THE POLITICS OF TRADE IN NORTH AMERICA: COMPARING MODELS & INDUSTRIES
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The Politics of Trade in North America: Comparing Models & Industries
Abstract

This working paper studies the negotiations of the North American Free Trade Agreement (NAFTA) in two industrial chains: textile-apparel and autoparts-automotive. It compares two theoretical models. The first uses two internal variables (interest group strength and industry competitiveness) to explain the tariffs that were negotiated for the phase-out period of NAFTA. The second explores alternatives to increase the explanatory capacity of two-level games models. It incorporates the element of asymmetry between countries, and questions Putnam's (1988) hypothesis on the impact of domestic politics upon international negotiations. This second model explains the difference in the rules of origin that were adopted in NAFTA for the two industrial chains. The work reaches three conclusions. First, it confirms the necessity to specify different dependent variables to explain the outcomes of international trade agreements. Second, it concludes that a model using the two-level logic has explanatory advantages over one that does not combine levels. Third, it points out the potential to combine elements from the two models to reach a more complete explanation.

Resumen

En este documento de trabajo se estudian las negociaciones del Tratado de Libre Comercio de América del Norte (TLCAN) en dos cadenas industriales: textil-vestido y autopartes-autos. Se hace una comparación de dos modelos teóricos. El primero utiliza dos variables internas (la fuerza de los grupos de interés y la competitividad industrial) para explicar el nivel de tarifas que fue negociado para el período transitorio de eliminación de tarifas del TLCAN. El segundo busca hacer una contribución a los modelos de negociación basados en la lógica de juegos de dos niveles. Para ello incorpora la asimetría entre los países negociadores y cuestiona la hipótesis de Putnam (1988) en cuanto al impacto de la política interna sobre la capacidad de negociación internacional. En este segundo caso se busca explicar las diferencias que se dieron entre las dos cadenas industriales en la regla de origen que fue adoptada por el TLCAN. El trabajo llega a tres conclusiones: primero, confirma la necesidad de especificar diversas variables dependientes para explicar los resultados de tratados internacionales de comercio tan extensos como el TLCAN; segundo, que un modelo basado en la lógica de juegos de dos niveles ofrece ventajas sobre uno que no combina niveles analíticos para entender las negociaciones de comercio internacional. Tercero, el trabajo señala también el potencial para combinar elementos de los dos modelos que se comparan para incrementar la capacidad explicativa.
Introduction

NAFTA introduced drastic changes in the commercial environment of North America and the politics of trade in the region. Yet, the variation found across industries, services and institutions regarding politics and outcomes is quite considerable. Many think, for instance, that as a result of the agreement, the Big Three American manufacturers of vehicles (Ford, General Motors and Chrysler) enjoy considerable advantages to manufacture and sell cars in this region vis-à-vis their European and Japanese competitors. In the area of transportation services, the American government agreed to open the sector by 1995, and yet, the political opposition of the teamsters Union, a traditional political ally of the democrats, has thus far successfully prevented the implementation of the NAFTA provisions. In textiles and clothing, it is cheaper now for Mexican and American consumers to buy Canadian luxury clothing than to buy Italian or French imports of similar products. Despite the resistance of small Mexican textile manufacturers to NAFTA during the negotiating phase, the northern city of Torreón is now well known as the blue-jean capital of North America, and Mexican exports of apparel to the U.S. are now more important in volume than those of China and other Asian producers which, in the early 1990s were predominant in that market. Trade disputes, on the other hand, which used to be “solved” by the unilateral application of national legislation, are now reviewed by binational panels of experts from the two countries involved in the dispute.

How can we explain such contrasting sorts of different national industries? How can we account for the variation that exists across the different industries that were included in NAFTA regarding trade protection and, in a more general sense, international trade conditions? Can we account for this variance by looking at the domestic and international politics of trade in North America? If we can, what kind of theoretical models should be applied?

We already have two excellent books addressing these questions. The works by Mayer (1998) and Cameron & Tomlin (2000) analyze NAFTA using two-level game logic to combine domestic and international politics in the explanation. From our point of view, however, both works have the same shortcoming: they study and try to explain the whole agreement. As it often happens, by covering too much you explain too little. Even though both authors make convincing arguments on the need to look at international trade negotiations through the lens of two-level logic, the explanatory capacity of the theory is sacrificed to “rich description”, which results quite interesting and tells a lot about the anecdotes and details that occurred during

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the negotiations, but do a poorer job in offering a solid theoretical explanation. In this paper we incorporate some of the theoretical elements proposed by these two authors and, by making a more focused approach on certain aspects of NAFTA, we try to go beyond their theoretical findings. Obviously, the theories discussed in the paper, as those used by Mayer (1998) and Cameron & Tomlin (2000) are not — and should not — be NAFTA specific. Rather, they address the important contemporary theoretical debate on the politics of international trade.

In looking for responses to the same questions, this paper argues that the negotiation of free trade agreements are too complex, and have different dimensions which ought to be explained by different theoretical models. In other words, our arguments states that, when doing research on the negotiation of free trade agreements like NAFTA, different dependent variables should be specified, for the politics behind the outcomes differ according to the industry, service or institution one is interested to explain.

Besides stressing the necessity to breakdown international trade negotiations into different dimensions, the paper has a second theoretical goal: to demonstrate the explanatory advantages of two-level game models. To achieve both goals the paper looks at two dimensions (specified as two dependent variables) of the NAFTA negotiations, and compares as well two different theoretical models. The first one uses exclusively domestic explanatory variables and specifies the additive tariff that was agreed for the phase-out period as the dependent variable. The second applies a two-level game model that incorporates the question of asymmetry between the players and focuses on internal division within the dominant player as the key to explain different outcomes.

Methodologically, the unit of analysis varies from the first to the second model used in the paper. In the first comparison four industrial sectors are compared: textiles, apparel, autoparts and motor vehicles. When applying the second model, in contrast, these four industrial sectors are narrowed down into two industrial chains: textile-apparel, and autoparts-motor vehicles. As we will see, regarding the negotiation of tariffs for the phase-out period (which represents the first dependent variable) these two industrial chains were in fact treated as four different industries during the NAFTA negotiations. In contrast, the rule of origin (the second dependent variable) was negotiated in NAFTA for the industrial chains as a whole.

The structure of the paper is as follows: the first section explains the two explanatory models, the second part discusses the application and results of the two models. Finally, the concluding section compares the explanatory capacity of the

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1 The work by Bertrab (1996), who played an important part in the staff of the Mexican negotiating team for NAFTA represents a third account of the negotiations. In contrast to the other two books already mentioned (Cameron & Tomlin, 2000 and Mayer, 1998), the author of this third one has no theoretical aspirations, he simply presents his own view on how the negotiations unfolded and the obstacles and unexpected situations faced by the negotiating teams in the process.
two models and offers some reflections on ways to improve the theoretical explanations of trade politics in North America.

I. Theory: the Two Models

I.1. The First Model: A Domestic Explanation of the Additive Tariff (AT).

Figure 1 presents a summary of the first theoretical model. We want to explain the variance in the additive tariff defined by NAFTA for the four industrial sectors. The additive tariff is a measure that "aggregates the tariff rates that a given sector receives for each year until complete phase-out. For example, if a product began with a base rate of 50%, and then had a phase-out schedule of 5 years (with annual reductions of 20%), the total additive tariff would be 50+40+30+20+10, or 150%" (Morgestern & Nielson, 2000). The higher the percentage, the more protected a sector will be during the phase-out period. What this measure captures is the speed at which protection is going to be removed from different sectors for trade flows between the participating countries of NAFTA. Different levels of additive tariffs were negotiated bilaterally between Mexico and the U.S. and Mexico and Canada (as well as between the U.S. and Canada). As will be discussed below, there is good variation between the four industries in terms of the additive tariff as to make the comparison methodologically meaningful. In fact there is a pattern of variation that allows to assume the cases as paired ones, textile and apparel representing the first pair, and autoparts and automotive the second. In each of the pairs there are different values for the two industries: lower tariffs were defined for the industry segments providing the inputs in the productive chains (textiles and autoparts), and more protection (higher tariffs) for the segments manufacturing the final product (apparel and automotive). In sum, in this first cut, the paper uses, comparatively, two pairs of cases, each one containing an industry with considerably higher values in the dependent variable than the other industry in the pair.
How can we explain the difference in protection across the industries? In this first model, which combines economic and political variables, we seek to explain the outcome basically looking at domestic politics. As will be seen next in explaining the independent variables, this explanation models the capacity of industries—assumed as interest groups—to influence policy decisions. It also captures factors determining the preferences of these industries in international trade. It seeks to provide a response to the question of why some firms prefer trade liberalization while others, in the same industry, lobby for trade protection. The model also assumes that national political institutions have an effect on the way in which those industry preferences are transformed into policies. Hence the variation in the political institutions of the three countries of North America should also account for some of the difference that we observe in terms of protection/liberalization. These institutions, according to the country, provide different channels and rules to interest groups and government officers to process policy outcomes. As can be seen in figure 1, we have included national political institutions as an intervening variable. In this paper, however, we won’t be making cross country comparisons, for in the four industry cases we will be looking only at Mexico. So for this comparison within one of the three North American countries the effect of the political institutions remains constant and, therefore, will not be treated as a causal variable.

First Independent Variable: Interest Group Strength. Here the hypothesis states that the stronger or more cohesive an industry is in its organization, the more effective it should be in influencing trade policy decisions. Therefore, independently of its preferences in international trade, a better organized industry bears better chances than a poorly organized one, of having its message transmitted to government negotiators. A different way—and closer to the essence of politics—to understand the causal effect of this variable is by saying that the political costs a government will pay by not considering the preferences of a national industry will be higher if it is a well organized or strong industry, and those costs will be lower if we are talking of a weak or poorly organized industry.

The next question is, what makes an industry stronger or better organized than others? Morgestern and Nielson (2000) offer a detailed discussion of this variable, linking it to the work of Mancur Olson (1971 & 1982) on the qualities that make political organizations effective in yielding economic benefits to its members. Olson’s explanation is centered on numbers. The size of these organizations, according to his argument, becomes crucial to understanding their effectiveness. In his theory, small organizations are much more effective than bigger ones in reaching economic gains for its individual members—and thus “capturing” the state in the process, which produces the long term effect of rigidity of the political system. Thus we use in the paper the degree of concentration of the industry as a first indicator of industry strength. By industry concentration we mean the share of the market that is controlled by the biggest firms in the industry—which represents a standard measure of industrial concentration used by economists. By looking, for instance, at the market share that is controlled by the four biggest firms across our industry
cases, we will have a comparative measure indicating two things: the number of firms that are relevant in an industry and its organizational effects according to Olson’s theory. The more concentrated an industry is, the more effective it will be when lobbying, but also, the easier it will be for the stronger firms to control it and define the interests of the industry as a whole, according to their own interests.

We use market power as a second indicator of this first independent variable. We define market power as the economic weight of an industry within the whole national economy. The hypothesis in this case assumes that the more important an industry is for the national economy, the bigger its power should be to negotiate with the government to define trade policies as well as goals for international trade negotiations such as NAFTA. We operationalize this indicator by using the share of the GDP represented by the total national output of an industry, as well as the percentage of the national manufacturing product that is represented by the total output of the industry in question.

Second Independent Variable: Industry Competitiveness. This is a variable we use to capture the preferences of the industries regarding international trade. We basically assume that the firms’ preferences either for free trade or protection is directly related to their ability to compete in international markets. In our case it has to do with the perception held by the firms in these industries before the negotiation of NAFTA — as well as during the process of negotiation — of first, how an scenario of free trade with the U.S. and Canada will impact their opportunities to do business. If the firms in an industry are competitive internationally, and already have a presence in foreign markets, it is assumed that their preference will be for free trade. If, in contrast, they compete with imports and are losing ground in the domestic market, they will prefer protection. Secondly, and more directly related to our analysis, since in the early 1990s the decision had been made by the Mexican government to move towards free trade with its two northern neighbors, then industries had to define their preferences for the phase-out period, before free trade was actually reached. We assume here that less competitive industries will demand a higher level of protection for this transition period — which would give them more time to adjust. Accordingly, we expect that more competitive industries will demand less protection, and a shorter phase-out period, so that they can export sooner to the other national markets.

We use two indicators to measure this variable. The first one is the standard measure of competitiveness used by INEGI, the Mexican government agency in charge of the census, which divides total output of the industry by the number of workers employed in the industry. It yields a per capita productivity indicator for the different industries. The second is the industry’s balance of trade, which shows whether the industry was already or not in a competitive position in international markets before NAFTA. We assume in our theoretical argument that these two indicators explain the preferences of the industry regarding international trade.

Milner (1997) uses scale economies as the indicator for this variable. However two good reasons have led me to substitute it by trade balance. The first and most important is the fact that
1.2. The Second Model: A Two-Level Game Explanation of the Rule of Origin (RO).

Figure 2 presents the second model, based on two-level game logic. In contrast with the previous one, it emphasizes the strategic and interactive essence of international negotiations. In recent years there has been increasing interest among political economists on finding ways to link domestic and international politics. Many of those works have applied two level game analysis, and see this logic as a potentially rich theoretical and methodological tool to lay the ground for a systematic and productive debate. Particularly relevant for this paper are those works within this approach that focus on international trade negotiations. In those cases, the continuum falling between protection and liberalization is used as the dependent variable.3

The trade balance captures well the dimension we need for our argument: whether an industry wanted free trade or protection. If it already had the capacity to export — along with the value of the first indicator — it indicates a preference for free trade, so that the firms can expand its presence in international markets. The second reason is that scale economies is harder to operationalize as an indicator, for there is no clear consensus as to how it should be measured.

3 See Putnam 1988; the collection of case studies contained in Evans, Jacobson & Putnam 1993, the article by Milner & Rosendorff, as well as other articles included in an issue of the journal of Conflict Resolution devoted exclusively to modeling Domestic-International linkages (1997, 41, 1). See also Paterson 1997, Paarlberg 1997, Milner 1997, Odell 2000. For a review of this literature see Caporaso 1997. Milner (1998) has recently argued in favor of a synthesis of international, American and comparative politics as a promising path to link domestic and international politics. On the other hand, as we said in the introduction, the recent books by Mayer (1998) and Cameron & Tomlin (2000) bear particular interest for this paper, for they look at North American trade politics through the lens of two-level game analysis.
We do the same in this paper. More specifically, we will be comparing the rule of origin that was adopted in NAFTA for textiles-apparel, to the one for autoparts-motor vehicles. So in this second comparative exercise we will be using the two productive chains (which in the previous exercise were separated into two industry sectors each to get four cases) as our two cases. They offer good variation in the dependent variable, therefore they represent a sound methodological opportunity to test the theoretical argument and allow a productive confrontation with the first model. NAFTA adopted a general rule of origin of 50%, and included exceptions to that rule in Annex 401 of the treaty. The two industrial chains that I study in this paper, however, were treated as special cases, and were negotiated by sector specific groups. They constituted two of the nineteen bargaining tables of NAFTA. The rule of origin for the automotive industry was set at 62.5%, and the one for the textile industry at a higher level, in the range of 80% to 95%. The textile rule of NAFTA is known as "yarn forward" or "triple transformation" (from yarn to fabric to clothing), and it probably represents the most protectionist rule of origin adopted by NAFTA. Except for fibers, it requires that all materials and transformation processes of textile products must be of North American origin.

A word on some of the characteristics of the rule of origin and its differences with tariff protection is required before we proceed to discuss this second theoretical model. In contrast with what is traditionally called trade protection, the rule of origin implies some differences that bear relevance for a political analysis like the one made in this paper. In the case of a rule of origin what is at stake is the percentage of inputs of a product that must be from any of the countries creating a free trade area. Paradoxically enough, the spirit of a rule of origin is in contradiction with the neoclassical idea of international free trade, for it discriminates products according to their national origin. It is different from traditional protection in that it does not rely on tariffs. Tariff protection forces a product to pay a higher price to be sold in that market (and thus provide protection for domestic producers). Whereas, a rule of origin determines which products coming from outside the free trade area will qualify for free trade, and which will pay higher prices when sold in the regional market, because they will be subject to the regular import tariffs imposed by the countries. As it has been argued by different authors (Jensen-Moran, 1996) the rules

4 There are actually two ways to calculate NAFTA's general rule of origin. When the net cost of the product is used, the rule is 50%. However, if the transaction value is used, then the rule is 60% (Ortiz, 2000).

5 In contrast to the rule in the automotive sector, it is not really possible to have a standard measure expressed in a percentage in the case of the textile-apparel rule of origin. If we speak of the four transformations involved in the productive chain (fiber-yarn-fabric-apparel), we could say that it is a 75% rule of origin. Yet, that would not represent a precise measure for, in terms of value of the end product, fiber does not represent a quarter, but certainly less. So depending on the specific apparel product, the rule would be somewhere in the range of 80% to 95% (Espinosa, 2001).

6 Hufbauer & Schott (1993) provide a very well informed discussion of NAFTA's general rule of origin as well as of these two specific ones. Mayer (1998:chapter 5) analyses the automotive rule of origin from a two-level game perspective, and Espinosa (2000) discusses the NAFTA negotiations in the textile-apparel industry, including an informed discussion of the rule of origin.
of origin adopted by the European Union, NAFTA and Mercosur, have the purpose as well of inducing foreign direct investment by forcing non-regeional producers to set up new plants to get preferential access to the regional market in question. Hence, tariffs and rules represent complementary but different mechanisms in the continuum between trade protection and trade liberalization.

There are some differences as well on its politics. In tariff protection we see national governments subject to political demands from domestic industries. According to their preferences, the latter will request through their lobbies the adoption of tariffs. As we saw when discussing the first model, those preferences can either be actually for protection or in support of free trade policies (this is why we can talk of a policy continuum moving from protection to free trade). In the case of the rule of origin, in contrast, what is at stake is a common protective "wall" to be shared by producers of the different national markets participating in a free trade area like NAFTA (and thus very similar to the common external tariff adopted by Custom Unions). Since it requires the coordination of interests of different national industries to reach a common threshold, it is actually closer to the international negotiation level than to the internal politics and policy process traditionally involved in tariff definition by national governments.

Hence the basic question we are addressing with this second model is why did NAFTA adopt a higher rule of origin for textiles than it did for the automotive industry? Can we, through a two-level game model, provide a satisfactory explanation connecting that variation to the domestic politics of these two rules of origin? We believe that is possible, by adding a corollary to traditional two-level game models. As we will see, such corollary should emphasize the question of asymmetry between the players, and restate Putnam's (1988) hypothesis on the effects of internal division upon the bargaining capacity.

How is the outcome (the regional rule of origin) explained by this second model? We will briefly present what Borja (2001b) has called somewhere else the traditional two-level game explanation. Next we will discuss the corollary required to increase the explanatory capacity of these kind of model.

As we see in Figure 2, two-level models are fundamentally interactive and, therefore, pose some problems to an strict application of causal variables with linear effects on the DV. Since the model assumes strategic interactive behavior on the part of the actors at both levels, the outcome is reached, precisely, as resulting from the negotiation between the actors, whom, according to their interests exchange concessions up to a point where an agreement is reached. The linkage between international and domestic politics is one of the basic features of this kind of models. It is assumed that international negotiators (who are part of the executive) do not make decisions in a political vacuum. Instead, international bargaining is seen as an extension of domestic politics. The political pressures, compromises and goals to which the executive is subject and pursues domestically, condition his/her goals and strategy at the international level (after all, in a democracy, the success of his/her programs and the possibility of reelection are determined by domestic politics). Thus
there is interaction between the two levels. In the course of an international negotiation the executive consults with domestic constituencies to make sure that the different moves that are made along the process are known and accepted by the domestic actors involved. As Putnam (1998) suggested, the executive maintains for him/herself a certain degree of autonomy from domestic politics. When faced with domestic resistance to policy changes pursued by the executive (the opposition to free trade on the part of the labor movement and firms fearing imports represents an excellent example), international pressures can be used to overcome domestic opposition.

There are two assumptions made by Putnam (1988), however, that are particularly important for our argument. The first one is the fact that the players are assumed as symmetrical in terms of power. As realists and neorealists have pointed out all along the way, international power is not evenly distributed among nation states. And as Keohane pointed out in After Hegemony (1984), what is precisely interesting to observe and to explain is the fact that — neorealism notwithstanding — asymmetric cooperation is a common feature in the international system. Cameron & Tomlin (2000:15) have already pointed out that NAFTA represents an excellent example of cooperation between unequal partners. They see asymmetries of power as one of the fundamental factors that critically shaped the NAFTA negotiations. So a first point of the corollary to two-level game analysis is the question of asymmetry. Mexico and Canada were not just bargaining with any other potential trade partner (like Chile, a country with which both countries have signed free trade agreements). They were at the table confronting the government of the national economy representing by far their most important trading and investment partner which, at the same time, happens to be the hegemon of the international system. As we know well, the basis of the economic asymmetry between the North American countries is the fact that trade and investment with the U.S. is by far more important to Mexico and Canada than it is for Washington (see Borja, 2001 & 2001a; Cameron & Tomlin, 2000:15). So the proper theoretical perspective to look at NAFTA using two level game logic is to assume the United States as the indispensable player in the bargain. Neither Mexico nor Canada were interested in a bilateral agreement between them. What NAFTA was all about for these two countries was securing access to the American trade and investment market. This obviously gave the American government considerable advantages in the negotiations. An important difference between Canada and Mexico, however, was the fact that the former already had a free trade agreement with the U.S. As Cameron & Tomlin (2000) have pointed out, this gave the Canadian government an important alternative when negotiating NAFTA. An alternative the Mexicans did not have.

It should be stressed, as Keohane & Nye (2001) do, that asymmetric cooperation does not necessarily leads to asymmetric outcomes. As we know well now, many international negotiations between unequal partners do not represent zero sum games. Power asymmetries notwithstanding, unequal partners can cooperate in the creation of international institutions representing public goods and, therefore,
yielding benefits equally to all participants (and sometimes there might as well be an unequal distribution of benefits in favor of weaker countries).

The second assumption made by Putnam has to do with the effect of internal division upon the bargaining capacity at level I (international). He argues that internal division (a smaller win-set) should give the executive more bargaining capacity at the international table. Milner (1997) has already shown that, when the dependent variable is specified as cooperation, the predicted effect of internal division is actually the opposite. In other words, her hypothesis, in contrast to Putnam’s argument, states that the more internal division, the less chances there are of reaching agreements of international cooperation and, the more internal cohesion there is, the higher the chances of international agreement. Therefore, in contrast to Putnam, who did not specify a dependent variable, we will use, following Milner, international cooperation as the dependent variable of this second model. We will assume, as well, her causal hypothesis: the more internal cohesion there is, the more chances of international cooperation and, inversely, the more internal division there is, the less chances of international cooperation.

We can now explain the implications of the corollary to two-level game analysis that is used in the paper. It basically implies that the clue to explain the outcomes in the negotiations of rules of origin of NAFTA lies in American domestic politics. We have already stated that the U.S. represented the indispensable partner in NAFTA. The agreement was unthinkable without American participation. This meant, in practice, that the American domestic bargain determined the outcome. The prediction of this model is explained in Figure 3. It states that, first, the outcome of the negotiation (in this case the rule of origin) will fall within the domestic zone of possible agreement (ZOPA) of the predominant player (in our case the U.S.). Secondly, it predicts that the more internal cohesion there is supporting the position of the executive at level I (international negotiation), the more chances there will be of reaching an agreement. In other words, what we are saying here is that the domestic bargain that was most important in NAFTA was that of the United States, and that in those industries were there was a unified position regarding the rule of origin, chances were higher of reaching an agreement.
Figure 3: Spatial Model of a Two-level Game Negotiation

International Negotiation

Domestic Bargain

International ZOPA = 60-70

Domestic ZOPA of the predominant player

Country A = 60-80
Country B = 55-75
Country C = 50-70
Figure 3 represents a hypothetical negotiation of the rule of origin between three countries. The horizontal axis represents the level of protection being negotiated for the rule of origin, so the closer a position was to 100% the more protection was being demanded by the domestic industry, and the closer it was to 0% (no rule of origin) the more supportive the domestic industry was of free trade. According to our hypotheses, international agreement, if it is finally reached, should fall within the domestic ZOPA of the predominant player. In this fictitious negotiation the prediction is that an agreement should be reached, for there is overlapping of the domestic preferences of the three players, and that includes the indispensable or predominant partner. Therefore the international ZOPA is 60-70%. The figure does not capture the issue of internal division, but we are assuming that the more domestic support there is for the position adopted by the executive in the international negotiation, the more chances there is of reaching an agreement. It should be pointed out then, that the overlapping of preferences first, has to include those of the predominant player, and second, it is a necessary but not sufficient condition for cooperation. There has to coincide with domestic support to make the outcome of cooperation possible.

II. Empirical Analysis

II.1. The First Model

In this section we first present and discuss the data for the independent variables of the first model, and then move on to assess the capacity of the model to explain the outcome.

Interest Group Strength

The first indicator we use to estimate interest group strength is industrial concentration. Table 1 presents a comparison of industrial concentration in the textile and apparel industries in Mexico. Unfortunately, due to limitations of data, we could not use the same number of firms for both industries. Nonetheless, the comparison is quite useful, because even when the number of firms is lower in apparel, the share of the market they control is considerably higher than in textiles.
Table 1
Industrial concentration in the textile and apparel industries in Mexico
(market share in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Textile (2 biggest firms)</th>
<th>Apparel (1 biggest firm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>3.24</td>
<td>27.25</td>
</tr>
<tr>
<td>1993</td>
<td>4.52</td>
<td>30.84</td>
</tr>
</tbody>
</table>

Source: INEGI, 1998-99

In the textile industry, the figure represents the share of the market controlled by the two main firms, Parras and Martín. In the case of the apparel industry the figure shows the share of only the biggest firm, Synkro. Thus what we have is a much higher degree of concentration in the apparel industry, where, by the time when NAFTA was being negotiated (1992-93), one single company controlled over a fourth of the Mexican market. In contrast, in the same years, the two biggest firms in the textile industry did not control more than 5% of the national market.

Table 2 shows the figures of industrial concentration in the autoparts and automotive industries. In the automotive industry concentration is very high. The figures we see in the table represent the market share of the four biggest firms measured in terms of percentage of autos and trucks produced by these firms as part of the total produced in Mexico. In both cases the share is somewhere around 90%, and remains constant during the three years previous to the beginning of NAFTA. These figures exclude the sales in Mexico of imported vehicles but they were irrelevant during the years when NAFTA was being negotiated. In 1991, for instance, imported vehicles represented only 1.3% of the market (INEGI, 1997). The degree of concentration in the autoparts industry, in contrast, was considerably lower. In 1991, the four biggest firms in this industry controlled 22.7% of the market, compared to the approximate 90% in the automotive industry.
Table 2

Industrial Concentration in the Automotive and Autoparts Industries

(market share in %)

<table>
<thead>
<tr>
<th>Year</th>
<th>Automotive (4 Biggest Firms)</th>
<th>Autoparts (4 Biggest Firms)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cars(1)</td>
<td>Light Trucks(2)</td>
</tr>
<tr>
<td>1991</td>
<td>89.5</td>
<td>94.5</td>
</tr>
<tr>
<td>1992</td>
<td>88.4</td>
<td>94</td>
</tr>
<tr>
<td>1993</td>
<td>87</td>
<td>92.9</td>
</tr>
</tbody>
</table>

Sources:
1 The four predominant firms are: Volkswagen, Nissan, Chrysler & Ford.
2 The four predominant firms are: General Motors, Ford, Chrysler & Nissan.
3 The four predominant firms are: Vitroflex, Carplastic, Cifunsa & Tremec.

Comparing the four industries, then, the automotive shows by far the highest degree of concentration, then come apparel and autoparts with similar levels (between 22% and 30%), and then comes the textile industry which had the lowest degree of concentration before NAFTA (no more than 5%).

We use market power as the second indicator of interest group strength. Graphs 1 and 2 show a comparison of the four industries for the period 1991-1993. The first one presents the total output of the industries as percentage of Mexican GDP. As we can appreciate there is an enormous distance between the weight of the automotive industry and that of the other three. The output of the former represented approximately 3.5% of Mexican GDP those three years. The lowest percentage is that of the apparel industry, which remains constant for the period around .65%. The percentage for autoparts decreases in the period, but remains above 1%. Finally, the percentage for textiles is a bit higher than that of apparel, around .7%.
Graph 1. The Four Industries as % of GDP (1991-1993)

Sources: INEGI, Sistema de Cuentas Nacionales de México, 1991-1993
Graph 2. Industry Output as % of total Manufacturing Output (1991-1993)

Sources: INEGI, Sistema de Cuentas Nacionales de México, 1991-1993
Graph 2 compares the four industries in terms of individual industry output as percentage of total Mexican manufacturing product. It confirms the pattern observed in Graph 1. The automotive industry is by far the biggest one (representing close to 20% of total manufacturing product), followed by autoparts (5%), then textiles (3.7%) and finally apparel (3.5%).

Table 3 provides a summary of the values of the first independent variable. According to it there is a big difference between the automotive and the other three industries. Then autoparts and apparel appear at a similar level, for if the latter showed a higher degree of concentration, the former showed higher scores in market power. Finally, the textile industry gets the lowest marks basically because of its very low degree of industrial concentration, which makes a difference when it is compared to apparel and autoparts.

In sum, in terms of the expected effect of this variable upon change in international trade conditions, the automotive industry represents by far the strongest interest group and, therefore, if this hypothesis of the first model is correct, it should have the most capacity to influence outcomes according to its own preferences. On the other extreme, textiles represents the weakest interest group and the causal argument indicates that it should have the least capacity to influence the outcome. As we said, the apparel and autoparts industries are in an intermediate position.
**Table 3**

First IV: Interest Group Strength. A Summary.

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Textile</td>
<td>Very low</td>
</tr>
<tr>
<td>Apparel</td>
<td>Low</td>
</tr>
<tr>
<td>Automotive</td>
<td>Very high</td>
</tr>
<tr>
<td>Autoparts</td>
<td>Low</td>
</tr>
</tbody>
</table>

1) *Indicator: industrial concentration*

2) *Indicator: Market Power*

3) *Expected effect upon the DV*

As explained above, competitiveness represents our second independent variable for the first theoretical model, and we use two indicators to measure its effects: productivity and foreign trade balance. This is a variable we use fundamentally to make predictions about the international trade preferences of the industries (which run along the continuum between protection and free trade).

Graph 3 provides a comparison of the rate of per capita productivity of the four industries in the years 1991-93. Again, it confirms the pattern we identified in our previous variable. There is a considerable difference between the automotive industry and the other three. In the last year shown in the graph (1993), the rate of the automotive industry is close to 1.00, whereas that of the other three industries was below .25. The apparel industry comes next, increasing its productivity in the three year period, and reaching .25 in 1993. The rate of autoparts remains constant for the three years, at .20. Finally textiles is the least productive industry, below .20 in 1993. However, in contrast with autoparts, textiles shows an increasing pattern of productivity, which was only of .10 in 1991 but reached almost .20 in 1993.
Graphs 4 and 5 show the trade balance figures for the four industries for the same period. As a result of the Mexican automotive decree of 1989, the industry, in the early 1990s had been transformed into an export oriented sector, which registered a positive trade balance of more than 2,000 million dollars a year during the NAFTA negotiations. On the other hand, both, the autoparts and the textile industries were experiencing huge trade deficits. In the former it reached approximately 4,000 million dollars, thus producing actually a trade deficit for the whole industrial chain. In textiles we see smaller but increasing figures. By 1993 the sectoral deficit reaches almost 1,500 million dollars. Finally, the observed trend in the apparel industry is that of an increasingly competitive and export oriented sector, which moved from a small deficit in 1991 to a small positive balance in 1993. This trend towards an increasingly competitive and export oriented position of the apparel industry is strongly confirmed by its trade performance in the rest of the 1990s. In 1998, for instance, it experienced a favorable balance of more than 3,000 million dollars.
Graph 3. Per Capita Productivity Rate (1991-1993)

Sources: INEGI, 1997 & 1998
Graph 4. The Mexican Automotive & Autoparts Industries: Trade Balance (million of Dollars)

INA, 2000
Graph 5. The Mexican Textile & Apparel Industries. Trade Balance (million of dollars)

BANCOMEXT, 2000
As we did with the first independent variable, we present in Table 4 a summary of the expected effect of the second independent variable upon the dependent variable. It shows that the automotive industry had good reasons to push for a regional free trade agreement. In fact, as we know well, in many ways the three big American companies (Ford, GM and Chrysler) had actually moved towards a regional division of labor as part of their strategy to compete with Japanese and European manufacturers. The removal of trade barriers within the three North American countries was perfectly consistent with their strategies.
Table 4
Second IV: Competitiveness. A Summary

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>Very high</td>
</tr>
<tr>
<td>Apparel</td>
<td>Low</td>
</tr>
<tr>
<td>Textile</td>
<td>Very low</td>
</tr>
<tr>
<td>Autoparts</td>
<td>Very low</td>
</tr>
</tbody>
</table>

1) Indicator: Competitiveness

2) Indicator: Foreign Trade Balance

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>Internationally competitive. Export oriented</td>
</tr>
<tr>
<td>Apparel</td>
<td>Increasingly competitive and export oriented</td>
</tr>
<tr>
<td>Textile</td>
<td>Non-competitive. Increasing deficit</td>
</tr>
<tr>
<td>Autoparts</td>
<td>Non-competitive. Increasing deficit</td>
</tr>
</tbody>
</table>

3) Expected effect upon the DV

<table>
<thead>
<tr>
<th>Industry</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>Free regional trade. Removal of both, Mexican tariff and non-tariff protection barriers</td>
</tr>
<tr>
<td>Apparel</td>
<td>Free regional trade. Adequate level of protection to maintain the industry transition towards exports. Better access to the U.S. market. Protection from imports. Anti-NAFTA.</td>
</tr>
<tr>
<td>Textile</td>
<td>Once NAFTA becomes a “fait accompli”, Mexican textile firms would seek the best possible terms during the phase-out period. This meant two things: a long phase out period, and high tariffs during those years in order to have time and adequate conditions to adapt to NAFTA.</td>
</tr>
<tr>
<td>Autoparts</td>
<td>Protection from imports. Anti-NAFTA. Once NAFTA becomes a “fait accompli”, Mexican autoparts firms would seek the best possible terms during the phase-out period. This meant two things: a long phase out period, and high tariffs during those years in order to have time and adequate conditions to adapt to NAFTA.</td>
</tr>
</tbody>
</table>

In the case of the apparel industry our two indicators are consistent in predicting a preference for free trade in North America which, for the Mexican
firms, it basically meant export opportunities to the enormous U.S. domestic market. On the one hand, the Mexican firms were becoming increasingly competitive — see Graph 3 — and, at the same time, they were starting to produce for the American market. Since this strategy was dominant among the Mexican firms at the beginning of the 1990s, it is obvious that the future was in obtaining preferential access to the American market. This meant two things: the elimination of tariffs and the elimination of U.S. import quotas which had been adopted in the seventies as part of the Multi-Fiber Agreement, in the context of the GATT. Given the competitive advantages enjoyed by Mexican producers vis-à-vis American and Canadian apparel firms — faced with considerably higher labor costs — an scenario of non tariff barriers between Mexico and the United States with unlimited access to the American apparel market was practically the best of all possible scenarios, specially if we add to it a rule of origin that would provide Mexican exports adequate protection from Asian producers. In sum, the possibility of a NAFTA represented for the Mexican apparel firms in the early 1990s — specially for the most competitive ones — the opportunity of their life times. If they could reach a good deal in the negotiations, growth and gargantuan profits were guaranteed for the following decades. We can predict that among our four industries, it was the apparel firms the ones with the strongest preference for free trade in North America.

In the case of the autoparts industry, even though it had a similar industrial concentration than apparel, and even a higher market power, it was not a competitive industry, for apparel was becoming more competitive and the trade balance of the autoparts industry experienced a tremendous deficit. Thus autoparts, along with textiles, on the other hand, represent the losing industries, those that had the least to win from a NAFTA. They had enjoyed for decades a closed domestic market were they could reap easy profits. In textiles in particular, small and uncompetitive firms prevailed, and NAFTA was perceived as another twist — and maybe the final one for many of them — in the chain of policy changes that had been unleashed by the technocratic political faction that had taken over the Mexican government since the mid-eighties. They were clearly not ready to face international competition, and a NAFTA would seriously increase their possibilities of disappearing. These two industries had thus strong preferences for opposing free trade. Given their values in our first independent variable, the textile sector was in the weakest position to impose its preferences upon the Mexican government.

We move on now to analyze the values of the dependent variable for the four industries, and to assess if, in fact, the variation of the independent variables account for the differences across industries.

As we stated before, the dependent variable of the first model was specified as the additive tariff (AT) that was adopted for the phase out period, before tariffs will be totally removed. Table 5 explains the codes that were used in the NAFTA negotiations to define the number of years of the phase-out period for the different industries. These are the codes used in tables 6 to 9 to generate the values for the dependent variable of the first model for each of the four industries being compared.
As can be seen in the tables, different values are presented for imports to Mexico and exports to Mexico from the United States and Canada. The different tariff chapters of each industry are included in the tables, the automotive industry is covered in the tariff code by only one chapter (87). First an average in percentage is obtained for each chapter. That is shown in the (AT) chapter average columns. Secondly an average of all the chapters of each industry is made. This latter value, appearing in the (AT) Industry Average columns represents our most important indicator of the dependent variable in this first model.

| Table 5 |
| NAFTA Phase-out Codes |
| Code B, Three subcategories within Code B were negotiated in the textile-apparel industry: |
| Code B6, 6 years phase-out. Products in this category will experience annual cuts equal to the tariff they had before 1994 during six years. As of January 1st 1999 these products move to free trade. |
| Code B1, 6 years phase-out. 16.7 annual tariff cuts. Products in this category move to free trade as of January 1st 1999. |
| Code B+, 8 years phase-out. 20% cut the first year (1994); no tariff cut the 2nd year, and then 10% annual cuts. Reaches free trade in January 1st 2001. |
| Code C, 10 & 15 years phase-out (reaching free trade in 2003 and 2008 respectively). |
| Code D, Products that had no tariffs before 1994. |

Source: SECOFI, 1994
### Table 6
Additive Tariff (AT), Textile Industry.

**Imports To Mexico From**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code** Chptr.</th>
<th>(AT)*** (AT)***</th>
<th>Base Rate</th>
<th>Code** Chptr.</th>
<th>(AT)*** (AT)***</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
<td>Canada</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Avg. %</td>
<td></td>
<td></td>
<td>Avg. %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>13.8</td>
<td>A</td>
<td>13.8</td>
<td>13.8</td>
<td>A</td>
<td>13.8</td>
</tr>
<tr>
<td>51</td>
<td>12.1</td>
<td>A,C,B6,D</td>
<td>35.3</td>
<td>12.1</td>
<td>B1,C,A,D</td>
<td>42.1</td>
</tr>
<tr>
<td>52</td>
<td>14.5</td>
<td>B6,A,B,C,D</td>
<td>42.4</td>
<td>14.5</td>
<td>B+,B,A,C,D</td>
<td>72.6</td>
</tr>
<tr>
<td>53</td>
<td>11</td>
<td>A,C</td>
<td>34.1</td>
<td>11</td>
<td>B+,C,A</td>
<td>34.1</td>
</tr>
<tr>
<td>54</td>
<td>13.9</td>
<td>B6,A,C,A</td>
<td>44.1</td>
<td>13.9</td>
<td>B+,A,B1</td>
<td>66.1</td>
</tr>
<tr>
<td>55</td>
<td>13.7</td>
<td>B6,A,C,D</td>
<td>48.3</td>
<td>42.14</td>
<td>B+,A,B1</td>
<td>61.84</td>
</tr>
<tr>
<td>56</td>
<td>14.6</td>
<td>B6,A,C,D</td>
<td>31.5</td>
<td>14.6</td>
<td>B+,B1</td>
<td>67.9</td>
</tr>
<tr>
<td>58</td>
<td>17.7</td>
<td>B6,A,C</td>
<td>56</td>
<td>17.7</td>
<td>B+,A,B1</td>
<td>83.6</td>
</tr>
<tr>
<td>59</td>
<td>14.8</td>
<td>B6,A,C,A</td>
<td>47.9</td>
<td>14.8</td>
<td>B+</td>
<td>76.1</td>
</tr>
<tr>
<td>60</td>
<td>20</td>
<td>B6</td>
<td>68</td>
<td>20</td>
<td>B+</td>
<td>96</td>
</tr>
</tbody>
</table>

**Exports From Mexico To**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code** Chptr.</th>
<th>(AT)*** (AT)***</th>
<th>Base Rate</th>
<th>Code** Chptr.</th>
<th>(AT)*** (AT)***</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
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<td></td>
<td>Canada</td>
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<td></td>
</tr>
<tr>
<td></td>
<td>Avg. %</td>
<td></td>
<td></td>
<td>Avg. %</td>
<td></td>
<td></td>
</tr>
<tr>
<td>50</td>
<td>4.7</td>
<td>A,D</td>
<td>4.7</td>
<td>0</td>
<td>D,A</td>
<td>0</td>
</tr>
<tr>
<td>51</td>
<td>5.1</td>
<td>A,D,B6,B</td>
<td>17.4</td>
<td>8.1</td>
<td>B1,D,A</td>
<td>27.9</td>
</tr>
<tr>
<td>52</td>
<td>10.6</td>
<td>B6,A,D</td>
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<td>14.8</td>
<td>B+,D,A</td>
<td>74.5</td>
</tr>
<tr>
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<td>4.7</td>
<td>A,D</td>
<td>12.4</td>
<td>3.8</td>
<td>D,A</td>
<td>3.8</td>
</tr>
<tr>
<td>54</td>
<td>12.9</td>
<td>B6,A,D</td>
<td>42.4</td>
<td>15.3</td>
<td>B+,A</td>
<td>73.9</td>
</tr>
<tr>
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<td>14.1</td>
<td>B6,C,A</td>
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<td>B+,A,B1</td>
<td>98.4</td>
</tr>
<tr>
<td>56</td>
<td>9.5</td>
<td>B6,A,D</td>
<td>23.3</td>
<td>12.4</td>
<td>B+,D,A</td>
<td>54.6</td>
</tr>
<tr>
<td>58</td>
<td>11</td>
<td>B6,A,D,C</td>
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<td>B+,D,A,B1</td>
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<td>59</td>
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<td>B+,D,A</td>
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<tr>
<td>60</td>
<td>14</td>
<td>B6</td>
<td>50</td>
<td>19</td>
<td>B+,D</td>
<td>94.7</td>
</tr>
</tbody>
</table>

**First code listed in the column was predominant in the tariff chapter, other codes listed had some presence in the chapter. If there is only one code it means it had absolute predominance in the Chapter.**

***Excludes Chapter 57 (Floor Carpets), which is not a part of the textile-apparel industrial chain.**

*Source: SECOFI, 1994*
### Table 7

**Additive Tariff (AT), Apparel Industry.**

**Imports to Mexico From**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code**</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>20</td>
<td>B6,A,C</td>
<td>59.3</td>
<td>20</td>
<td>C</td>
<td>110</td>
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<td>62</td>
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<td>57.3</td>
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<td>C</td>
<td>110</td>
<td>105.3</td>
<td></td>
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<tr>
<td>63</td>
<td>20</td>
<td>B6,B,A</td>
<td>65</td>
<td>20</td>
<td>B6</td>
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<td></td>
<td></td>
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</tr>
</tbody>
</table>

**Exports From Mexico To**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code**</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>61</td>
<td>15.4</td>
<td>B6,A,C</td>
<td>43.9</td>
<td>24.3</td>
<td>C</td>
<td>133.5</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>62</td>
<td>12.1</td>
<td>B6,A,C</td>
<td>33</td>
<td>23</td>
<td>C</td>
<td>126.6</td>
<td>119.7</td>
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</tr>
<tr>
<td>63</td>
<td>8.2</td>
<td>B6,A,C</td>
<td>26.9</td>
<td>19.4</td>
<td>B,A</td>
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</tr>
</tbody>
</table>

**First code listed in the column was predominant in the tariff chapter, other codes listed had some presence in the chapter. If there is only one code it means it had absolute predominance in the Chapter.**

*Source: SECOFI, 1994*

### Table 8

**Additive Tariff (AT), Automotive Industry.**

**Imports To Mexico From**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code**</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
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<th>Chptr.</th>
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<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
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</thead>
<tbody>
<tr>
<td>87</td>
<td>17.4</td>
<td>C,AB</td>
<td>69.6</td>
<td>17.4</td>
<td>C,AB</td>
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<td>69.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Exports From Mexico To**

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate</th>
<th>Code**</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
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<th>Industry</th>
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<th>Average</th>
<th>(AT)</th>
<th>Industry</th>
<th>Chptr.</th>
<th>Average</th>
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</thead>
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<td>24</td>
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<td></td>
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</tr>
</tbody>
</table>

**First code listed in the column was predominant in the tariff chapter, other codes listed had some presence in the chapter. If there is only one code it means it had absolute predominance in the Chapter.**

*Source: SECOFI, 1994*
Table 9
Additive Tariff (AT), Autoparts Industry.

<table>
<thead>
<tr>
<th>Tariff Chapter</th>
<th>Base Rate*</th>
<th>Code**</th>
<th>(AT)</th>
<th>(AT)</th>
<th>Base Rate*</th>
<th>Code**</th>
<th>(AT)</th>
<th>(AT)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Chptr.</td>
<td>Industry rate*</td>
<td>Avg.</td>
<td>Average. %</td>
<td>Chptr.</td>
<td>Industry Average</td>
<td>Avg.</td>
</tr>
<tr>
<td>USA</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>87</td>
<td>13.8</td>
<td>B.A.C</td>
<td>42.3</td>
<td>42.3</td>
<td>13.8</td>
<td>B.A.C</td>
<td>42.3</td>
<td>42.3</td>
</tr>
<tr>
<td>Canada</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**First code listed in the column was predominant in the tariff chapter, other codes listed had some presence in the chapter. If there is only one code it means it had absolute predominance in the Chapter.

Source: SECOFI, 1994

Graphs 6 to 9 offer a better picture to compare the variation of the results across the four industries. The same scale is used in all four in the vertical axis, which shows the percentage of the (AT) average for each of the four industries, that is, our most important indicator of the dependent variable.

Since the fundamental negotiation for Mexico—as well as for Canada—within NAFTA, because of its foreign trade concentration, was with the United States, we will focus the discussion of the (AT) values on the bilateral trade between Mexico and the United States. Plus, as stated above—see Figure 1—it is not our intention in this paper to do cross-country comparisons when using the first model. Thus the interpretation of the results basically consists on looking at the predicted effects upon the dependent variable ((AT) values) which were summarized in Tables 3 and 4, and confront them to the actual values obtained for each of the industries. The latter are shown in Graphs 6 to 9, and summarized in Table 10.
Table 10
Additive Tariff (AT) Values for Mexican Imports from the U.S. Negotiated at NAFTA

<table>
<thead>
<tr>
<th>Industry</th>
<th>AT Values, % (imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive</td>
<td>69.6</td>
</tr>
<tr>
<td>Apparel</td>
<td>60.5</td>
</tr>
<tr>
<td>Autoparts</td>
<td>42.3</td>
</tr>
<tr>
<td>Textile</td>
<td>42.1</td>
</tr>
</tbody>
</table>

Sources: Tables 6 to 9

Graph
Additive Tariff, Industry Average: Textile

Source: Table 6
Graph 7
Additive Tariff, Industry Average: Apparel.

Source: Table 7

Graph 8
Additive Tariff, Industry Average: Automotive

Source: Table 8
A first observation is that the ranking of the industries coincides exactly with the values that were predicted by the combined effect of the two independent variables. The automotive industry, which got scores that clearly differentiate it from the other three (see Tables 3 & 4), appears as well with the highest value in the independent variable. The problem is, however, that this industry appears with the “wrong sign” in terms of preferences. According to Table 4, the automotive industry was by far the most competitive, which led to a predicted preference of free trade as soon as possible. Based on this variable we predicted that the automotive industry represented the least protectionist in the group. Yet it got the highest level of protection (69.6%). So the first model has serious troubles explaining one of the four cases.

On the other hand, the model works well explaining the other three cases. As we saw when comparing the industries there was a huge gap between the automotive and the other three cases. We saw as well that apparel was making a transition towards better competitiveness and export capacity. So, for an industry like apparel, it made sense to count on an adequate level of protection for the phase-out period. This would guarantee its increasing capacity to export would continue growing under NAFTA and, even more important, once the transition period ended, the preferential access to the U.S. market brought about by NAFTA, would be an
important competitive advantage for the Mexican apparel industry vis a vis its international competitors from the Far East and the Caribbean.

Finally, the model predicted a very similar outcome for the textile and autoparts industries. Even though there was some difference in their capacity to lobby as interest groups because autoparts was more concentrated than textiles (Table 3), both were uncompetitive and experienced increasing trade deficits during the years of the NAFTA negotiations. On these grounds, both opposed the NAFTA, and when faced with the inevitable fact of regional free trade negotiations, they would have preferred high tariffs and a long phase-out period. This would give them time to try to adapt to the new commercial environment. They did not get it, and that confirms the explanatory capacity of the model in these cases. Since they were weak as interest groups, the outcomes of the negotiations (the lowest AT values in our four cases) did not reflect their preferences.

II.2. The Second Model

We move on now to consider the second model. We deal first with the textile-apparel industrial chain and, secondly, with the autoparts-automotive chain.

Explaining the rule of origin in the textile-apparel industrial chain

Different sources confirm that the clue to understand why NAFTA ended up adopting such a protectionist rule of origin in textiles, known as "yarn forward" or "triple transformation", was the position of the American textile industry (Johnson 2000, Lamar 2000, Cameron & Tomlin 2000, Espinosa 2000). The Canada-U.S. Free Trade Agreement (CUFTA) had adopted a "fabric forward" or "double transformation" rule, which was less protectionist. However, for the American textile industry, trade between Canada and the U.S. did not represent a significant share of the American foreign trade in this industrial chain. The real competitors were in Asia, where firms with lower production costs had been penetrating the American market since the 1970s. By the time the NAFTA negotiations started off (1991), China was the biggest exporter of apparel to the U.S. The flood of Asian imports had led, by that time, to a quite substantial reduction of American apparel manufacturers. As it had happened previously in other industrial chains, like footwear, because of higher labor costs, it was impossible for American firms to compete with Asian producers. In most cases, those massive apparel imports from Asia were the combination of textile products from advanced Asian producers, like Japan, Hong Kong, Taiwan or South Korea, and lower labor costs to produce apparel from poorer countries like China, Indonesia, Thailand or the Philippines.

The CUFTA did not change this trend in foreign trade for the American textile firms, which, in contrast to the apparel American manufacturers, had survived...
through an intense process of industrial concentration and the incorporation of new technologies. In the early 1990s a few giant textile firms, concentrated in the states of North Carolina, South Carolina and Georgia\(^7\) controlled the industry. Even though they had also been losing ground in the American market to Asian producers, they were in much better shape than American apparel firms, and were still able to compete in international markets.\(^8\)

The possibility of a North American free trade agreement that included México, therefore, was perceived by the American textile industry as an opportunity not only to increase its production and exports, but to regain as well the American apparel market (Johnson 2000). If the textile industry could get the NAFTA negotiators to adopt a “yarn forward” rule of origin this would allow American textile firms to export their products duty free to Mexico, where American yarn and fabric would be transformed into apparel using lower labor costs. Apparel would then be exported duty free to the American market. Besides getting access to lower labor costs, the comparative advantage in transportation costs, and the lower tariffs — which after a few years would be removed — granted by NAFTA would give the American textile industry the capacity to out-compete Asian producers in the American market. This strategy would create a virtuous circle. On the one hand, Apparel production in Mexico would foster the demand of American textile exports. On the other hand, the American textile biggest firms designed a strategy to expand into apparel production. They would either create their own maquiladora plants in Mexico — as some of them had already done before NAFTA — or enter into joint-ventures with Mexican apparel producers which, as we saw before, had been gaining in competitiveness and export capacity as a result of the changes in the 1980s in Mexican industrial policy.\(^9\)

In Washington the textile lobby was very powerful and it became actively involved in the NAFTA negotiations. There was some resistance by the apparel lobby, as well as from labor. The former by the early 1990s, was mostly composed by American firms importing apparel and therefore opposed a rule of origin that would require a “triple transformation” in the North American countries. Such a rule would force them to pay tariffs on their imports of apparel from Asia (Lamar 2000). That difference would mean higher prices than duty free NAFTA apparel and would drive them out of the market. The latter was very weak politically, for the very same evolution of this industrial chain in the last decades had led to the closure of numerous apparel and textile firms in the U.S. and to the shrinkage in the numbers of

\(^7\) In 1997, for instance, the textile gross product of these three states represented 58% of total American textile gross product (Textile Highlights, 2000:32).

\(^8\) In 1986, for instance, the total American trade deficit of the industrial chain was 21,235 million dollars. 83% of that total was apparel imports, and only the remaining 17% was textile imports. In 1991, the year the NAFTA negotiations began, the deficit of the industrial chain reached 24,486 million dollars, but the share of textiles decreased: 93% of that amount were apparel imports, and only 7% were textile imports (Textile Highlights, 2000:25).

\(^9\) A crucial turning point in Mexican industrial policy came in 1986, when President De la Madrid took the decision to join the GATT (Borja 1995).
unionized workers. As most other American Unions, it opposed NAFTA on the basis that it would accelerate the process of exporting American job posts which would go, in this case, to Mexico instead of Asia or the Caribbean countries. As it happened in most industrial sectors in the U.S. the Unions were very determined in their opposition to NAFTA and, in the end, they chose exit instead of voice.

Now that we know the domestic bargain of the United States before the NAFTA negotiations, let's look at the initial preferences of the other two players, Mexico and Canada.

To understand the position adopted by Mexico, we need to know first what the situation was in textile trade between Mexico and the United States at the time of the launching of the negotiations, for the rule of origin was linked to other topics within this industrial chain. As we will see, those other topics as well as the rule of origin were negotiated as a package in the same NAFTA bargaining table.

Since 1974, as a result of the Multi Fiber Agreement (MFA), Mexican textile exports to the U.S., as those of other developing countries were subject to quotas. The main issue for Mexico then, in this industrial chain, was to get from the United States the acceptance to remove the quotas for Mexican exports. Other topics, like the timing and the level of tariffs during the phase out period or the rule of origin were subordinated to the removal of the quotas. If they were not removed, NAFTA would only have a very limited impact for Mexico's industrial chain, and it would be seen as a failure by the producers and the government. As a Mexican entrepreneur put it, there would not be free trade in textiles if the quotas remained. Obviously, Mexico was willing to make concessions in the other issues involved in this industrial chain if that was the condition to get rid of the quotas.

In this context, the initial position of Mexico was in support of a "double transformation" or "fabric forward" rule of origin (Espinosa, 2000:372). It meant that all final products to be traded by the three North American countries would have to be made with fabric manufactured in those countries and then cut and sewn in the same countries. In other words, North American firms would be free to import natural and synthetic fibers or yarn from other regions to manufacture fabric and apparel in North America and still qualify for NAFTA.

At the same time, the Mexican initial position was willing to allow for exceptions to the rule within certain quantitative limits. In other words, firms could import a certain amount of fabric from non North American countries and still get

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10 Between 1989 and 2000 the textile-apparel industrial chain lost approximately 30% of its workforce (Schavey, 2000).

11 According to Mayer, the decision of the AFL-CIO not to participate in the NAFTA negotiations was made early in 1991, in the course of the debate on the "fast track" authority. He quotes Steve Beckman, from the United Auto Workers explaining that "from the very beginning of the fast track debate, this was a visceral issue with members. NAFTA was very much a gut issue. Members understood that it was a direct threat to their jobs. If we had wanted to make a deal we couldn't have". (Mayer, 1998:73).

12 This was said by J. Zaidenweber, who coordinated the private sector contacts with Mexican negotiators in this industrial chain. See Espinoza, 2000: footnote 19.
the preferential treatment defined by NAFTA. This measure was seen as a way to make an easier transition, for there were certain fabrics used in special market niches of apparel, which were not manufactured in Mexico, the U.S. or Canada.

According to Espinosa (2000:372) Mexican apparel firms actually preferred a “single transformation” rule, that would allow imports of fiber yarn and fabric from non-regional countries, and require only the manufacturing of apparel to be made in North America. However, a consensus was reached to go for a “double transformation” rule, which represented the original preference of the textile firms.

Canada shared the Mexican initial position regarding the rule of origin. It actually felt that the interests of its industrial chain were well protected in the text of the CUFTA, which had adopted a “fabric forward” or “double transformation” rule of origin. In fact, the Canadian initial position was that there should not be an specific negotiating group in NAFTA for this industrial chain and that the terms of CUFTA should simply be incorporated into the new agreement. The Canadian textile and apparel industries were not really competitors in the massive market segments of low priced apparel where Asian producers, just like in the United States, had wiped out most of Canadian producers by the time of the NAFTA negotiations. However, Canada had an important industry, mostly concentrated in the province of Quebec, focused on wool suits and high priced, design intensive apparel. For the latter particularly, the access to non North American imports of special kinds of fabrics and other inputs for luxury clothing was vital. The CUFTA with its “double transformation” rule provided that foreign trade environment for Canadian firms.

We now know what the domestic preferences of the three actors were and can move to level I, the NAFTA negotiations. When they started, in mid 1991, the American negotiators proposed, from the very beginning, the adoption of a “yarn forward” rule of origin (Cameron & Tomlin, 2000:91). In terms of our theory, this meant that in this industrial chain there was no division of interests at level II (domestic) in the United States, for the opposition of the apparel lobby and the unions was politically irrelevant. The American negotiators fully adopted the goal of the textile industry and, as we will see, pursued such a goal quite strongly in the textile group from day one till the very end of the NAFTA negotiations.

For reasons that have been explained, Mexico and Canada opposed initially the adoption of the “yarn forward” rule of origin. As we mentioned when discussing the initial position of Mexico, its priority number one was the elimination of import quotas or a considerable increase on its levels. Regarding the rule of origin, the textile and apparel firms had agreed on seeking a “fabric forward” rule. Such position was the one adopted by the SECOFI negotiators who had in fact participated in the domestic bargain to have the two segments of the industrial chain reach the point of consensus represented by the “fabric forward” rule (Espinosa, 2001). Canada joined forces with Mexico, for it intended to keep alive the “fabric forward” rule of the CUFTA.

According to the different accounts of the negotiations, the first step to close the initial gap between the players was cut between the United States and Mexico.
The deal was a simple one: the U.S. accepted to remove import quotas to Mexican imports in exchange for the Mexican support to the “yarn forward” rule of origin (Espinosa 2000 & 2001). The deal made sense for both parts. Mexico had her priority number one fulfilled (the removal of import quotas) and, for the U.S. the Mexican support to the rule put stronger pressure on Canadian negotiators to accept it. At this point it is worth pointing out that simultaneously to the moves that were being made by the government negotiators, the American textile lobby was also talking directly to Mexican and Canadian trade associations to see what concessions they were looking for and trying to convince them that the “yarn forward” rule would actually benefit all parts, for it would lead to an authentic regional industrial chain which would be able to recapture the regional markets from Far East producers. The American textile lobby then played a crucial role in the course of the negotiations to open up communication channels between the trade associations of the three countries, as well as between them and the government negotiators (Johnson 2000).

The next step was to convince the Canadians to go along with the “yarn forward” rule of origin promoted by the American textile industry and negotiators. This became one of the most difficult points to negotiate in NAFTA, and a compromise between the U.S. and Canada was only reached during the last days of the negotiating process, in August, 1992 (Cameron & Tomlin:table 8.2). The solution was found through an American concession to Canada which in practice represents an important exception for the Canadian industry regarding the rule of origin. This works as an annual quota of imports of yarns and fabrics that “do not meet the rule of origin but still qualify for the preferential treatment” (Hufbauer & Schott, 1993:44). This mechanism is called in the text of NAFTA tariff preference levels (TPLs), and what it mean is that it allows Canadian apparel producers to keep importing the yarns and fabrics they need to maintain production in the market niche of design intensive or luxury apparel goods. Thanks to this exemption these goods could be exported to the U.S. and Mexico qualifying for the preferential duties granted by NAFTA.

Thus as we have seen, even though there were important differences at level II between the three partners, a negotiated solution was reached at level I which, at the end, kept everyone satisfied: the import quotas in the U.S. market were removed to the Mexican producers; the “yarn forward” rule strongly sought by the American textile industry was adopted and, finally, Canada got an exemption to the rule of origin which allowed its producers to retain control over a market niche in which they are strong competitors.
Figure 4 presents a theoretical summary of the case. The results confirm the predictions of the theory. The outcome of the negotiations falls within the preferences of the predominant player, the United States. Throughout the process, the American negotiators coordinated their lobbying efforts with those of the American textile industry, and they made concessions to Mexico and Canada so that both finally moved to the space of the American ZOPA. These results confirm as well the predicted effect of domestic consensus. There was a total agreement between the American textile industry and government negotiators on the goal to be achieved and the strategy. It is true that there was internal opposition coming from the American apparel firms and the labor movement, but by the time the negotiations got started it was clear that these two actors had no voice on what the American government pursued in this industry in NAFTA.

**Explaining the automotive rule of origin**

As for the auto rule of origin, there is already an analysis of the case recently published by Mayer (1998). We draw on that work for this part of the paper. The main actors in the Mexican domestic bargain were the autoparts firms, the non North American firms producing vehicles in Mexico (Volkswagen and Nissan) and the government negotiators. According to Mayer (1998:159) The “Big Three” American firms (Ford, G.M. and Chrysler) “while important, had relatively less clout”. This is explained by the fact that the position of the “Big Three” was defined as part of the domestic bargain of the United States, where they had the predominant voice in this issue.

The initial position adopted by Mexico resulted from a balance between the demands for protection on the part of the autoparts makers, and the one adopted by Volkswagen and Nissan. For the former, the combination of a rule requiring a high percentage of regional contents, combined with an adequate phase-out period which would give them time to adapt and compete with their American and Canadian counterparts, was their optimum. In contrast, Volkswagen and Nissan, which had important investments in the country, were already exporting to the American market from their Mexican plants, but used a high percentage of parts made in their home countries. Thus, just like their Canadian counterparts (Japanese and European auto makers operating in that country), they preferred a NAFTA rule as lower as possible. The domestic ZOPA was finally defined by the negotiators between 52% (a level that was close to the preferences of Nissan and VW), and 65%, which, though closer to the preference of the autopart firms, they would have liked a higher level (Mayer 1998:161).

According to Mayer, the domestic bargain in Canada had as well the autoparts firms and the non North American firms adopting very similar positions to those of the Mexican actors. This resulted in a very similar domestic ZOPA, going from 52% to 62%. In the United States, the domestic bargain was basically between the “Big Three” and the autoparts firms. “All three automakers had an interest in a
reasonably high rule of origin to make it more difficult for European and Japanese
competitors to locate assembly plants in Canada or Mexico and thereby ship finished
automobiles to the United States duty free” (Mayer 1998:158). The autoparts makers
plus Ford and Chrysler preferred a rule close to 70%. G.M. however preferred a
lower level, for it had an important joint venture with Isuzu in Canada to produce
cars for the American market. It pushed for 60%. In the end, the American domestic
ZOPA went from 62% to 68%, representing a balance between the preferences of the
domestic actors.

In this second case, then, we had overlapping of preferences between the
positions of Mexico and the United States (somewhere between 62% and 65%), but
practically no international ZOPA between the United States and Canada, for the
minimum acceptable to the former was 62%, and the maximum acceptable for the
latter was as well 62%. The model predicts a minimum margin for an international
agreement and, therefore, a very difficult negotiation, particularly between the U.S.
and Canada.

We move now to explain the results of our second case (the autoparts-
automotive industrial chain) using again the second model. As we saw when
discussing the empirics of this case, it was clear from the very beginning that
Mexico and Canada, given their domestic bargains preferred a lower rule than the
one the “big three” and the American government were seeking. At the opening
round of the negotiations, in September 1991 in Dallas, the negotiators realized that
a lot of hard work would have to be done to reach a point of compromise for,
Mexico and Canada defined their initial mark at 50%, whereas the American initial
position was set at 70% for the rule of origin (Cameron & Tomlin, 2000:table 5.1).

From the very beginning, however, Mexican domestic politics allowed for a
wider ZOPA which had 65% as its upper limit. Therefore, as the negotiations
progressed, it was clear that a compromise between Mexico and the U.S. was
feasible and that a rule somewhere between 62%, the minimum acceptable to the
U.S. and 65% would be acceptable for both governments and for their domestic
constituencies. The real problem, then, was between the U.S. and Canada.

This difference persisted till the very end of the negotiations. According to
Mayer (1998:141), at the time of the final negotiating round, in August 1992 in
Washington D.C. the difference between the two governments in the auto rule of
origin represented one of the most contentious issues. The Canadians would not go
above 62%, and the Americans would not accept anything below 63%.

As we already know the rule was finally set at 62.5%. According to Mayer
(1998:142), “Finally, with time running down, the parties did what parties so often
do: they split the difference at 62.5 percent”. Cameron & Tomlin (2000:table 8.1) on
the other hand, link the final compromise to the issue of the duty drawback system
for car producers. In their view, Canada finally accepted the 62.5% rule in exchange
for an American concession on drawbacks, which became permanent under NAFTA.
III. Conclusions

What can we conclude of the comparison of the two theoretical models discussed in this paper? First, the comparison confirms the fact that if we want to understand specific outcomes of international trade negotiations, like the NAFTA, we definitely ought to specify several dependent variables. As stated in the introduction, it is useful to have the complete and chronological story of the negotiation of the NAFTA as Mayer (1998) and Cameron & Tomlin (2000) have already done, but the fact is that with an object of study so big, diverse and complex, what you end up with is a quite useful and well documented history of the negotiation process, from the very beginning till the very end. You learn, for instance, that it was in Davos, Switzerland, while attending the World Economic Forum of 1990, after a disappointing European mission, that President Salinas made up his mind about negotiating a free trade treaty with the United States, and first talked to Carla Hills about the interest her government would have in such a treaty (Cameron & Tomlin, 2000:2). And like this, you learn as well some other interesting anecdotes that occurred during the negotiations. Theoretically, however, by showing in this paper the complexity of explaining only two aspects of NAFTA, like the additive tariff and the rules of origin for two industrial chains, we hope we have made the point convincingly that we are not dealing just with one research question, but many, which are explained by different variables.13

Another way to put this point is by making reference to the real and perennial conflict between rich description (which I like much better than the expression “thick description” that implies some negative connotations) and explanation in social science. I am convinced that if you choose to study the negotiation of NAFTA as a whole — as Mayer 1998 and Cameron & Tomlin 2000 did — the final balance necessarily goes in favor of rich description, and weakens your theoretical argument.

A second concluding point has to do with the theoretical reflection that is fostered by the comparison of the two models. As we said from the start, these are models to explain different issues. These are models as well that use different logic of causation. The first one is more conventional, specifying independent and dependent variables and formulating testable hypotheses about the causal relation between them. The second one, in contrast, is based on two level logic and, therefore, is closer to a theory of negotiation in which, it is the very interactive essence of the relation between the parties involved that produces an outcome.

13 It should be said, however, that the second part of chapter five of Mayer’s (1998) book, titled “Interpreting International Negotiations: Domestic Politics and International Bargaining”, makes a first attempt to provide a theoretical explanation by using two-level game logic and comparing different sectors, like agriculture, oil, autos and finance. In those 20 pages of the book the author shows the great potential of this theoretical path, which we are attempting to deepen and improve in this paper. As Mayer reminds the reader throughout the book, however, his fundamental question is “why this NAFTA?” which looks not only at the whole process of negotiation of the NAFTA text, but to the two parallel accords and the battle in the U.S. Congress for ratification as well.
which would not exist without such interaction. This nature of the explanation of the second model—as the reader could appreciate comparing both—makes it harder to put it in terms of causal variables. Yet, we identified the degree of division of the American constituency as the independent variable explaining the variation between the two industrial chains. Using the degree of division of the domestic constituency is not a novelty. It is, in fact, related to the very appealing idea of Putnam about “winsets.” Milner (1997) has recently made also an important theoretical and empirical contribution to the proper understanding of the impact of internal division upon foreign policy. We have discussed somewhere else (Borja 1999 & 2001b) that we need further evidence to reach solid conclusions on two important theoretical aspects of two-level logic applied to either foreign policy in general or foreign economic policy in a narrower sense (and we think this represents a very promising point of convergence between two-level game analysis and international political economy): the first one has to do with the hypothesized effect of internal division. Is the negotiator better off at the bargaining table of level I when there is no internal consensus on the goal to be achieved? Putnam’s answer to this question is a yes! He thinks that a smaller win set would make you a stronger negotiator. Milner, instead, believes that a stronger domestic consensus increases your chances of successful international negotiations leading to cooperation. The comparison made in this paper seems to support Milner’s position. A more divided domestic constituency, as it was the case in the automotive industry during the NAFTA negotiations, made it harder for American negotiators to achieve an outcome within the space that had been defined—in consultation with the “Big Three”—as the domestic zone of acceptable agreement. And, accordingly, in the textile rule of origin, where there was no internal division, the American negotiators got what they wanted, which was as well what the American textile industry wanted. Obviously, we need more cases to settle the dispute.

We need as well to reach an agreement on a second point for a more productive application of two-level game logic: the specification of the dependent variable. As we know, Putnam did not really presented his argument in terms of variables. Milner (1997), on the other hand, is very explicit in saying that she is interested in explaining international cooperation. Our view is that it will be easier to come to more solid conclusions if we even narrow further down the dependent variable. As we tried to show in the paper, it makes sense to specify the dependent variable in terms of trade protection. As discussed above, even when speaking of trade protection, we are faced with different policy tools used by governments to achieve this purpose, such as tariffs and rules of origin. So in order to get a good grip on the impact of domestic division perhaps we should be less ambitious—more specific—in the specification of the dependent variable. We believe trade protection might be a good starting point. International trade negotiations have been,

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14 In fact Robert Putnam’s article of 1988, which brought back the interest of internationalists on two-level game models never specifies neither independent nor dependent variables.
since the XIX Century, a crucial issue area of international relations. Everything indicates, at the turn of the century, that the relevance of international trade will keep increasing. Thus, to finish this second concluding point what we suggest is that we see international trade negotiations as a potential research agenda to continue exploring and developing the potential of two-level game logic to understand the outcomes, the determinants, and the connections between domestic and international politics. By constraining — for the time being — our efforts to this issue area, we will be able to make more meaningful comparisons, which represents a promising path towards the accumulation of knowledge about this important issue.

Thirdly, the comparison of models made in the paper suggests as well a potential for synergies between the two. We think this is particularly so if we introduce a time dimension and see the negotiation as a sequential process. Even though the application of model one in this paper ran into problems to explain one out of four cases, we think it represents a promising starting point to explain the initial position that is defined in a country before the beginning of international trade negotiations. Therefore, if used in this sense, the dependent variable should be specified as the position adopted to start the negotiations. Depending on whether the negotiation is about an industry or an institution, the indicators of the dependent variable will differ. Such a model, if applied to an industry, should incorporate the two independent variables we used in this paper: interest group strength and competitiveness. We believe two other explanatory variables should be explored: government preferences, and trends of change in the international industrial sector in question. I think the addition of these two variables would make model one more complete, and it would allow to make international comparisons showing the different weight of these variables across countries to define the initial position of an international negotiation.

Once model one has explained the initial position, we would then move to model two, which through two level game logic is better equipped to capture the essence of international negotiations as well as the feedback and consultations that take place during the process not only between each executive and its domestic constituency, but between negotiators and constituencies as well. In this paper, since we were dealing with the NAFTA negotiation, which is so strongly marked by asymmetry between the U.S. and its two neighbors, we incorporated this condition into the model by paying special attention to the American win set. As we showed when comparing the two rules of origin, the asymmetry between the North American commercial partners increases considerably the international bargaining capacity of the American executive. We introduced as well the question of internal division as the clue to explain the variance between the cases.

Therefore we are suggesting that we need the two models to explain international trade negotiations. If we think it is important to understand the initial position of the parties and why they are different, then we ought to further pursue the path proposed as model one in this paper. On the other hand, if our research goal is to explain the outcome of the negotiations, then we should be using model two.
We see both as part of a productive research agenda for the future, one that should lead us to better explanations of the politics of international trade.

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