



**CANADIAN GLOBAL AFFAIRS INSTITUTE**  
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**The North American Process: Intent, Reality  
and the Future of the North American Free  
Trade Agreement**  
by Francisco Suárez Dávila  
October, 2017

# POLICY UPDATE

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## **THE NORTH AMERICAN PROCESS INTENT, REALITY AND THE FUTURE OF THE NORTH AMERICAN FREE TRADE AGREEMENT**

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*Speech delivered at The North American Process Symposium  
in Puebla, Mexico on Friday, Oct. 6, 2017*

I greatly appreciate the invitation of my friend, Carlos Camacho, and the Universidad Anáhuac, which I am very pleased to say, is hosting the prestigious fourth annual North American Process Symposium. This is my third meeting. I participated in an earlier one as ambassador to Canada.

We feel privileged that this meeting is being held in my country and in Puebla, a city that means so much to Mexico. Puebla is home to some of the best baroque art, to “mole poblano”, our national dish, to china poblana, the women’s national dress, and last but not least, to the defeat of Napoleon’s French army on one of our main national holidays, the fifth of May!

We show our support here today for this brave city after the terrible earthquake. We believe life goes on and we have confidence Puebla will overcome the new challenges of reconstruction.

This meeting is also very timely as our governments have miraculously completed the increasingly complex first three stages of NAFTA negotiations. In North America we are literally at a historic crossroads, particularly the U.S. and Mexico, before and after a critical election. Canada has been called on to play a constructive role as an island of stability and good leadership under Prime Minister Justin Trudeau, who will visit Mexico next week. I’m obviously sympathetic to Canada, the more so since we no longer have those cumbersome visas. I am a committed member of the “Trilateralist Club” with its motto: “Act trilaterally where we can, bilaterally where we must.”

Instead of giving a boring presentation, I have decided to substitute a NAFTA “Back to the Future” version, presenting a long-term vision by imagining what we could or should be witnessing in this forum 10 years hence. It’s a dream with a bit of wishful thinking, but with a measure of realism linked to current issues, fundamentally optimistic, but with some veiled proposals and criticism.

A basic intellectual consensus was reached: NAFTA accomplished what a trade deal should have achieved as its main objective, substantially increasing market access and trade in goods. In fact it went beyond that, establishing a continental platform of successful value chains and a convergence of sound financial policies to ensure stability. NAFTA by 2017 had become a grand old lady but needed upgrading and modernization in a changing political environment. The Trans-Pacific Partnership (TPP) was ideally the most painless way to accomplish this, but that window closed, leaving decidedly unfinished business. That business included the primary goal of reducing the income and wage gap among its partners and settling internal disparities in regions such as the U.S. rust belt or Mexico’s southern states. Trade growth did not generate GDP broad-based growth, particularly in Mexico’s case.

Anyway, things were reasonably on track. Then came the U.S. election and President Donald Trump’s victory produced an 8.2-magnitude earthquake. Trump announced his decision to withdraw from NAFTA as he had from the TPP. We had to negotiate a free trade agreement with



an anti-free trade president who had a mercantilist 18th-century idea that a trade surplus determines a country's wealth. Trump also had a protectionist, anti-WTO bias and wanted to eliminate the rules-based trade system that had been painstakingly built over the postwar period.

Fortunately, Mexican and Canadian negotiators were not discouraged. They made an in-depth analysis of *The Art of the Deal* and practised the poker technique of calling Trump's bluff. It was made clear that "no NAFTA was better than a bad NAFTA". The U.S. employed a team of professional trade negotiators. A bumpy process of negotiation started up in between tweets, with our talented negotiators demonstrating moderation and a biblical patience. In particular, there was a strong movement on the part of U.S. business leaders, farmers, state governors, legislators, universities and think tanks to defend NAFTA. A time limit was set to avoid electoral complications in Mexico and the U.S.

Finally, after seven gruelling rounds, negotiators reached a reasonable NAFTA agreement by early 2018. They overcame the greatest danger to NAFTA – the various threats to walk out of the talks.

The negotiations achieved an improved, more efficient mechanism for dispute settlement (chapters 11 and 19) while maintaining the principle of third-party arbitration, rather than resorting to domestic U.S. courts. Rules of origin were revised somewhat, improving regional content but without undermining our competitiveness, particularly in the crucial automobile sector. This required a complementary special trilateral agreement, as was done pre-FTA, to resolve the important issues. The treaty was modernized using the TPP model to deal with new issues: electronic commerce, property rights, a new chapter on SMEs, energy and anti-corruption. The TPP was a good framework for trade facilitation and regulatory convergence. The labour issue was resolved not by setting wages by decree, but mainly by incorporating guidelines from the International Labour Organization (ILO) and the Paris accord.

While Congress did not ratify the treaty in 2018, it was in force throughout that year. In 2019, the new U.S. Congress and new Mexican government ratified it.

At this stage an alternate-reality nightmare intervened in the dream. Irritated by steadfast Canadian and Mexican opposition to yielding on key issues, such as dispute settlement or the artificial reduction of the trade deficit, U.S. negotiators walked away from the table. However, vehement reaction from economic and political forces in the U.S. forced Trump to reconsider and the U.S. rejoined the negotiations.

In the meantime, pending ratification negotiators released a memorandum of understanding in which they committed to making progress via policies in areas that do not require legislation. Of particular importance was the decision to advance the domestic policy agenda that was not part of NAFTA in 1994 and partly explained its deficiencies and opposition. We should go from NAFTA 1.0 to 2.0, but also to economic policy 2.0. The parties realized that free trade was not an end in itself but a medium with which to increase economic well-being. Mexico developed a modern industrial policy to better integrate outward value chains with domestic value chains, increase



domestic content and make better use of domestic market potential. Policies were adopted to retrain workers and to reconvert sunset industries. An effective regional policy was put in place to help our southern states, an issue made more pressing by the earthquake damage.

Just in case things might not go well, Mexico and Canada moved ahead with plan B, which included a process of trade diversification. Mexico established a deal in grains and agricultural products with Brazil and Argentina and concluded a modernized FTA with Europe. A TPP was concluded without the U.S., and Canada joined several Pacific alliances. We both made a trade deal with India and China. “No NAFTA” was not the end of the world, as we analyzed, applied and took advantage of the WTO’s rules.

More importantly, a more ambitious new NAFTA vision gradually emerged. New goals were set that went beyond trade to accelerate broad-based growth and to reduce disparities among countries and regions, much as the European Union has so successfully done. Mexico’s reforms finally yielded sizeable increases in shale and deep-water oil and gas. Thus North America became the world’s energy powerhouse with unbeatable advantages in energy-intensive industries while still adopting the Paris environmental guidelines. An agreement was reached to have a continental interconnected transport grid with multimodal logistic corridors. All three countries substantially increased their infrastructure investment, including along their borders. Trade facilitation made great progress by digitizing customs procedures and converging pre-clearance and regulatory procedures through merging bilateral commissions. Human capital entered the picture. A road map was established for gradual professional and labour mobility based on solid studies of regional and sectorial shortages, beginning with easier temporary business permits. Educational co-operation also played a role in strengthening linkages between universities and business.

New instruments support this process. NADBANK was strengthened to become a truly North American infrastructure and regional development bank, and Canada joined it. Governments invested callable capital to tap financial markets, with private firms in all three countries participating in related projects. This acted as a form of European-style cohesion, targeting structural funds to promote less-developed regions and increase market size. This was far less costly than building a wall, which would have been completely incompatible with an economic partnership and more in line with a Berlin wall dividing democracy from autocracy.

A NAFTA secretariat was set up with a top executive responsible for moving the agenda forward in a consistent fashion: neither an excessive Brussels supranational bureaucracy nor a lack of any institutional framework.

During this period Mexico overcame its German-like obsession with price stability, to adopt an Asian priority of committing to accelerated growth of five- to six per cent, not a mediocre two per cent. Mexico became the seventh largest world economy. Outward migration ceased, labour shortages arose, wages increased, the income gap narrowed and the trade deficit was reduced, all for the right reasons. The region made use of its clear comparative advantages in technology and capital, with Mexico providing a demographic bonus. As a result, North America became



effectively the most competitive and dynamic region in the world, and we gained market share against China and the rest of Asia. We were an island of progress, compared to European stagnation and China's emerging structural problems. Trump finally learned the hard way about political costs and became convinced of NAFTA's advantages. Trudeau was re-elected and Mexico's new government was a broad centrist coalition with a better domestic economic strategy to make NAFTA more beneficial.

United by nature, geography and destiny, civil society proved a basic force in moving governments forward in a shared North American vision, regardless of NAFTA.

## ► About the Author

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*Francisco Suarez Davila was Ambassador to Canada 2013 to 2016. He holds a Law Degree from the National Autonomous University of Mexico (UNAM) and a Master's Degree from the University of Cambridge, King's College. During President Peña Nieto's electoral campaign and until very recently, he served as Secretary General of the Colosio Foundation, the think tank of the PRI. He also held the post of Vice President of the Mexican Council on Foreign Relations (COMEXI) (2008-2011).*

*He began his career at the Bank of Mexico where he became the General Manager of International Economic Affairs (1976-1980). Was an Executive Director on the Executive Board of the IMF (1972-1976); Financial Director at Nacional Financiera, Mexico's industrial development bank (1980-1982); Undersecretary of Finance and Public Credit (1982-1988); and Director General of Banco Mexicano Somex, now Banco Santander (1988-1992).*

*For two periods he served as a Federal Congressman (Député), and chaired the Finance Committee (1994-1997). Later he was Ambassador of Mexico to the OECD (1997-2000), where he headed the Budget Committee.*

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