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Comparison of Gains for LICs and HICs under the WTO Framework Within the NAFTA Context

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Abstract. Since the 1990s, the global trade system has been shaped by two major institutions: the World Trade Organization (WTO) and the North American Free Trade Agreement (NAFTA). The WTO, established in 1995, aims to stabilize global trade through multilateral agreements and structured dispute resolution. NAFTA, launched in 1994, created a regional trade bloc comprising the United States, Canada, and Mexico, aiming to promote economic integration by reducing tariffs and non-tariff barriers.This article explores the differential gains achieved by high-income countries (HICs) and low-income countries (LICs) within the WTO framework in the context of NAFTA. While all three NAFTA members—the United States, Canada, and Mexico—benefited from WTO membership, the nature and extent of their gains vary. Using a comparative analysis of institutional influence, trade structure, and dispute participation, the study reveals that HICs enjoy broader rule-shaping advantages, while LIC-like members, such as Mexico, face structural and policy constraints that limit their ability to gain. The findings highlight that WTO participation reinforces existing hierarchies in global trade unless accompanied by targeted domestic upgrading.

Keywords: WTO, NAFTA, high-income countries, low-income countries, trade liberalization, dispute settlement

1. Introduction

Although both WTO and NAFTA share the goal of promoting trade liberalization, the outcomes differ significantly based on a country's level of development. High-income countries (HICs) often benefit more due to their stronger legal systems, negotiation capacities, and institutional infrastructures. In contrast, low-income countries (LICs) face both internal constraints and external dependencies, which limit their capacity to benefit fully from WTO membership [1].

Within NAFTA, the three member countries have adopted different strategies under WTO rules. The United States, as a global economic powerhouse, uses WTO mechanisms to consolidate its dominance in trade [2,3]. Canada's trade strategy focuses on stability, diversification, and legal protection of sensitive sectors [4]. Mexico, as a middle-income country with weaker structural foundations, has experienced both market access gains and internal sectoral vulnerabilities under the WTO [5].

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This paper analyzes the macroeconomic and structural outcomes of WTO membership for each NAFTA member and presents a comparative framework to understand how HICs and LICs differ in their gains. The following sections examine each country's performance, then provide a comparative analysis and final conclusions.

2. Gains and challenges after WTO Accession: the United States, Canada and Mexico

2.1. Macroeconomic gains of the United States after WTO accession

As a high-income country (HIC) with a diversified, innovation-intensive economy, the United States has leveraged the WTO framework to entrench its competitive advantages and to export not only goods but also rules, particularly those related to intellectual property, services, and dispute settlement [6,7]. The predictability of bound tariffs, the expansion of services commitments (GATS), and the stronger enforcement environment for TRIPS jointly reduced policy uncertainty for U.S. multinationals and reinforced scale economies in globally fragmented value chains [8,9].

2.1.1. Impact on export structure and market expansion

WTO disciplines consolidated earlier unilateral and regional liberalization by locking in lower tariffs abroad and by disciplining contingent protection measures [10,11]. U.S. exporters in high-tech manufacturing (aircraft, medical instruments, semiconductors) and knowledge-intensive services (IT, audiovisual, finance, and professional services) benefited from clearer market-access schedules and stronger intellectual property enforcement [12]. Reduced average tariffs and tariff bindings in emerging markets facilitated deeper penetration by U.S. agribusiness, while rules on subsidies and sanitary and phytosanitary (SPS) measures provided a structured forum to challenge opaque barriers [13]. Meanwhile, digital trade—though still weakly disciplined at the WTO level—benefited indirectly from transparency and services commitments, helping leading U.S. platforms internationalize [14].

2.1.2. Advantage in the dispute settlement system

The United States is one of the most active users of the WTO dispute settlement mechanism, leveraging its legal capacity, data, and bureaucratic expertise to shape jurisprudence and deter protectionism [15-17]. Empirical work shows HICs tend to win more frequently, partly due to better case selection and resource endowments [15]. Even when rulings go against the U.S., the system provides surveillance and compliance pathways that preserve overall rule predictability [18]. This legal dominance contrasts sharply with the position of lower-income WTO members that face capacity constraints in bringing or defending cases [19].

2.2. Canada's pattern of WTO gains

Canada, a medium-sized, high-income but resource-dependent economy, uses the WTO as both a defensive institution—to shield itself from U.S. contingent protection—and a rule-promoting platform to expand agricultural and energy exports [13]. Its gains are more incremental and 'insurance-like' than those of the United States, reflecting the structural asymmetry it faces vis-à-vis its dominant NAFTA/USMCA partner [20].

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2.2.1. International market expansion for agricultural and energy exports

WTO tariff bindings and the Agreement on Agriculture locked in lower barriers for Canadian wheat, canola, and meat exports, especially in Asian markets, while disciplines on state trading enterprises (STEs) and export subsidies constrained rivals [21]. On the energy side, while crude oil and natural gas trade is less directly regulated by the WTO, predictable goods tariffs, investment-related transparency in services, and the reduction of downstream barriers for energy equipment and services indirectly supported Canadian energy firms' outward expansion [22]. Dispute settlement—e.g., softwood lumber cases—illustrates both the promise and limits of multilateral rules for a middle power entangled with a powerful neighbor that frequently uses trade remedies [23].

2.2.2. Institutional constraints and bargaining space of a medium economy

Canada's experience underlines how medium economies gain from rule predictability but face limited agenda-setting power [20]. While it can coalesce with coalitions (e.g., Cairns Group in agriculture) to raise its influence, it lacks the market power to unilaterally shape global rules—unlike the U.S. or EU. Consequently, Canada often invests in procedural leverage (coalition-building, early submissions, technical committees) and in maintaining a dual-track strategy: deep regional integration (NAFTA/USMCA) plus multilateral rule defense [13].

2.3. Mexico's challenges and opportunities within the WTO

Mexico, an upper-middle-income country that functionally resembles a low(er)-income member within NAFTA when benchmarked against the U.S. and Canada on technology, capital deepening, and institutional capacity, entered the WTO with an export-led, FDI-oriented development model primed by NAFTA [24]. While WTO membership secured additional market access certainty beyond NAFTA and integrated Mexico into broader value chains, structural constraints—weak domestic innovation systems, segmented labor markets, and low agricultural productivity—limited the diffusion of gains [22,25].

2.3.1. Manufacturing growth and FDI-Led integration

The WTO framework, combined with NAFTA's deep integration, accelerated Mexico's insertion into North American manufacturing chains, especially in autos, electronics, and machinery [24]. Tariff bindings and the liberalization of trade in intermediate goods lowered costs for maquiladora production, while stronger IPR enforcement under TRIPS reassured multinational investors [25]. Yet, the domestic value-added content of exports remained relatively modest, indicating that technology transfer and learning-by-exporting effects were weaker than expected [19,21]. Mexico's challenge has been to convert rule-based openness into capability accumulation, moving from assembly to design and R&D—an area where HICs have clearer advantages [10,18].

2.3.2. Negative shocks to agriculture and the labor market

Trade liberalization under NAFTA and WTO—with declining protection for key crops—intensified competition for smallholder farmers facing U.S. subsidized agriculture, leading to income pressures and internal migration [1,22]. Labor markets adjusted slowly, with a persistent informal sector that absorbed displaced workers without substantial productivity gains [1]. While some manufacturing employment expanded, the quality and stability of jobs, and the share of value added captured

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domestically, lagged behind the export boom [21]. Mexico's experience exemplifies how WTO-compatible openness can coexist with domestic distributional strains if complementary industrial, innovation, and social policies are weak [1].

3. Comparative analysis of LICs and HICs within NAFTA under the WTO framework

3.1. Differences in institutional participation and influence

HICs like the U.S. possess agenda-setting power through market size, legal capacity, and dense networks of transnational firms and epistemic communities, enabling them to shape negotiations and dispute jurisprudence [14,18]. Canada, while not a LIC, typifies the middle-power constraint—it meaningfully participates but seldom dictates outcomes [17,23]. Mexico, closer to a LIC profile in this trilateral comparison, faces capacity asymmetries: fewer resources to litigate at the WTO, less influence in norm creation, and a heavier reliance on regional dispute mechanisms or diplomatic bargaining [16]. This stratification reveals a hierarchy of rule-making influence that mirrors income, institutional depth, and state capacity.

3.2. Divergence in market-access gains

While all three NAFTA members enjoy more predictable market access under the WTO, the marginal value of WTO commitments differs. For the U.S., the gain is about locking in foreign liberalization and disciplining non-tariff barriers (NTBs) that target its competitive sectors [11]. For Canada, WTO rules diversify export destinations and ensure against volatility stemming from U.S. protectionism [15]. For Mexico, the WTO complements NAFTA by opening non-U.S./Canadian markets, but the bulk of its export earnings remains regionally concentrated, limiting the WTO's independent effect on diversification [24]. Thus, HICs reap broader, rule-enforcing gains, whereas LIC-like members obtain narrower, access-seeking benefits highly conditional on domestic upgrading capacity.

3.3. Technology transfer and industrial upgrading pathways

HICs already operate at or near the technological frontier; for them, the WTO's main role is to protect intellectual property rents and assure cross-border scale for services and high-tech industries [10,25]. By contrast, LICs or LIC-like members require active domestic policies—R&D subsidies, local supplier development, skills training—to convert openness into genuine upgrading [1,18]. Mexico's mixed record—rising exports but modest productivity catch-up—reflects a thin national innovation system and fragmented linkages between foreign MNCs and local SMEs [19,21]. Without policy space (and policy capability) to foster spillovers, WTO-compatible openness risks locking LICs into lower segments of global value chains [1,10].

3.4. Divergent capacities to litigate and adapt to rules

Dispute settlement data show a skew toward HIC participation and success, owing to higher legal budgets, better statistical monitoring of partners' policies, and repeat-player advantages [14,16,18]. The U.S. strategically uses antidumping and countervailing duties—still WTO-consistent—to manage domestic political pressures while remaining within multilateral constraints [12]. Canada uses dispute settlement defensively to contest U.S. remedies (e.g., softwood lumber), yet outcomes are often slow or partial [15]. Mexico, with fewer resources and narrower offensive interests, tends

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to rely more on negotiation and regional mechanisms or bring a smaller number of WTO cases. Overall, rule adaptation costs are lower for HICs that helped design those rules, while LIC-like members incur higher compliance and litigation costs, limiting their ability to fully internalize gains from the multilateral system [1].

4. Conclusion

This paper has compared the WTO-related gains of three NAFTA members, with a focus on how these gains differ between high-income and LIC-like members. The analysis shows that the United States and Canada benefit not only from increased market access but also from greater institutional influence and capacity in dispute settlement. These countries use the WTO system to reinforce their competitive advantages in high-tech sectors and global rule-making.

Mexico, while not a formal LIC, faces structural constraints similar to those of low-income countries. Though it has gained in terms of manufacturing growth and FDI, its domestic value-added, technology absorption, and labor outcomes remain limited. The study confirms that WTO membership alone is insufficient for LICs to fully benefit unless accompanied by domestic reforms, innovation capacity-building, and inclusive industrial policy.

Several limitations remain. This paper is focused only on NAFTA members and does not account for LICs outside the region or the evolving institutional environment under USMCA. Moreover, the paper is primarily qualitative; further empirical research with econometric modeling would be beneficial. Future research could also examine the role of digital trade rules, environmental clauses, and labor standards under WTO and regional frameworks, which are increasingly important for both HICs and LICs.

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