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*Is There a Comparative Perspective between the European Union
and NAFTA?*

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Introduction

In 1991, a Conference was held in London regarding the launching of the North American Free Trade Agreement (NAFTA). A member of the audience asked the speaker if he considered whether there was any chance for the NAFTA to be like the European Community; the answer was negative. The NAFTA was seen since its beginning as a simple Free Trade Agreement, maybe similar to an EFTA, rather than as a potential community.

Time has proven that the respectable scholar was wrong; however, we cannot blame him for thinking like that. On the contrary, it was pretty ambitious to consider that NAFTA could take a step beyond what a FTA involves, theoretically speaking.

There are currently several expectations around NAFTA that clearly foresee something beyond a simple FTA. Moreover, there are several analytical studies of a comparative nature, with the EU as the standard of comparison, that raise doubt over the idea of a North American Community¹. If we agree that the NAFTA is a region in the making and its objectives tend to be overtaken by the dynamics of the region, we are in business.

North America has become a real region for security reasons, for economic advantages and for political interests. The point is whether the NAFTA represents a distinctive model or its evolution reveals common features with the European experience. In asking this question, we do not see the need for North America to replicate the European regional integration model.

In summary, what the NAFTA needs is a theoretical tradition to debate its progress as well as its obstacles, in order to study its nature beyond simple negative integration and assuming that the Regional Integration Agreement between Canada, the United States and Mexico, could perfectly evolve towards a community with a stronger institutional system.

¹ see Robert A., Pastor, *Toward a North American Community*, ed. Institute for International Economics, USA, 2001; Helen Milner, "Regional economic cooperation, global markets and domestic politics: a comparison of the NAFTA and the Maastricht Treaty", in William Coleman & Geoffrey Hunderhill (eds.), *Regionalism & Global Economic Integration*, ed. Routledge, U.K., 1998; John McCormick, *Understanding the European Union*, ed. Palgrave, U.K., 1999; Andrew Hurrell, "Comparación entre Europa y América: ¿que clase de problemas?, ¿qué clase de teorías?", en Arturo Borja, et. Al., *Regionalismo y poder en América: los límites del neo-realismo*, ed. CIDE/Miguel Angel Porrúa, México, 1996.

1. The theoretical debate: the NAFTA and the theories of regional integration for the European Union.

When I started to look at the emergent North American Region (NAR) towards the end of the 80's and the early 90's, I realised as well as other scholars that the economic regional integration between such asymmetrical partners had no precedent; it was a novel situation. The strong interdependence between Canada and the United States was well known, consequently it was a natural step for both countries to pursue a FTA by the mid 80's. However, it was unclear if the former champion of free trade and multilateralism, the US, could actually formalise a regional block with its southern neighbour. In fact the asymmetries between Mexico and the United States did not allow analysts to foresee this potential outcome in terms of the deepening of the US-Mexican interdependence. As a matter of fact the notion of interdependence subordinated alternative explanations of integration even when integration emerged as the key component in the new dynamics of the US-Mexican relationship.

The efforts made in the mid 90's, regarding the need to explain the process of regional integration between Mexico and the richer North America, was to portray this regionalism as a process of transition from informal to formal integration. The clue between informal and formal integration was the intervention of the State. In the informal process the state remains largely outside the process while, the market and any other transaction foster integration. Under formal economic integration, the state and the government, sets the rules and intervene to create, control or prohibit patterns of economic and social flows among the member states². Mexico had a proactive formal integration strategy, rather than reactive, as some sustain even today.

In addition, we recognised in the mid 90's that the process of formalisation of the NAFTA brought about new experiences of negotiation and interaction between Canada, USA and Mexico. This situation could be explained by Andrew Moravcsik's approach of *Intergovernmental Institutionalism and modified Structural Realism*. This approach stresses the central importance of power and interest and is based on three principles:

² see William Wallace, *The Transformation of Western Europe*, ed. RIIA, U.K.,1990; Alejandro Chanona, "Inter.(dependencia) vs. Integración: consideraciones teóricas sobre la integración económica formal entre México y Estados Unidos", en Eliezer Morales & Consuelo Dávila, *La Nueva relación de México con América del Norte*, ed. UNAM, México, 1994.

intergovernmentalism, lowest-common denominator bargaining, and strict limits on future transfers of sovereignty.³ (Moravcsik 1991, pp. 46-48). Although this approach was originally used to study the EU, it also can be useful in explaining what has been happening in the context of integration processes in North America.

NAFTA is based on the interstate network of negotiations between its three members. And above all, even when societal interests are transnational, the principal form of their political expression remains national. The hegemony of the United States exerts pressure on the other two smaller states, thus, bargaining tends to converge toward the minimum common denominator of the largest state interests that is to say: USA. In fact, there is always a threat of exclusion of small states from the benefits of the Regional Integration Agreement. Finally, the protection of sovereignty is the most controversial matter in North America, whereas in the EU the matter is perceived in terms of the decision to join a regime that involves some sacrifice of national sovereignty in exchange for certain advantages.⁴

Now, how can we build a comparative perspective between the EU regional integration theory and NAFTA?

It is not quite clear even today how the three very different and asymmetrical North American countries could converge, if we agree that the 1989 Canada-United States Free Trade Agreement (CUFTA) was already in force. Therefore, we could argue that it was not necessary to upgrade the regional relationship with their southern neighbour. As a matter of fact, Mexico was more identified with Latin/South America and it did not have a “North American” identity, even more, during the cold war years Mexico was also seen primarily as part of the US national security strategy rather than an economic regional partner. Therefore, neither International Theory nor theories of regional integration were used to analyse the history of the relations between the three countries: Canada, Mexico and the U.S., as a “region”.

Nevertheless, in the 90’s this North American “region” emerged with the negotiation and implementation of the North American Free Trade Agreement since 1994. The NAFTA had no precedent. There were no similar examples for comparison, involving such asymmetrical partners in a process of regional integration.

³ Andrew Moravcsik, “Negotiating the Single European Act”, in Robert Keohane and Stanley Hoffman, *The New European Community*, ed. Westview Press, USA, 1991, pp. 46-48.

⁴ idem, p. 47

In view of the original experience of the NAFTA and despite the fact that nowadays there is a prolific bibliography⁵ analysing this novel case of regional integration in North American, in particular looking at Mexico-US integration, its understanding continues to be under theorised. In other words, attempts have been made to reconstruct its history and its impact on the three NAFTA members, however specific analysis on how relevant the case is for current theories of International Relations (IR), theories of regional integration and theories of regionalism, remains very limited. Even more, NAFTA is still characterised as the continuation of the CUFTA or the beginning of the Free Trade Agreement of the Americas (FTAA) encompassing Latin and Central America, the United States and Canada, following President Bush's announcement of this Enterprise Initiative for the Americas in 1990.⁶

This paper maintains that the Mexican/American integration can have relevant meanings not only for the Americas, but also for the understanding of what has been characterised as one of the important features of the "new regionalism"⁷ in the NAFTA.⁸ If we follow Andrew Hurrell what NAFTA and this new Mexico-US regionalism really does is to pose the question whether the increasingly complex and dense economic environmental and

⁵ Jorge Castañeda, *The Mexican Shock*, The New Press, USA, 1995, pp. 47-61; *II Foro Mercosur/NAFTA*, Cuadernos del Parlatino, No. 6, octubre de 1994; Robert Pastor, *Integration with Mexico*, A Twentieth Century Fund Paper, USA, 1993; Charles Bonser (ed.), *Toward a North American Common Market*, Westview Press, 1991; Michael G. Wilson and Wesley R. Smith, *The North American Free Trade Agreement: Spurring Prosperity and Stability in the Americas*, The Heritage Foundation, USA; Eduardo Huchin, *TLC hacia un país distinto*, Nueva Imagen, México, 1992; Fernando Calzada, et. al., *Un tratado en marcha*, El Nacional, México, 1992; Sidney Weintraub, *El TLC cumple tres años*, FCE/ITAM, México, 1997; Víctor Bernal, et. al., *La integración comercial de México con Estados Unidos y Canadá*, S. XXI, México, 1990; Gustavo Vega (ed.), *México ante el libre comercio con América del Norte*, El Colegio de México/Universidad Tecnológica de México, México, 1991; Nora Lustig, et.al., *Assesing the impact: North American Free Trade*, The Brooking Institution, U.S.A., 1992; Consuelo Dávila & Eliezer Morales, *La nueva relación de México con América del Norte*, UNAM., México, 1994; Robert A., Pastor, *Toward a North American Community*, ed. Institute for International Economics, USA, 2001; Clint E. Smith, *Inevitable Partnership. Understanding Mexico-U.S. Relations*, ed. Lynne Rienner, USA, 2000.

⁶ Andrew Hurrell, "Latin America in the New World Order: a Regional Bloc of the Americas", *International Affairs*, 68, I (1992), pp. 121-139.

⁷ According to Andrew Hurrell & Luoise Fawcett the "new regionalism, has various important characteristics : a) the number, scope and diversity of regionalist schemes have grown significantly ; b) there is the emergence of 'North/South regionalism' ; c) there is a wide variation in the level of institutionalization ; d) another feature of the new regionalism is its multidimensional character ; e) forming part of the world wave seen a marked increased in regional awareness or regional consciousness ; f) the revival of interest in regionalism and regionalist projects needs to be seen within a global perspective rather than in a single-region focus, and; g) the proliferation of regionalist arrangements raises complex and difficult questions concerning the character and maintenance of world order, Andrew Hurrell, op.cit., p. 332 and Louise Fawcett & Andrew Hurrell, *Regionalism in World Politics*, Oxford University Press, U.K., 1995, pp. 1-6.

⁸ Andrew Hurrell, "Explaining the Resurgence of Regionalism in World Politics", *Review of International Studies*, 21, No. 4, 1995, p. 332.

societal interdependencies that emerged over the past forty years should be formalised and institutionalised, or left to *ad hoc* political bargaining”.⁹

The answer is clear; Canada, Mexico and the US decided to accelerate the transition from informal to formal integration. The bottom line is to analyse how the levels of cohesiveness work to allow this process of regionalism to develop. The question is how did social, economic, political (if any) and organisational cohesiveness interact to allow this process to unfold? Let us go through different arguments in order to try to ascertain whether this is a new kind of regionalism, and therefore whether theories of IR and RI can provide clues to construct a relevant theoretical explanation to analyse this regionalism.

2. The relevance of theory

As the “second wave” of regional integration processes continues spreading all over the world, economic wisdom and neo-functional considerations¹⁰, as well as neo-realism and neo-liberalism appear rather partial explanations of the phenomenon. In fact, both schools failed to consider the role of domestic politics and national interests. The politics and the political economy of contemporary regionalism emerge **as a proper and meaningful** theoretical track to analyse this complex feature of the international order at the beginning of this millennium.

International Theory has to get involved with regional integration studies at a much more fundamental level in the present conjuncture, despite the fact that it is recognised that there are specific issues about the appropriate disciplinary homeland for European Union (EU) Studies¹¹. International Theory has to address the increasing complexity of regional integration elsewhere. As such, “Regional Integration” (RI) is one of the key expressions of contemporary regionalisms providing a laboratory for the conduct of research with a comparative perspective. Throughout the international system, regional integration is reflected in different levels of “formal” and “informal” regional integration, hence we can assess different levels of economic, political, cultural and social cohesion.

⁹ idem, p. 351.

¹⁰ see Alejandro Chanona, “Repensando teóricamente la integración en las Américas : la integración desde el norte y la integración desde el sur”, ponencia presentada en el seminario internacional *Los Estudios de Relaciones Internacionales en las Américas. Reflexiones de fin de siglo*, CEVERIG, Universidad Central de Venezuela, 12-14 de septiembre de 1997.

¹¹ see Ben Rosamond, *Theories of European Integration*, ed. Palgrave, UK, 2000, p. 3.

Our proposal is that we have to begin with the epistemological level and the theoretical tradition developed around the EU studies.

In North America, although NAFTA is already several years old, theoretical debates continue in a rather crude situation compared to the dynamics of the North American region. The North American Market (NAFTA) is nowadays the biggest contributor to the world GNP with 31.1% in 1998, followed by the European Union with 28.1% for the same year¹². As matter of fact this trading bloc represents for Canada and Mexico more than 80% of their total foreign trade, respectively. The regional economic interdependence has grown enormously over the past decade. In fact, as Robert Pastor sustains, regionalism has been growing at a much faster pace in the past two decades than globalism, and the fact that three regions (EU, NAFTA and East Asia) are responsible for about 80% of all world trade confirms the new shape of the tripartite system in the global economy.

The analysis of the NAFTA should be undertaken within the framework of IR and RI theories. Thus, allow us to focus on the following question: What is it exactly that we should learn from the EU, if any?

We are aware of the dangers in trying to extrapolate the EU model, however, we think we can identify at least four points whereby we can create relevant theoretical insights.

1. - Despite the fact that Western Europe is the cradle, the place of birth, of the *territorial, sovereign and modern capitalist state*, it is also the place where this is currently questioned. Paradoxically, it is in Europe where the very notion of sovereignty is now challenged. A further contradiction lies in the fact that it is also in Europe that a new territorial unit has come into existence at the expense of the Nation- State. In a few words, the new European dialectic provides for a process whereby supranational goals are achieved through intergovernmental negotiations.

Consequently the NAFTA negotiating network has the potential to redefine the goals of the integration process.

2. - There cannot occur regional economic integration without management. Europeans did not pursue economic integration without political integration. The union is the fulfilment of this, however we are not defending the assumption that the state has to combine both.

¹² Ugo Pipitone, "El TLCAN en una perspectiva mundial", en Arturo Borja (coord.), *Para evaluar al TLCAN*, ed. Miguel Angel Porrúa/TEC, México, 2001, p. 22.

Instead, we assume that it is possible to learn from the European experience on regional institution building.

Experience shows that markets as such, are not enough to organise one region, there is something else needed, an **institutional system**.

3. - EU studies teach us about key actors, the environment within which actors take place and the relationship between structure and action. The Single European Act (SEA) illustrates this key point. The SEA and the debate it has produced “are indicative of the importance of obtaining the diversity of theoretical starting points”.¹³

NAFTA is becoming a complex intergovernmental network. Moreover, non-governmental national actors are defining their interests at the transnational level, in an endeavour to defend and represent them at the regional level.

4. - There is no single theory of RI. On the contrary, it has become legitimate to establish “eclectic exercises” to provide broad pictures and accounts of common study objects. Sharing trans-paradigm notions and “essentially contested concepts”, one can “establish constructive dialogues and to accomplish theoretical syntheses”.¹⁴

In this perspective, we do not intend to assess which theory is better suited to the NAFTA case; rather we propose to understand the theoretical challenge this process entails in a flexible manner. We need to be open-minded to scientific, normative and political arguments to observe the North American Regionalism, and to observe the intensive practice of informal and formal integration that is taking place in North America. The current administration in Canada, Mexico and the US are gradually putting on the table different issues that are of common concern for the region as whole. The US-Mexican relationship deserves particular attention.

Even nowadays, the Mexican government, which was elected in 2000 to finally replace or displace the Institutional Revolutionary Party, can also be observed to favour more intensive activity with regard to North American regionalism. President Fox has put forward the idea of reassessing the US-Mexican relations and consequently the Mexican Foreign Policy doctrine.

This opening entails, among other things, a revision of the notion of sovereignty and the principles that are the historical guidelines of this policy. Furthermore, Fox has made a proposal to his counterparts in NAFTA. He supports the creation of a *Development Fund*

¹³ Ben Rosamond, op. cit., p. 5.

¹⁴ idem, p. 7.

(similar to the EU) for Mexico. The objective is to tackle the serious problems of development in Mexico through external and regional means.

Fox has gone far beyond what was envisioned in the early proposal, to advocate the upgrade of NAFTA; he calls it NAFTA “plus”. This presumes a new agenda that can be identified as follows:

- a) The integration of labour and environmental issues into the agreement. At the moment they are minor supplementary agreements;
- b) The strengthening of the development strategies for backward areas in the region (development funds);
- c) The expansion in coverage and competences of the weak NAFTA’s institutional system;
- d) To assess the inclusion of new sectors and topics.

In short, we should avoid any frivolous definition of integration in North America. We will need to understand the different theoretical approaches towards regional integration in order to develop our understanding of this process in the North American region. Thus, one of the main tasks is to use these approaches to consider the actual level and scope of formal and informal integration, inside and beyond NAFTA.

3. International Theory, Theories of Regional Integration and a Liberal Inter-governmental approach for the NAFTA.

In fact, we cannot construct a simple theory of regional integration either in a comparative perspective or from International Theory (IT) viewpoint. Therefore, we should ask ourselves if it is fair to confine the (EU) regional integration theory to Europe. I think it is not.

The EU-NAFTA comparative perspective shall continue being extremely useful for empirical inquiries regarding the NAFTA experience, although this comparison is still very contentious.

Those proclaiming the uniqueness of the EU do not share with us the relevance of EU studies within the broader debates in international theory. Moreover, some people consider

the EU case as the study of a new policy as opposed to the analysis of international theory. In fact they are complementary.

We avoid committing the mistake of detaching EU studies from International Relations and International Political Economy theories. However, we have to assess if the IR has under-theorised regional integration as a field or in fact EU studies fall better within the field of comparative studies or they need to cooperate for the analysis of the EU. “Because it is argued that the Euro-polity questions have supplanted the “integration issue” as the most important for investigation in EU studies...[consequently] IR as a disciplinary starting point is incapable of asking the sorts of questions necessary to unravel the complexity of EU politics because it is a disciplinary discourse of interstate interaction and little else”¹⁵. In summary, we do not submit ourselves to the debate, which better explains the EU Comparative Politics or IR.

Theoretically, let us reflect along the lines of domestic politics and two level bargaining theory stated by Andrew Moravcsik. He constructs his theory by looking at bargaining among states in international institutions as an outcome of state-society relations in domestic politics.

Moravcsik’s liberal inter-governmentalism provides a bridge between international institutions (regional integration) and domestic actors and their preferences. There is a key point that distinguishes his theory from realist/intergovernmental/institutional theories. Whereas they see national interest arising in the context of a particular perception of a state, of its relative position in the state system, Moravcsik conceptualises it as a result of state-society interaction provided by the domestic politics of the member state (EU for him, NAFTA for us). In sum, “National Interests...emerge through domestic political conflict as societal groups compete for political influence, national and transnational coalitions form and new policy alternatives are recognised by Governments. An understanding of domestic politics is a precondition for, not a supplement to, the analysis of strategic interaction among states. (Moravcsik 1993, p. 481).

Theorising in terms of two-level bargaining, Moravcsik categorises the linkage between national preferences and collective behaviour of states in three analytical stages of policy making. For the purpose of looking at our case study, Mexico in the NAFTA and the role

¹⁵ idem, p. 159.

performed by businessmen in the construction of Mexico's national preferences vis-à-vis this process of negotiation, I will emphasise the first stage. This takes over the assumption from liberal theories of national preference formation. It takes domestic politics as the source of state interests and tries to explain the variation in interests' of states that are acting in the international arena as an outcome of differing demands of different individuals and societal groups within the state. (Moravcsik 1997, pp. 544-545; 1998, pp. 24-50). The primary interest of governments is to maintain themselves in office; in democratic societies this requires the support of a coalition of domestic voters, parties, interest groups, etc, whose points of view are transferred through domestic institutions and practices of political representation. Through this process emerges a set of national interests or goals that in turn shape the foreign policy of a state and the position it brings to international negotiations. Moravcsik call these national preferences the "demand" side of the European integration. (Moravcsik 1993, p. 483)

Summing up, liberal intergovernmentalism points toward two key aspects in any state bargaining: issue specific national preferences formation and asymmetrical interdependence. That is to say, the agreement in negotiations are the outcome of issue specific national preference functions that reflect pressures from domestic constituents in response to international policy externalities.

Moravcsik's proposal is in fact a "liberal theory of national preferences formation and an intergovernmental account of strategic bargaining between states. At the core of his framework, there is an assumption of state rationality. The difference he establishes is that "rational state behaviour does not emerge from fixed preferences, but rather from dynamic political processes in the domestic policy"¹⁶ (Moravcsik, 1998, p. 20; Rosamond 2000, 136-137).

To avoid any neo-realist temptation or confusion, let us clarify that this theory focuses on the systemic determinants of state preferences, and thus, fails to address internal factors. Domestic preferences are not even considered. Similarly, the neo-liberal school does not pay enough attention to domestic determinants of state preferences, hence this also neglects the interaction between domestic and international/regional determinants and factors in states preferences.

¹⁶ Ben Rosamond, op.cit., p. 136-137.

This approach is the one I adopt to approach NAFTA. For the NAFTA case it is crucial to prove the key role played by interest groups in the historical decision (preference) taken by Mexico to join this regional process of integration instead of something else.

This is also linked with traditional IR debates. If we look at the recent debate on international theory, we agree with Steve Smith when he maintains that rationalist theory is of restricted use in explaining European integration, specially given the current agenda facing the EU, because it has also a very restricted notion of politics.¹⁷ Consequently, Smith is approaching reflectivist and constructivist theories to look at the EU and integration theory.

The theoretical debates are broadening out to encapsulate the greater complexity of regional integration, as a political process and policy programme, but also as a possible path towards systematic and structural transformation. That is why despite the relevance of neo-realist and neo-liberal theories, it would be wiser to look at the dynamics of the North American regionalism in the context of a new phase of American hegemony and in relation to the various domestic dynamics within the North American regional space, while also taking account of international politics after the 11th September 2001.

Mexican interdependence has led to an unprecedented process of *regional cohesion* as conceptually explained by Hurrell.¹⁸ (Fawcett & Hurrell, 1995). The emergence of a cohesive regional unit between Canada, Mexico and the U.S. has very different meanings as far as the objectives of the three partners involved. Therefore, moving between the two ways of understanding this regionalism, a) it can be seen as a means to compete with other regionalisms, and; b) as an organising principle for policy within the regions across a range of issues. In other words, one can develop an analysis to look at not only the significance of the region vis-à-vis other regions, but also as the organising guide for a nation building strategy.

If we focus our discussion on the second meaning, our case study should invite us to move quickly to look at regionalism not as an externality, but also as a definitive arena of *competing state strategies*. As Andrew Gamble and Anthony Payne's approach suggest,

¹⁷ Steven Smith, "International Theory and European Integration, in Morten Kelstrup and Michael Williams (eds.), *International Relations Theory and the Politics of European Integration*, ed. Routledge, UK, 2000, p. 33.

¹⁸ Louise Fawcett & Andrew Hurrell, *Regionalism in World Politics*, Oxford University Press, U.K., 1995.

regionalism is a state-led project designed to reorganise a particular regional space along defined economic and political lines¹⁹ (Gamble & Payne, 1996, pp. 6-10) within a globalised context. In summary, we assume as a key theoretical strategy to look at the deep causes of Mexico-U.S. integration in the NAFTA by considering the array of domestic interests that interact to shape the policy mix in the emerging region, how certain interests dominate this process, and the impact of extra-regional forces in the global economy.

One should go back to consider traditional theories of regional integration and those concerned with international cooperation. Thus, neo-functionalism and neo-liberal institutionalism could help to understand that the NAFTA occupies the middle ground between nationstate politics and a “regional” polity. In other words, the Mexico-U.S. integration process can be seen as more than a North/South relationship, but less than a “regional” partner.

When observing what neo-liberal institutionalism shows, I agree with the argument that increasing levels of interdependence generate increasing demand for international cooperation. Regulations, rules and institutions arise because they help states deal with common problems and because they enhance welfare.²⁰ (Hurrell 1995 (b), p. 350)

In a few words, despite the fact that institutionalisation does not lead to supranationalism, a “set of rules” emerges to maintain themselves as the integrative reference for the members of the region to converge. This applies to the NAFTA.

If we manage to combine regional variables with domestic variables within a globalised international context, we are sure our theoretical framework will be strong enough to explain why a region-building process is moving in this direction and not the other.

For instance, the convergence theory only explains that the NAFTA for Mexico did not rest on trade liberalisation (much of which had already taken place) but on the expectation that the Treaty push Mexico towards adopting a particular set of market-liberal domestic economic policies, isolating its economic reforms from the vagaries of the Mexican political system and settling the political power of those groups that have benefited from reforms.²¹ However, if this is performed without a strategy that takes account of wider national interests in the Mexican state, the risks are too many. We only need to observe the

¹⁹ Andrew Gamble & Anthony Payne, *Regionalism and World Order*, McMillan, U.K., 1996, pp. 6-10.

²⁰ Andrew Hurrell, *Explaining...op.cit.*, p. 350.

²¹ *idem*, pp. 256-357.

current international situation and the basis of the “set of rules” in force since 1990 for the NAFTA, to see the strong vulnerability of Mexico to the wider political and economic pressures emanating across the region.