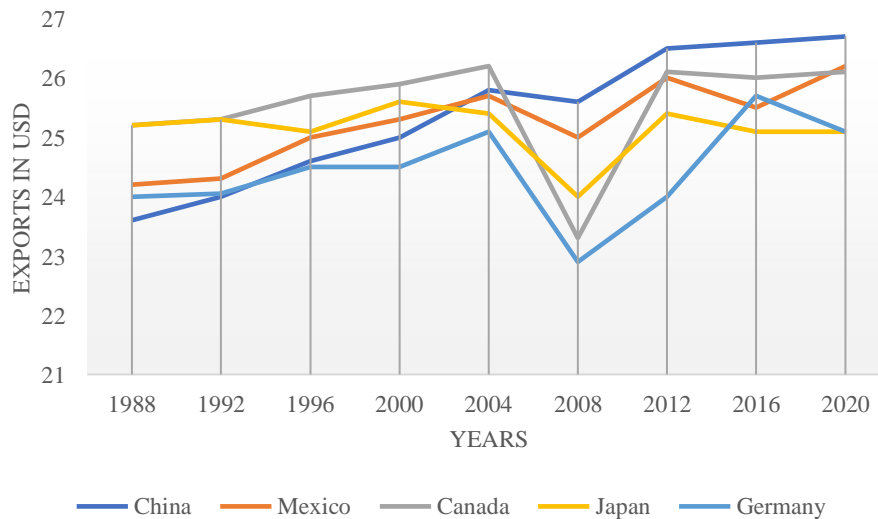
Source: Figure and data based on author Nicita (2004).

According to the data in the figure above, it can be seen how economic liberalization and trade volumes were gradually increasing and decreasing, respectively, until NAFTA came into force. However, as indicated in their research De Hoyos & Iacovone (2011) the FTA was not the only trigger for the revaluation in the increase of imports, because we must also add the devaluation of the Mexican peso in the 1990s, a situation that pushed Mexican companies towards foreign markets, which took advantage of these windows to remain integrated and enter these markets with strength.

The next key point within the economic policies is related to China, due to its importance within the research, since this country was a triggering factor to make a renegotiation of NAFTA viable. Alberto López et al (2014) mentioned in their research that, although in the initial stage of the North American agreement China's participation in NAFTA imports was increasing, it was actually in terms of exports that the Chinese government represented 63% of them to the US, more than 59% to Canada and 77% of Chinese exports went to Mexico. Thus, China's rapprochement with Mexico can be seen, the latter being the biggest beneficiary due to its high percentage of imports.

Gómez-Zaldívar et al (2022) explain in more detail how China managed to become the main exporter within NAFTA, because it was not a fortuitous event, but rather due to the ingenuity in new trade strategies used by the Asian country; after China's accession to the WTO, this economy did not let more time pass to become the main exporter to the North American market, surpassing Mexico in 2001 and Canada in 2007 (Figure 3).

Figure 3 Main exporting countries to the U.S. (dollar exports)



Source: data retrieved from Gómez-Zaldívar et al (2022).
Adapted by the author

On the one hand, while Canada and Japan were the leaders until the end of the nineties, China and Mexico have surpassed all the previous economies to position themselves as first and second, respectively.

3.2 Productivity and FDI

Foreign investment has been of vital importance for Mexico within the trade agreements under analysis, and thanks to this factor the country has been able to move further and further into the realm of developed countries. However, FDI has not always benefited Mexico's specialized productive sector as it does today. For example, according to Waldkirch (2008) during the post-NAFTA period, Mexico has experienced significant FDI flows, reaching around US\$170 billion between 1994 and 2005; but such foreign investment would have been directed mainly towards the manufacturing and service sectors by approximately 30%. Although the tariff benefits of maquiladoras could be expected to be reduced due to NAFTA, investment in these types of operations has remained remarkably stable; while the manufacturing activities of foreign multinational companies in Mexico encompass more than just the production of final goods for export.

The foreign investment analysis of the authors Cuevas et al (2005) is of utmost importance, because they separate FDI into two types: the first, "vertical," or *outsourcing*, in which companies diversify production stages in different countries to take advantage of their specialization in relation to the market, and on the other hand, "horizontal" FDI, in which companies have similar production facilities in several countries, in order to supply the local market. Based on the above, the same authors show the possibility that in some cases, NAFTA has led to a decrease in horizontal foreign investment for Mexico, due to the interest in circumventing old trade restrictions that came from North America; and as for vertical investment, this expected a growth in terms of cost-benefit given the low wages in the country. Carefully evaluating their hypothesis, vertical FDI in Mexico enhanced their interest in outsourcing company processes rather than allowing companies to expand into other markets.

In terms of production, it should be noted that Mexico with the arrival of NAFTA has the idea of the creation of strong links in the automotive industry, given that this sector is completely linked to the commercial dynamics of North America. Félix Verduzco et al. (2018) is clear that, from his research in the economic censuses related to this industry, the automotive sector increased its factories and automotive centers and therefore the productive capacity of the country; the data from his research shows that before the arrival of NAFTA this line had more than 9% in applied value added; by 2003 it was 17% and in 2013 the figures almost reached 22%. And the fact is that Mexico's manufacturing industries have turned it into a great exporting country, even surpassing Brazil three times over, during the period between 1990 and 2000; in fact, in 2009, Mexico occupied the twelfth position in world exports, leaving behind economies such as Brazil and Argentina who occupied positions 27 and 37, respectively, demonstrating that after twenty years bilateral trade between Mexico and the USA had increased fivefold. (Rouquié, 2015).

On the other hand, although the USMCA was initially presented as a unilateral pronouncement by the US government, Mexico did not lag behind and showed interest in proposing its own terms in this new FTA. In January 2017, the Mexican government showed what would be the objectives they intended to achieve or be considered within the renegotiation of the agreement until then in force, NAFTA; among the new trade terms, the following were considered: non-tariff barriers, intellectual property, digital trade, among others as shown in Chart 1 (Menezes et al., 2022).

Chart 1 Comparison between NAFTA and the USMCA in their main sectors

Sector	NAFTA	USMCA
Public Contracts	Trilateral negotiations	Defines standards only for Mexico, the U.S. and Canada subject to WTO
E-Commerce	Not negotiated	Restricts data localization/protection of source code and algorithms
State in dispute resolution	Not negotiated	The resolution between Mexico and the U.S. are restricted

Source: Based on author's data Menezes et al (2022)

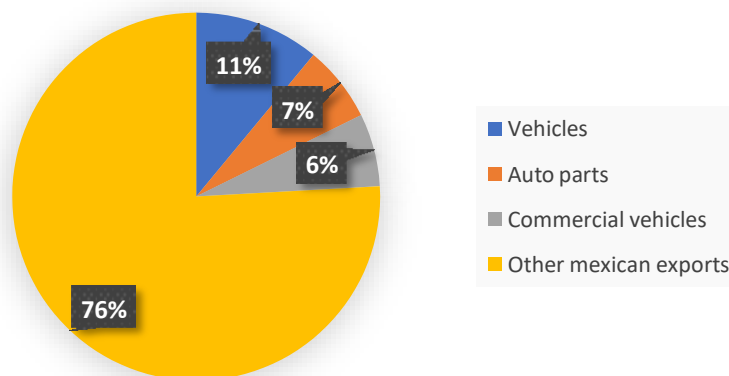
Adapted by author

It is necessary to detail, briefly, about the change of the digital era during the course of the two agreements. Although the term is not a relatively new one; even within NAFTA, as indicated by Alvarez (2021) while in the USMCA as part of the most significant changes that occurred between these agreements was the inclusion of rules on digital trade, but far from being a balanced balance for the three member countries of the agreement, this benefited mainly North America by the implications that came to represent in its developed economy and thus marks the differences between products that are purely digital and others that use only digital media for distribution.

Regarding the analysis of the regulatory framework of the USMCA, the author Gaytán-Alfaro (2022) says that, it is common from the entry into force of this agreement to find an inequitable distribution in the participation of other areas that manage to contribute to the Mexican purchase and sale market; and this is due to the lack of motivation for the union with the productive apparatus of Mexico and the rest of its USMCA partners. For example, as part of the change in trade policies for the three countries, the USMCA currently seeks to promote free trade, trade justice and sustainable economic growth in the region, as well as improve the resolution of international disputes along with environmental and intellectual property protection. (Office of the United States Trade Representative, 2023).

Returning to the investigation of the topic, the first changes in the tariff policies now present in the USMCA applied in Mexico, focused on the main global value chain (GVC), that is, the automotive line; clarifying that even said industry exports more to the United States than it receives from other places. In fact, in Mexico this manufacturing sector is considered as the largest surplus creator with a total amount of 88 867 million USD in the year 2019 (Bank of Mexico, 2023). "Unlike the textile industry, Mexico's automotive industry is at an advanced level of integration with the United States." (Moreno-Brid et al., 2023). Complementing the idea about the commercial participation of the automotive sector in Mexico, Gachúz Maya (2022) shows which have been the sectors most in demand for exports worldwide (Figure 4).

Figure 4 Mexico's share in automotive sector exports



Source: based on author's data Gachúz Maya (2022)
Adapted by author

The role of the automotive industry in Mexico's industrial development and the growth of Mexican exports is very relevant. In 2018, Mexico ranked as the world's sixth largest vehicle producer, only behind China, the United States, Japan, India and Germany, and has surpassed other leading countries in the sector such as South Korea, Brazil, Spain, France, Thailand, Canada, Russia and the United Kingdom.

According to Mexico's fourth government report 2021 - 2022, the USMCA managed to generate competitive conditions during this period through the use of differential disciplines in order to achieve the integration of small and medium-sized enterprises or SMEs; it also included improvements for competitiveness within digital trade and more. Some of the strategies applied by this new trade agreement in terms of public policy seek to take advantage of opportunities that can contribute to improving the quality of life based on inclusive and environmentally friendly trade for workers in the region. In Mexico, the trade exercise with its USMCA partners had a value of 645,428 million USD in 2021. However, this value exceeded by 7.3% more than in 2019 representing 64.5% of the country's total trade. On the other hand,

referring to FDI, from 1999 to the first half of 2022, 46.3% of this investment in Mexico came from the United States, while 7.5% was received from Canada. (Government of Mexico, 2022).

Although the strict relationship that the United States maintained with Mexico during the renegotiation of the treaty caused some changes in its productive and labor sector; on the other hand, it also brought certain benefits for Mexico. Leal & Dabat (2019) understood that the percentage increase in the different indicators in the previous paragraph did not happen by coincidence, but was influenced by the distancing that the US took with Mexico by imposing ideological and physical barriers between the two countries. The same authors indicate that Mexican human capital is no competition for U.S. human capital; however, this helped them to encourage large U.S. companies to relocate and provide commercial facilities for the production of their products in Mexico. Some of the facilities that Mexico used to attract the attention of U.S. industry are detailed in Chart 2, below:

Chart 2 Advantages and benefits of manufacturing from Mexico

Production	Marketing and operation
Increased productivity	Savings in tariffs provided by the USMCA.
Increase in earnings + reinvestment capacity	Cost similar to U.S. for freight forwarding structure
Leasing of buildings and industrial parks have fair interest rates.	Remote control (EU) is allowed, as far as Mexican production is concerned, thanks to the e-commerce rules present in the USMCA.

Source: based on information from Tacna Services
Adapted by the author

3.3 Specialized sectors in Ecuador

In order to contrast the results and changes achieved in Mexico, this section will analyze specific sectors of the Ecuadorian market that are of interest for further analysis. Although this research suggests seeking the applicability of new trade rules for Ecuador in a possible FTA with the United States, it should first be considered that not all sectors of the country are prepared to compete or even resemble the Mexican market. Therefore, only those specific sectors that bear some resemblance to Mexico are indicated.

A good guideline for Ecuador is its Multiparty Agreement with the European Union (EU), which has allowed the bilateral trade market to increase by 31%. The delegation of the European Union in Ecuador (2022) points out some clear examples of those that have benefited Ecuador during the period of validity of the same agreement with the EU, and these are: the sectors of agriculture and aquaculture with products such as flowers that currently occupy the 4th position in the European market, and cocoa which is now in the 5th position, while shrimp, bananas and plantains are the main products exported by Ecuador to the EU.

However, while the above picture may be encouraging in these sectors; it is the WTO (2019) who points out, in its Trade Policy Review or TPR; for its acronym in English, that in the pillar of the Ecuadorian economy continues to be the hydrocarbon sector being the main generator of foreign exchange and income for the treasury. In the case of oil even being the country's largest export product, it caused the imbalance in Ecuador's trade balance due to the fall in prices during the period 2014-2016. In Ecuador, public companies have a substantial participation in the hydrocarbon market, given that they are the main producers and exporters of oil; according to the Central Bank of Ecuador or BCE (2023) in the month of March oil exports reached 8.7 million barrels; of which, 7.7 million were exported by EP Petroecuador and 1.1 million by the Ministry of Energy and Mines.

Turning to the economic aspect, Ecuador's legal tender is the U.S. dollar; therefore, since it does not have its own currency, the country cannot implement independent monetary policies, and this limits its capacity to respond to external risks; however, since it is a strong currency, it contributes to its macroeconomic stability. In April of this year, the weighted average index of the real effective exchange rate with the United States and Mexico depreciated by 1.14%; in addition, Mexico revalued its currency by 1.8% during this period. Since the official currency in circulation in Ecuador is the dollar, fiscal policy is the main macroeconomic adjustment instrument available to the country to minimize or maximize external shocks (ECB, 2023). (ECB, 2023).

4. Discussion

4.1 Economic policy

Although there is a considerable number of articles that discuss positively the changes for Mexico within these two agreements, on the other hand, there is also research that talks about disadvantages that led the Central American country to see itself far from being a partner or ally, to a bridge with the rest of Latin American countries. For example, as mentioned by Cervantes-Martínez et al., (2016) even after more than

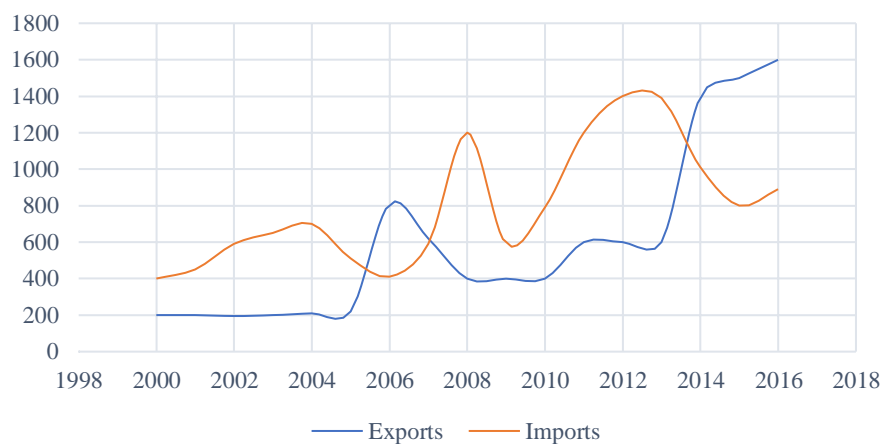
20 years had passed since the beginning of the agreement, the Mexican economy had not reached higher growth rates and, in fact, they are below those observed during the period from 1950 to 1980; decades in which, average annual growth rates were around 6.5%. Even in the 1990s, the highest volume of foreign trade was achieved at an average annual rate of 3.4%. Without leaving aside the trade shares, since these also decreased slightly during the period from 1991 to about 6% in 2007 and in the subsequent intervening years increased to 9% as indicated by the author Besedes, T (2011) in his research.

Second, Ortiz Zarco & Perrotini Hernández (2019) as evidence in the economic changes to be made within NAFTA, reveal that there are monetary asymmetries between economies; such is the case of Mexico, where although the value of its interest rates falls more slowly compared to its inflation, its exchange rate appreciates. This, on the one hand, attracts foreign capital, but on the other hand also generates pressures on the domestic currency and solvency risks for domestic banks with much higher values. The growth and economic stability of a country, in this case Mexico, are both conditioned and altered by the changes that occur in international markets, in exchange rate variations, international prices and even by the differences in domestic interest rates in relation to those applied within another country.

Figueroa & Villalba Padilla (2022) mark the above guidelines by arguing that Mexico, being the weakest of the three economies due to its inefficient political system, high social risk, weak fiscal structure, high public debt and corruption, then its monetary policies should be aligned in the same direction as that of the most developed country, in this case the USA, to ensure its macroeconomic and financial stability; this is not the case of Canada, since it presents economic symmetry with that of the United States.

For their part, Lechuga Montenegro & Vega Miranda (2018) explain in Figure 4, based on purely agricultural products such as corn, wheat, barley, etc.; that the balance of this sector remains in a constant deficit due to structural problems in its economic policies as those already explained above, and although throughout the 90s it had a surplus in this market due to the devaluation of the currency, it was from the two thousand years that exports began to decline and depend on the purchase of similar products.

Figure 5 Balance of agricultural products Mexico 1993-2017



Source: based on data retrieved from Banco de México.
Adapted by the author

While previous researchers noted that NAFTA was instrumental in reducing the fiscal deficit and keeping inflation low, Carlos Moreno-Brid et al (2006) says that the Mexican economy within NAFTA has not grown adequately to meet the employment demands of a steadily growing economy, and far from value-added manufacturing exports being able to overcome the inflow of massive inputs to offset the production of those inputs is highly unlikely to happen.

4.2 Productivity and FDI

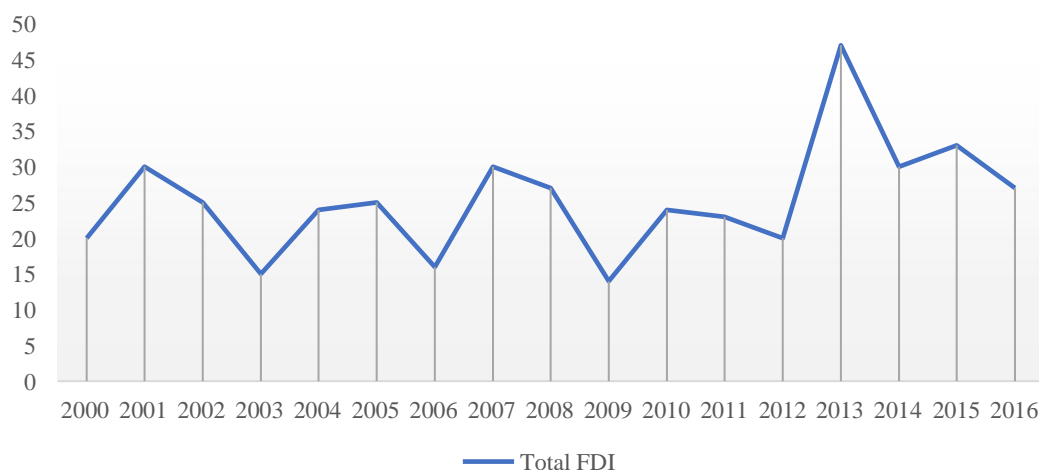
According to Escaith (2021) According to Escaith (2021), NAFTA has also had no significant impact on productivity levels, and has not managed to break informality and low productivity growth in Mexico, both of which are counterproductive for the country; in any case, the question is not whether NAFTA has had a positive effect on the total productivity factor or FTP, because it has, but rather the real question is why this impact has been limited to the emerging economies of the states located in the north of Mexico. Among the

reasons why the Central American country has gained attractiveness as a manufacturing center for U.S. companies are due to factors such as: its geographic proximity, its cost competitiveness compared to China, and its greater attractiveness in the new geopolitical context (Nava-Aguirre, 2021).. These factors combined have positioned Mexico as an increasingly desirable investment and manufacturing destination for U.S. companies seeking efficiency, profitability and access to the largest market in North America.

The authors Baylis et al (2009) used the theory known as New Economic Geography (NGE), in order to compare and emphasize, as already stated in the previous paragraph, the level of importance of certain Mexican states with respect to others, obtaining the following results: after the implementation of NAFTA, the disparity in production increased to 9%, since this treaty seemed to favor the municipalities that had a higher proportion of qualified workers; in other words, workers with secondary education or higher levels, due to the fact that within these sectors there was already a greater flow of money and investment from the US. The same authors observed that in the municipality of Tonalá located on the coast of Jalisco, at a distance of one thousand kilometers from the border, it had an average Gross Value Added (GVA) of 7% being lower compared to other municipalities located along the border, such as Tijuana and Mexicali in Baja California. Baylis' research helps to support the hypothesis of Díaz Dapena et al. (2017) who show that Mexico's liberalization within the trade agreement not only produced disparities within the same territory, but also created greater trade polarization in sectors that are less productive or close to the U.S.-Mexico border.

In contrast, when talking about FDI. Unger (2018) in his thinking opposes the supposed investment by Canada and the United States, and it is that Mexico proudly brought up its participation within NAFTA that it forgot to promote new foreign investment to help the country take off with the help of new technologies. The author made it very clear in his research that the lack of investment and development (R&D) in the country was due to the blind trust placed by the Mexican government at the time that NAFTA alone would magically implement improvements in Mexican industry. In fact, the opposite happened; instead of strengthening ties with Canada and the US, they lost participation and interest in investing in the Mexican state, as can be seen in Figure 5.

Figure 6 Foreign Direct Investment in Mexico, 2000-2016



Source: based on data retrieved from INEGI
Adapted by the author

As can be seen in Figure 5, FDI in Mexico varied between 20 and 30 billion dollars until 2012; since the following year there was a peak with exponential growth, which occurred after the Inveb company, originally from Belgium, bought the Modelo group and thus the European country displaced the United States with two percent in terms of FDI provided to Mexico, being more specific with 38% and 32%, respectively.

Making the leap from NAFTA to the USMCA, Pérez (2021) highlights that the renegotiation of this new agreement is not as painted by many of the researchers in the previous section, since, in sectors such as agriculture some of the producers faced serious difficulties to improve the degree of competitiveness in the short or medium term in products such as: barley, beans, chicken, animal fats, potatoes, among others.

Agricultural productivity during the transition from NAFTA to the USMCA was a hard hit especially for non-diversified corn sellers, who depend on the price of this product for their well-being. According to Barbier (2000), population growth in Mexico affected agricultural activities, causing corn and fertilizer prices to increase by more than 3% per planted agricultural area; this means that, prior to the NAFTA reforms, the yield of corn agricultural production had a significant impact on agricultural land expansion activities. However, it is clear that not all agricultural sectors in Mexico benefited from the agreement, as has often been pointed out.

Finally, another of the biggest complaints from the U.S. towards Mexico was regarding its relationship with China; these countries had established commercial ties that were quite beneficial for Mexico; therefore, the U.S. saw it as a threat given its geographic proximity. Therefore, long before NAFTA was renewed, there was already a decline in imports from Canada and Mexico to the United States, as shown in Chart 3. According to Blecker (2021) this decrease in imports can be attributed to the detour of trade due to the presence of Chinese exports in the U.S. market, remembering that the Asian country has taken quite a lot of territory being considered as "the world's factory".

Chart 3 Origin of U.S. imports, period 2005 - 2020 (%)

	Origin of U.S. imports, period 2005 - 2020 (%)			
	2005	2010	2015	2020
NAFTA	26.8	26.0	26.3	25.5
Mexico	10.0	11.8	13.1	13.9
Canada	16.9	14.2	13.2	11.6
China	15.6	19.7	21.8	19.0

Source: Based on data from author Hubert Escaith (2021).
Adapted by the author

Despite having cut ties with China, the United States still has a significant share of the Chinese market and, in fact, Mexico is the least benefited of the three countries; however, by the year 2020, when the USMCA is in full force and effect, its share will have increased compared to the rest of the years, surpassing Canada by 2.3%.

As a last change within the USMCA, a provision from article 32.10 of the regulations of this trade agreement was introduced, which establishes the following: if any of the member partners of the economic group establishes a trade agreement with a non-market economy, in reference to China, the other parties will have the right to review it and if they do not agree, they may withdraw from the trade agreement. This would limit the Mexican government's ability to negotiate trade agreements with countries such as China. In addition, at the request of the United States, a provision was incorporated into the USMCA related to foreign exchange manipulation as detailed by De la Mora Sánchez (2019) in his research.

5. Conclusion

After having carried out this research work, the following conclusions can be drawn:

Although NAFTA, on the one hand, marked a historic milestone by achieving the integration of three countries into a single regional trade agreement through complex and strict negotiation processes by the governments of Canada, the United States and Mexico, on the other hand, we must also be realistic, since Mexico, being a developing economy compared to the other markets (Canada and the United States), was affected by interests other than its own. In fact, after 23 years of NAFTA, Mexico's annual per capita GDP increased by only 1.2%, giving a cumulative increase of just over 28%, while Latin American economies increased their GDP by 1.4%, with a cumulative increase of 40%. Thus, Mexico ranked 15th out of 20 Latin American countries in terms of per capita GDP growth as of 2016.

As the years progressed, North American governments became increasingly dissatisfied with NAFTA and wanted to adapt it to new economic realities and strengthen their collaboration to foster joint growth and prosperity. Some differences in key areas of change are listed below:

- Access to agricultural markets,
- Methods of dispute resolution,
- Rules on digital commerce

➤ Measures in technical obstruction of trade

In simpler words, with the previous renegotiations plus new ones such as intellectual property, rules of origin and the inclusion of stricter measures in areas such as labor and environment, etc.; the USMCA adopted the modernized provisions to address the new trade challenges that in theory sought to foster an equitable and beneficial trade environment for all three countries. However, such changes did not strengthen Mexico either, but it had to agree to them in order to prevail within the agreements. For example: given the distrust and concerns of the US regarding unfair competition and the loss of jobs in the country, it was decided to renegotiate the agreement and implement safeguards in the most sensitive sector (automotive), forcing Mexico to accept and increase its regional content index to 75%; in other words, the largest amount of parts must come from both the US and Canada for their production; this percentage is the highest ever negotiated in trade agreements.

Although Mexico within the USMCA also presents a great dependence on its other members, it is thanks to the economic openness that this has offered it to reach a GDP close to 80%, although it is still relatively early to fully assess the effects of the USMCA given the short term of this trade agreement. Therefore, Mexico is still biased within the USMCA by the United States, because this country has the reins in making decisions within the trade agreement such as how much to trade, with whom it can and with whom it is forbidden to trade, how to trade, under what rules to enter or leave the country are few rules of many others that the United States imposed not only in this agreement, but also in its predecessor NAFTA.

In the case of Ecuador, if what this country is looking for is an effective and efficient trade with the United States where the common goal is win-win, then what should be done, after having Mexico as a precedent, is to imitate those positive decisions and of course eliminate to replace with new ones those resolutions that do not provide any type of insurance, for example:

- Ecuador should carefully negotiate tariff preferences for strategic export sectors.
- The application of exemption and exemption clauses are equally important for the regularization of trade.
- Ecuador, being part of the EPV group of countries or Small and Vulnerable Economies, its sensitivity is much higher than that of Mexico, so it should propose much slower tariff reductions before a new FTA.
- Protect domestic agro-industry along with specialized manufacturing industry from possible attacks by strong non-tariff barriers.
- Provide greater openness and fiscal leeway for FDI, controlling just enough so as not to wipe out domestic industry.
- Use the fact that Ecuador does not have a border with the US as an advantage so that the US does not focus the country's development in a single point.
- Although Ecuador is a dollarized country, which prevents it from leveraging certain aspects such as currency devaluation to bring benefits, it must specialize its productive sector with the support of investment and education to compete in stronger markets.

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7. Appendix

Appendix 1 Literature review matrix

Tipo de fuente	Autor	Códificación de las fuentes	Año de publicacion	País de origen	Contenido teórico General	Contenido teórico específico	Base de datos
Artículo	Hubert Escaith	A3	2021	Estados Unidos	Política Económica	Variación de dividendos del comercio en México dentro del NAFTA	Scopus
Artículo	Blecker, Robert A.	A4	2021	Estados Unidos	Política Económica	Disposiciones más importantes del USMCA en la administración de Trump	Scopus
Artículo	Gómez Tovar, Rosa; Ruiz Nápoles, Pablo	A5	2021	México	Política Económica	Este artículo analiza estos cambios y los resultados del tlcán, supuestamente favorables para México y perjudiciales para Estados Unidos.	Scopus
Artículo	Puyana, Alicia	A14	2020	México	Política Económica	El estudio presenta los cambios que introdujo Donald Trump, actual presidente de Estados Unidos, en las relaciones económicas y la política internacional,	Scopus

Artículo	Alberto López, Jorge A; Rodil, Óscar M; Valdez, Saúl G	A31	2014	México	Productividad	Este trabajo se centra en el análisis del comercio intraindustrial en el contexto de esta zona de libre comercio	Scopus
Artículo	Besedes, Tibor	A37	2014	Estados Unidos	Productividad	Habla sobre la influencia del NAFTA en el riesgo de las exportaciones	Scopus
Artículo	De Hoyos, Rafael E; Iacovone, Leonardo	A39	2013	Estados Unidos	Productividad	Este trabajo cómo el NAFTA impulsó el sector empresarial mexicano	Scopus
Artículo	Baylis, Kathy; Garduno•rivera, Rafael; Piras, Gianfranco; Garduño-Rivera, Rafael	A41	2013	Estados Unidos	Política Económica	Se contrasta los cambios en la actividad económica en regiones y sectores más y menos susceptibles de verse afectados por el comercio dentro de México por el Nafta	Scopus
Artículo	Waldkirch, Andreas	A44	2012	Estados Unidos	Inversión Extranjera Directa	Habla sobre la IED en México a raíz del NAFTA	Scopus

Artículo	Moreno-Brid, Juan Carlos; Carpizo, Juan Ernesto Pardini; Bosch, Jaime Ros	A48	2010	Estados Unidos	Política Económica	El artículo examina los efectos de esta reforma en el desarrollo social y económico de México, y constata que sus resultados han estado lejos de ser estelares.	Scopus
Artículo	Cuevas, Alfredo; Messmacher, Miguel; Werner, Alejandro	A54	2010	Reino Unido	Inversión Extranjera Directa	Habla sobre el flujo de IED en México dentro del NAFTA	Scopus
Artículo	Barbier, Edward B	A62	2009	Estados Unidos	Productividad	Habla sobre políticas agroindustriales en México en el marco del NAFTA	Scopus
Artículo	Gaytán-Alfaro, Edgar David	A71	2009	México	Productividad	Habla sobre una integración económica de México en su aparato productivo más representativo, la agricultura	Scopus
Artículo	Pérez, Juan Luis Hernández	A72	2005	México	Productividad y Política Económica	Este trabajo plantea los probables efectos de este nuevo acuerdo comercial en la agricultura	Scopus

						mexicana, tomando en cuenta el papel que juega la agricultura mexicana por la estrategia de desarrollo económico y la actual política gubernamental de desarrollo agropecuario.	
Artículo	Alvarez, Luis F.	A79	2000	España	Política Económica	Este artículo examina las disposiciones sobre comercio digital del USMCA, las contrasta con la visión del comercio avanzada por el NAFTA	Scopus
Artículo	Gómez-Zaldívar, Manuel; Duran, J. Alejandra; Botello, Jaime Carrillo	A81	2022	Colombia	Productividad	Habla sobre la densidad manufacturera en países del Nafta desarrollados y no desarrolladas	Scielo
Artículo de revista	Galán Figueroa, Javier, Villalba Padilla, Fátima Irina	A82	2022	México	Políticas Económicas	Habla de políticas monetarias entre los bancos	

						centrales del NAFTA	
Artículo de revista	Ortiz Zarco, Ruth, Perrotini Hernández, Ignacio	A100	2019	México	Políticas Económicas	El artículo examina la evolución de la política monetaria de las economías que conforman el NAFTA, para el periodo 1980-2015.	Scielo
Artículo de revista	Dávila Flores, Alejandro, Sobarzo Fimbres, Horacio Enrique, Valdés Ibarra, Miriam	A112	2018	México	Políticas Económicas	Evalúa los impactos potenciales sobre la economía mexicana de diferentes escenarios posibles de política comercial.	Scielo
Artículo de revista	Lechuga Montenegro, Jesús, Vega Miranda, Faustino	A115	2018	México	Productividad	El objetivo del artículo es determinar el patrón de relación entre exportaciones, tipo de cambio y tasa de interés para la economía mexicana.	Scielo
Artículo de revista	Unger, Kurt	A123	2018	México	Productividad e Inversión Extranjera Directa	Se revisan las expectativas asociadas al	Scielo

						NAFTA en lo comercial y en la atracción de inversión extranjera directa (IED).	
Artículo de revista	Félix Verduzco, Gustavo, Castro Lugo, David, Aboites Manrique, Gilberto	A127	2018	México	Políticas Económicas	La investigación analiza las posibles consecuencias de nuevas barreras de EU a las importaciones automotrices	Scielo
Artículo de revista	Díaz Dapena, Alberto, Fernández Vázquez, Esteban, Garduño Rivera, Rafael, Rubiera Morollón, Fernando	A137	2017	México	Políticas Económicas	Este trabajo estudia la convergencia derivada del comercio de México después del Tratado de Libre Comercio de América Norte (TLCAN).	Scielo
Artículo de revista	Rouquié, Alain, Ramos, Gabriel	A146	2015	México	Políticas Económicas	Este artículo examina las relaciones entre el TLCAN y las transformaciones de la economía, la sociedad, la política y las	Scielo

						políticas de México.	
Artículo de revista	Moreno-Brid, Juan Carlos, Santamaría, Jesús, Rivas Valdivia, Juan Carlos	A176	2006	Países Bajos	Políticas Económicas	Habla sobre ventas y desventajas de las políticas económicas del Nafta para México	Scielo
Artículo de revista	Menezes, Roberto Goulart, Mariano, Karina Lilia Pasquariello, Contrera, Flávio	A190	2022	Brasil	Políticas Económicas	Este trabajo pretende analizar el impacto en los procesos de renegociación del TLCAN, considerando el comportamiento de Estados Unidos frente a sus socios, especialmente México.	Scielo
Artículo de revista	Leal, Paulo, Dabat, Alejandro	A194	2019	México	Políticas Económicas	Habla sobre cómo ha venido mejorando la relación entre México y EEUU en cuanto a la renegociación efectiva para llegar al USMCA	Scielo
Artículo de revista	Gachúz Maya Juan Carlos	A202	2022	México	Políticas Económicas	Analiza el impacto del Acuerdo Estados Unidos-México-Canadá en la relación China-	ProQuest

						México y la relación comercial de México con ambas economías en el contexto de la guerra comercial.	
Artículo de revista	Nava-Aguirre, Karla María	A210	2021	México	Productividad	Colaboración del sector privado en la renegociación del Tratado de Libre Comercio de América del Norte. Análisis de la industria automotriz mexicana	ProQuest
Artículo de revista	Luz María de la Mora Sánchez	A218	2019	México	Políticas Económicas	Habla sobre el cambio en las políticas arancelarias de México con el cambio de gobierno en EEUU	ProQuest