THE SENATE **LE SÉNAT**

MEXICO:
CANADA'S OTHER NAFTA PARTNER
(Volume 3)

Report of the Standing Senate Committee
on
Foreign Affairs

Chair
The Honourable Peter Stollery

Deputy Chair
The Honourable Consiglio Di Nino

March 2004

The first two volumes of this study by the Standing Senate Committee on Foreign Affairs

Uncertain Access: The Consequences of U.S. Security and Trade Actions for Canadian Trade Policy (Volume 1)

The Rising Dollar: Explanation and Economic Impacts (Volume 2)

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Staff from the Parliamentary Research Branch of the Library of Parliament:
Peter Berg, Analyst
Michael Holden, Analyst

François Michaud
Clerk of the Committee

ORDER OF REFERENCE

Extract from the *Journals of the Senate* of Tuesday, February 10, 2004:

The Honourable Senator Stollery moved, seconded by the Honourable Senator Maheu:

THAT the Standing Senate Committee on Foreign Affairs be authorized to examine and report on the Canada — United States of America trade relationship and on the Canada — Mexico trade relationship, with special attention to: (a) the Free Trade Agreement of 1988; (b) the North American Free Trade Agreement of 1992; (c) secure access for Canadian goods and services to the United States and to Mexico, and (d) the development of effective dispute settlement mechanisms, all in the context of Canada's economic links with the countries of the Americas and the Doha Round of World Trade Organisation trade negotiations;

THAT the papers and evidence received and taken during the Second Session of the Thirty-seventh Parliament be referred to the committee; and

THAT the Committee shall present its final report no later than June 30, 2004 and that the Committee shall retain all powers necessary to publicize the findings of the Committee as set forth in its final report until July 31, 2004.

After debate,

The question being put on the motion, it was adopted.

Paul Bélisle
Clerk of the Senate

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FOREWORD

While NAFTA has undoubtedly bestowed economic benefits on Mexico, it is the perfect cautionary tale about the difficulty with free trade agreements between developing countries and developed countries, especially as they relate to agriculture.

Simply put, in Mexico, an estimated 30 percent of the people work in agriculture. In Canada and the United States 2 percent of the people work in agriculture. In Mexico, where proper statistics are difficult to come by, we can estimate that 4 percent of the people work in commercial agriculture. The remaining 26 percent work in subsistence agriculture: they farm small plots where they feed the family and sell at local markets.

Somehow the owners of the commercial farms – a much smaller number of people than the 4 percent that work on commercial farms – persuaded the Mexican government to sign a free trade agreement on agriculture which would open Canadian and U.S. markets to Mexican agricultural exports. The agreement also opened the Mexican market to Canadian and especially U.S. agricultural exports, with this result wreaking havoc on the 26 percent of the Mexican workforce who farm at local and subsistence levels.

As someone who speaks Spanish, and has traveled extensively through what is called Latin America, I am familiar with the varied political and social situations in this region. On the Committee's recent visit to Mexico, I was told by Mexican Congressmen of all three main parties that many, many villages have no men in them and perfectly good land is left untended. They told me that disaster has overtaken many rural areas.

So where are the men?

The answer to this question may be found in the testimony the Committee heard as well as in what an observant visitor to Mexico City can see by walking its' streets. I noticed an enormous increase in the number of peddlers in Mexico City, where I have not been for more than ten years. In my view, the most extraordinary evidence that the Committee received, is that contrary to what the promoters of NAFTA promised – a reduction of illegal immigration to the United States – 500,000 poor Mexicans, often taking their lives in their hands, now make the illegal crossing into the United States every year. Every witness said that this was a huge increase from ten years ago. We were also told that these people do not stay in California or other traditional areas, but now move all over the country. Imagine: 500,000 undocumented people without any rights, every year, wandering around the U.S. looking for jobs.

To conclude, this report on Mexico makes up volume three of our Committee's comprehensive review of the Free Trade Agreement between Canada and the U.S.; the effect of the exchange rate on trade between Canada and the U.S.; and NAFTA. I certainly have learned a great deal which I didn't know and I was a member of the committee when it dealt with both the FTA and NAFTA. At that time there was no World Trade Organization. In my opinion, the arrangements to resolve trade disputes between Canada and the U.S. – agreed to in 1988, have failed. Take a look at softwood lumber or the Wheat Board. Also many of our witnesses observed that the increase in exports to the U.S. from 76 percent to 86 percent was largely the result of the exchange rate and the robust U.S. economy drawing in our exports. And 25 percent of our exports are automobiles and auto parts under the Auto Pact of 1965, which has nothing to do with the Canada – U.S. Free Trade Agreement.

That said, I am perplexed by people who say that we should get out of the Free Trade Agreement. Should we put the tariffs, which ended in 1998, back on? They were not high anyway. The fact is that the world has moved on. Any benefits stemming from the FTA have ended. It is clear to me that we should focus on the multilateral trade negotiations that are taking place under the authority of the World Trade Organization.

Subsistence farms are not going to be protected by regional free trade agreements: powerful agricultural interests will see to that. But there is a chance at the multilateral level, and Mexico sends a clear signal. There must be enforceable rules for commercial agriculture so that shiploads of highly subsidized U.S. corn are not sold to Mexico, depriving outraged Mexicans of their traditional livelihood. At the same time, ways must be found to protect the hundreds of millions of poor farmers. After all, in Canada we protect the dairy and chicken farmers. It's a challenge. Trade experts say that the current Doha Round, which deals with agriculture, may take ten years. But it must be done.

On behalf of the members of the Foreign Affairs Committee, I would like to express my appreciation to the Clerk of the Committee, François Michaud; Peter Berg and Michael Holden from the Research Branch of the Library of Parliament; as well as all the reporters, interpreters, translators, editors and other support staff for their important work on this study. I would also like to thank the staff of the Canadian Embassy in Mexico City, in particular Ambassador Gaëtan Lavertu, Heidi Kutz, Christophe Leroy, Adriana Caudillo and all those who helped make our trip and our study a success.

Peter Stollery
Chair

RECOMMENDATIONS

Recommendation 1:

That, so as to diversify its own external trade, the Government of Canada closely examine the success that Mexico has had in negotiating free trade agreements outside of NAFTA and use the Mexican experience to develop a comprehensive Canadian network of free trade arrangements.

Recommendation 2*:*

That the Government of Canada increase its efforts to significantly advance all aspects of the bilateral relationship between Canada and Mexico, including educational exchanges, culture and sports. Consideration should be given to:

- Enhancing the knowledge and understanding about Mexico in Canada, and Canada in Mexico; and

- Promoting improved ties between Canadian and Mexican business, public sector agencies and non-governmental organizations.

Recommendation 3:

That, recognizing the increased significance of the Canada-Mexico economic relationship, an official Canada-Mexico Parliamentary Association be established with full funding.

Recommendation 4:

That, recognizing the benefits that could arise from the structural reforms under consideration in Mexico, the Government of Canada offer to engage with its Mexican counterpart in an exchange of information and best practices towards the implementation of these reforms.

Recommendation 5:

That senior Government of Canada officials enter into discussions with their Mexican counterparts to explore the potential for common approaches to dealing cooperatively with the North American economic and trade-related security issues that this report has identified. Should common ground be found, practical joint proposals could then be made to the relevant United States authorities.

Recommendation 6:

That to more effectively present issues, concerns and proposals (including those referred to in Recommendation 4 above) to key U.S. decision-makers, the Government of Canada immediately implement Recommendation 10 of this Committee's June 2003 report on the Canada-U.S. trade relationship (*Uncertain Access: The Consequences Of U.S. Security And Trade Actions For Canadian Trade Policy)*, which called for a Parliamentary Office to be established in Washington, D.C. to aid Canadian Parliamentarians in their interaction with U.S. legislators and officials.

MEXICO: CANADA'S OTHER NAFTA PARTNER

INTRODUCTION

The North American Free Trade Agreement (NAFTA) is often seen as two bilateral relationships centred by the United States. It is easy to understand why: trade between Canada and the U.S. – valued at $531 billion in 2003 – accounts for 60.6% of all intra-NAFTA trade, while Mexico-U.S. trade was worth 37.7% ($330 billion) of total trade within the NAFTA region.

By comparison, Canada-Mexico is the often forgotten relationship within NAFTA. Sixty years have passed since Canada and Mexico first established diplomatic relations, yet only 1.6% of intra-NAFTA trade – about $14.4 billion in 2003 – takes place between those two countries.

Despite the above data, Mexico is deemed to be important for Canada. For one thing, Mexico is a useful country for assessing the successes and failures of NAFTA, the first agreement of its kind that combines developed and developing nations. Owing to its relatively high tariffs prior to NAFTA, Mexico has been by far the most affected by the trade agreement.

Much of this report, based on the Committee's hearings in Ottawa and Mexico City, is devoted to assessing the impacts of NAFTA on Mexico ten years after the trade agreement's launch. The report identifies the benefits of the agreement for that country and discusses important NAFTA-related concerns that have been raised during the Committee's deliberations. The testimony revealed that not all of Mexico's economic performance since NAFTA's implementation, both positive and negative, can be attributed entirely to that trade treaty.

Mexico is also important because economic relations between Canada and Mexico have grown significantly since NAFTA came into being in January 1994. As the Committee heard in Mexico, NAFTA had the desired psychological effect of putting each country on the other's map.[1] Bilateral trade has increased by 156% while Canadian investment in Mexico has tripled since 1994.

The rise in bilateral trade and investment since NAFTA's beginning has been of such magnitude that Mexico is now one of only eleven countries deemed by the Government of Canada to be of priority status for international business development. The other ten include the members of the G-8 (other than Canada),[(2)] China, India, and Brazil. Mexico is considered to be a highly strategic country for Canada in its pursuit of trade opportunities throughout the world. The report presents a snapshot of the Canada-Mexico trade and investment relationship and discusses the challenges that this relationship faces.

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1 For example, the Committee was told that Canada now hosts upward of 11,000 Mexican students annually at Canadian colleges and universities.

2 Countries in the G-8 include the United States, the United Kingdom, Germany, France, Italy, Japan, Russia, and Canada.

The final point to note regarding Mexico's significance is that, as several of the Committee's witnesses observed, Mexico represents a useful "counterweight" to the U.S. Canada and Mexico share similar concerns about sovereignty and many of their foreign policy perspectives also match up well. In essence, witnesses said, a strong and dynamic relationship with Mexico would enable the two countries to coordinate approaches to North American issues before entering into discussions with their U.S. counterparts. This would allow the two countries to advance common North American strategies more effectively. The final chapter of this report assesses future prospects for closer cooperative efforts on North American economic issues, especially from a Mexican vantage point.

MEXICO TEN YEARS AFTER NAFTA

Since the mid-1980s, Mexico has made a dramatic transition from a relatively closed market to one of the world's most open economies. That country's 1986 entry into the General Agreement on Tariffs and Trade (GATT) signalled a change in Mexican economic strategy, in that foreign trade became a key element in the quest for durable economic growth. Embracing international free trade agreements was viewed as a way to promote industrial competitiveness and job creation, thereby complementing domestic measures to deregulate commercial activity and encourage investment.

When NAFTA was implemented in 1994, it effectively locked Mexico in to pursuing a policy of economic liberalization. Indeed, on its fact-finding mission to Mexico, the Committee heard that NAFTA was a key part of a comprehensive economic and political reform package in Mexico that included significant structural and institutional reforms. Areas where progress has been more difficult to obtain include energy, tax, labour-market, and judicial reforms.

Even ten years ago, few would have predicted that Mexico would become one of the top trading nations in the world and the first in Latin America. That result can be largely attributed to NAFTA. The U.S. and Canada account for the vast majority of Mexico's trade growth since the early 1990s. As Carlos Piñera (Chief Representative, NAFTA Office of Mexico in Canada) informed the Committee, NAFTA represented the most comprehensive free trade agreement in the world at the time of its introduction.[(3)] For example, the agreement was the first of its kind to cover investment, services, government procurement and intellectual property rights.

Mr. Piñera noted that NAFTA has been the "cornerstone" of Mexico's trade liberalization process ever since. It has stimulated growth in trade and, through its attraction of foreign direct investment (FDI) into North America, has made the region's economies more competitive and promoted regional strengths in key economic sectors such as automotive, electronics and textiles.

A. The Benefits of Free Trade

1. Mexico's Trade With its NAFTA Partners has Grown

At the most basic level, the goal of trade liberalization agreements is to increase the level of trade and economic interaction between signatory countries. As Andrea Lyon (Director General, Department of Foreign Affairs and International Trade) stated, from this perspective NAFTA has been an unqualified success for Mexico. The Committee heard that Mexico's imports and exports have both risen by approximately 300% from 1990-2003. Primarily because of the increase in its trade with Canada and the U.S., but also because of its trading arrangements with thirty other countries around the world, Mexico has become the largest trading nation in Latin America as well as the eighth-largest exporter and the seventh-largest importer in the world.

Although not all witnesses were willing to give NAFTA sole credit for this growth, no one suggested that NAFTA did not play a significant role. Even if Mexico's trade with North America had been growing strongly even prior to NAFTA's ratification, it accelerated after 1994. Canadian and U.S.

3 It should be noted that free trade agreements come in all shapes and sizes. It is really up to the negotiating countries themselves to determine how comprehensive they want them to be.

import data show that, in Canadian-dollar terms, Mexico's exports into the NAFTA market have more than quadrupled since the agreement was implemented, rising from $55.2 billion in 1993 to $205.7 billion in 2003. As a result, Mexico has become increasingly linked with the North American economy.

2. Foreign Direct Investment in Mexico has Soared

There is no question that NAFTA has led to a surge in much-needed foreign direct investment in Mexico. Not only did the novel incorporation of a comprehensive investment chapter in a trade agreement succeed in removing barriers to investment, but NAFTA also sent a positive signal about Mexico's investment prospects to other countries around the world. As Marvin Hough (Regional Vice-President – Latin America, Export Development Canada) stated, Mexico is now considered to be an investment-grade country, thanks in no small part to the economic stability and implicit vote of confidence that NAFTA has given the Mexican economy.

Mexico is now the third largest recipient of foreign direct investment among emerging economies. While investment had been rising even in the late 1980s and into the early 1990s, it accelerated following NAFTA's implementation. In terms of concrete numbers, FDI in Mexico totalled US$40.6 billion in 1993. By 2002, the FDI stock had risen by 279%, reaching US$154.0 billion.(4) The average annual inflow of capital since 1994 was nearly $14 billion U.S. per year, more than three times the annual amount received in the seven years preceding implementation of the regional trade accord.

While Canada and the United States account for the majority of FDI in Mexico, the rapid growth in investment is not due solely to increased flows from those countries. As fast as investment from its NAFTA partners has grown, investment in Mexico from outside North America has expanded even more quickly. In particular, Mexico has witnessed rapid growth in FDI inflows from the European Union (EU). Preliminary estimates from 2003 indicate that the EU accounted for 37.3% of investment in Mexico that year, up from 17.8% in 2002.

Moreover, the Committee heard that not only has the volume of capital inflows increased, the quality of those investments has also improved. Carlos Piñera remarked that foreign investment in Mexico has facilitated the transfer of knowledge and technology on a large scale, enabling firms to modernize their production processes and upgrade their workers' skills. Witnesses in Mexico agreed, stating that foreign investors introduced machinery and equipment, provided training to workers and applied international standards to the manufacturing sector in that country. FDI also helped open Mexico's commercial/financial sector.

3. NAFTA has Contributed to Overall Mexican Economic Performance

NAFTA can be considered a success for Mexico inasmuch as it has contributed to trade and investment growth in that country. However, as the Committee heard, the exchange of goods, services and investment is not the ultimate goal of trade liberalization agreements. Sandra Polaski (Senior Associate and Project Director, Trade Equity and Development Project, Carnegie Endowment for International Peace) observed that "… increase[s] in trade and investment are not ends in themselves, only means to allow the trade partners to become more efficient and thus to grow faster and become more wealthy."

4 United Nations statistics.

In other words, it is not the increase in trade and investment that makes agreements like NAFTA valuable, but the resulting economic benefits. Ms. Polaski pointed out that to assess the impact of NAFTA on Mexico, one needs to look beyond mere trade and investment figures and focus instead on what real outcomes trade and investment growth have had on the Mexican economy. Specifically, what has happened to productivity, employment, incomes, poverty and economic growth in Mexico since 1994?

Many witnesses felt that NAFTA had, for the most part, a positive experience on the Mexican economy. For example, Andrea Lyon stated, "Generally speaking, the economic activity and production has increased in Mexico, contributing to the creation of more and better paying jobs." This view was particularly common amongst government officials, from both Canada and Mexico. For example, Her Excellency Maria Teresa Garcia Segovia de Madero (Mexico's Ambassador to Canada) stated that NAFTA has served as an engine of growth for the Mexican economy. Marc Lortie (Assistant Deputy Minister, Americas, Department of Foreign Affairs and International Trade), a witness who appeared before the Committee on two separate occasions, called the Committee's attention to the position of the Mexican government: "[President Fox's] government is saying that if they have grown in the last few years it is because of NAFTA. If they have prospered,…[it] was because they opened up the economy. That important sentiment emerged from the country that took a big risk 10 years ago."

Other witnesses, particularly those we met in Mexico, were less effusive about the overall benefits of NAFTA. Many believed that the results of the agreement ten years later were mixed at best. Even so, all thought that NAFTA had had some positive effects on Mexico, although there was some question about whether or not these benefits exceeded the costs.

In particular, it was widely agreed that Mexico's manufacturing sector was the clear winner. Thanks in large part to the surge in FDI into Mexico, the manufacturing sector has been modernized, and output and employment have both increased. A study by the Carnegie Endowment (*NAFTA's Promise and Reality: Lessons from Mexico for the Hemisphere*) suggests that NAFTA tariff cuts likely accounted for about 250,000 new manufacturing jobs. Her Excellency Maria Teresa Garcia Segovia de Madero also highlighted job gains in manufacturing, stating that that sector's export component had become the leading source of employment in Mexico, creating over half of all manufacturing jobs between 1994 and 2002.(5)

Furthermore, the importance of manufacturing exports has increased while reliance on exports of oil and other raw materials has fallen dramatically. In the 1980s, roughly 70% of exports were minerals and oils, while manufactured goods accounted for less than 25% of the total export figure. By 2002, 89% of Mexican exports consisted of manufactured goods, and only 8% were minerals and oils. The Committee heard that this move away from energy exports, aided undoubtedly by the ageing of Mexican energy supply equipment, has helped shelter the Mexican economy from the effects of fluctuations in world energy prices.

Second, NAFTA has contributed to considerable productivity gains in Mexico. In Mexico, the Committee heard that productivity in the manufacturing sector has risen by 60% since 1993 as NAFTA helped spur Mexico to correct inefficiencies in production. Donald MacKay (Executive Director, Canadian Foundation for the Americas) informed Committee members that the Ford motor company plant in Mexico was found to be the most efficient automotive assembly operation anywhere in the world. He was of the view that this achievement spoke to the productivity gains that have been

5 It should be noted here that since 2000, considerable manufacturing activity in Mexico's maquiladoras (i.e., mostly foreign-owned assembly plants) has either been terminated entirely or has migrated to Central America and, most importantly, China. Estimates of the associated job losses range from 200,000 to 300,000.

accumulated in Mexico to date. In addition, William Maloney (Lead Economist, World Bank, Office of the Chief Economist of the Latin American and Caribbean Region) referred to productivity gains in the agriculture sector where, despite falling employment, output and exports continue to rise.

Productivity is key to improving the long-run competitiveness of the Mexican economy, and enhancing wages and the country's standard of living. The more productive Mexican workers are, the more valuable they become. As Ms. Polaski explained to the Committee, productivity growth "could allow Mexican workers to be more competitive in the global economy, and…over the long run can translate into wage growth and lift incomes and relieve poverty." Indeed, witnesses in Mexico testified that NAFTA has contributed to the creation of relatively well-paying jobs in that country. The Committee heard that wages in export-related employment in Mexico are almost 40% greater than those in other sectors of the economy.

Third, NAFTA has locked Mexico economically into North America. As in the case of Canada, our southernmost NAFTA partner has increasingly become reliant on the U.S. market as a destination for its exports. In 2002, over 89% of Mexico's exports were destined for the U.S. market, an increase from 83.1% in 1993.

The attainment of closer economic ties to the U.S. has brought important benefits to Mexico. In particular, a number of witnesses were of the opinion that NAFTA had cushioned the impact of the 1994-1995 Mexican peso devaluation crisis, commonly referred to as the Tequila Crisis.[6] As several witnesses suggested, had NAFTA not existed at the time, the impacts of the currency crisis on Mexico would have been considerably worse.

At the same time, closer economic links to the U.S. imply that the Mexican economy will be more in synch with the rest of North America. Indeed, NAFTA has helped Mexico converge to the U.S. and Canada in terms of macroeconomic stability. We heard in Mexico that inflation and interest rates are relatively low, fiscal balances have improved, foreign reserves are high and the peso has remained stable since it recovered from the crisis. These were all attributed, at least in part, to closer economic ties with the rest of North America.

The disadvantage of closer economic ties is that when the U.S. economy stumbles, it is nearly impossible for Mexico to avoid a similar slowdown. The Committee heard that Mexico was only now beginning to emerge from a 3-year long recession that was caused by the stagnation of the U.S. economy over the same period. This dependence on the American market has raised concerns that Mexico needs to diversify its exports and was a motivating factor behind Mexico's decision to pursue a free trade agreement with the EU.

Although one of the longest on record, witnesses in Mexico pointed out that the recession was unique by Mexican standards; it was a recession with stability. No economic or political crisis precipitated the downturn and investors did not lose confidence in the Mexican economy. In other words, the recession was more like that of a developed country. Furthermore, because of closer economic ties, the economic recovery currently underway in the U.S. will increase demand for imports and help jump-start the Mexican economy as well.

A final point to consider is that although NAFTA is a trade agreement, some witnesses felt that its benefits extended well beyond the economic realm. Marc Lortie, for example, stated that NAFTA should be seen as a political instrument as well as a trade one. He was of the view that NAFTA, on top

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6 Historically, Mexico has experienced its share of currency crises. The previous three had occurred in 1976, 1982 and 1985.

of providing Mexico with a new strategic partner in Canada, strengthened Mexico's political transformation. Mr. Lortie pointed to a number of positive developments in Mexico that could be attributed, at least in part, to the influence of NAFTA:

> "In Mexico, we are witnessing the results of a democratic reform opening up and transforming political institutions… NAFTA was an incentive for them to carry on with their transformation… What NAFTA has done on the political side is to promote a greater transformation for a transparent business climate in Mexico. They opened up their economy; they are changing the political way of doing things, and they are moving at a very impressive pace."

This view that NAFTA transcends economic relations was also shared by some witnesses in Mexico. Several argued that NAFTA was much more than just a trade agreement for Mexico in that it has helped Mexico fight corruption, has spurred domestic economic reforms and has cemented the transition to democracy.

However, not all agreed with this viewpoint. In Mexico, we heard from one witness who believed that NAFTA helped perpetuate the regime of the Institutional Revolutionary Party (PRI). This witness argued that Mexico might have had its first free election in 1994, but because Canada and the U.S. bowed to Mexican pressure not to include democracy and human rights in NAFTA, the regime was allowed to stand for six more years.

We also heard in Mexico that NAFTA has played a significant role in the evolution of Mexico's foreign policy. Although NAFTA itself was the result of a decision in Mexico to move to greater openness and transparency, some witnesses felt that the agreement has changed the way Mexico relates to the U.S. and Canada. Specifically, we heard that Mexico now has a much more active presence in Washington and that NAFTA helped create order in North America by institutionalizing inter-governmental affairs such as co-operation on issues like migration, drugs, and border security.

4. Not all of Mexico's Economic Performance Since 1994 can be Attributed to NAFTA

Witnesses in our hearings, both in Canada and in Mexico, were widely agreed that the increased trade and investment flows sparked by NAFTA have had a positive effect on the Mexican economy. However, many also cautioned that it would be misleading to attribute all growth in Mexico since 1994 to the effects of NAFTA. One cannot link all of the increase in trade and investment in Mexico to NAFTA, nor can Mexico's broader socio-economic performance since 1993 be exclusively pinned on the agreement. Indeed, as mentioned above, from Mexico's perspective NAFTA represented only one part – albeit a significant one – of a broader series of economic and political reforms. As one witness in Mexico stated, it is difficult to separate out the effect of NAFTA from the underlying economic reforms of which it was a part.

NAFTA has undoubtedly played an important role in Mexico's trade and investment growth since the early 1990s: witnesses were unanimous on that point. At the same time, however, the Committee was cautioned that it would be misleading to suggest that NAFTA *alone* was responsible for the increase. Luis Servén (Lead Specialist, Regional Studies, World Bank, office of the Chief Economist of the Latin America and Caribbean Region) pointed to a number of other factors that have influenced Mexico's trade and investment record over the past decade. These include:

- the rapid growth in the U.S. economy in the late 1990s, fuelling that country's demand for imported goods;
- the overall growth in foreign investment to Mexico and many other emerging market economies experienced in the previous decade;
- the depreciation in the Mexican peso following the Tequila Crisis in 1994-1995; and
- the lagged effect of Mexico's unilateral economic reforms of the 1980s.

Mr. Servén directed the Committee to a recent study he co-authored at the World Bank, which attempted to account for the effects of each of these factors in order to pinpoint the amount of the increase in trade that could be directly attributed to NAFTA. The conclusion was that NAFTA accounted for 25-30% of Mexico's increase in exports since 1993. According to the same study, had NAFTA not been in place FDI into Mexico would be about 40% below present levels and there would have been a moderate decline in Mexican per capita income from $5,920 to $5,624 (U.S. dollars).

The Committee also heard that Mexico's record in attracting FDI is not as impressive as it initially seems, when compared to the performance of other Latin American countries. Despite the advantages of preferential access to the North American market, FDI inflows into Mexico since 1993, when measured as a percentage of Gross Domestic Product (GDP), were essentially no different from inflows into South America, Central America or the Caribbean. The reality is that while investment in Mexico did rise faster than elsewhere in Latin America (on average) in the first few years following NAFTA's launch, investment growth in Mexico has slowed since then, while accelerating elsewhere in the region.

Unquestionably, NAFTA has contributed to the increase in FDI into Mexico by reducing barriers to investment and raising investor confidence in that country. However, for Mexico not to outperform its neighbours suggests that NAFTA cannot be exclusively credited for the increase in FDI into Mexico since 1993. Some witnesses felt that Mexico's failure to accompany NAFTA with the necessary legal and policy reforms have prevented FDI growth into Mexico from growing more quickly. Marvin Hough, for example, observed "if you talk to international investors… they will say there are two significant challenges yet in Mexico that differentiate it from other developed countries as an investment location. One of those is the legal system, and the other is labour relations."

In the same way as one cannot link all of the increase in trade and investment in Mexico to NAFTA, neither can Mexico's broader socio-economic performance since 1993 be exclusively pinned on the agreement. As Mr. Servén stated, "… we cannot attribute everything that happened after NAFTA to the treaty itself. We have to disentangle the other factors from the treaty." He explained to Committee members that NAFTA made a modest contribution toward helping to close the standard of living gap between Mexico and its northern free-trade partners: "However, if we were to take the longer perspective, Mexico has suffered major set backs in terms of its standard of living at the time of the debt crisis of the early 1980s, the tequila crisis of early 1990s. Compared with that, the effect of the treaty has been modest. We estimate that had the treaty not been present, per capita income in Mexico today would be about 4% to 5% lower than it is. There is a contribution but it is not so great." Andrea Lyon agreed with this assessment, noting that "It is very difficult to isolate impacts of the North American Free Trade Agreement on the economy and divorce it from various other effects that may be happening at the same time, particularly given the peso crisis that occurred as the agreement was being implemented."

Indeed, the 1994-1995 Mexican peso crisis is perhaps the single most complicating factor in assessing the effect of NAFTA on the Mexican economy. Owing to a combination of factors, investors lost confidence in Mexican financial markets and began to flee the currency. Within ten days of the Bank of Mexico abandoning the peso-U.S. dollar peg, the peso had already depreciated by a staggering 55%. This serious monetary crisis plunged the Mexican economy into recession, caused the cost of imported goods to rise rapidly, raised inflation and resulted in a plummeting of real wages in Mexico.

B. Criticisms of NAFTA and Mexico's Outstanding Challenges

Although the Committee heard solid evidence that certain elements of the Mexican economy have benefited as a result of NAFTA, a large number of witnesses, particularly in Mexico, felt that the overall effect of NAFTA on that country was mixed at best. While certain industries, workers and regions have prospered, others have seen their economic prospects decline. Views varied on whether or not NAFTA bore any responsibility for worsening, or at the very least failing to remedy, these conditions.

Some witnesses felt that NAFTA had failed to deliver on its promises. Others believed that the benefits of NAFTA had not been effectively distributed and, in the words of Laura Macdonald (Associate Professor, Carleton University), "have tended to exacerbate already existing class, regional, ethnic, gender and other disparities within the country."

As the Committee heard in Mexico, patience with the agreement – at the popular level – is wearing thin. People do not agree on the facts of NAFTA and whether or not it is to blame for certain economic conditions is a moot point. There is a growing backlash against the perceived neo-liberal economic agenda responsible for globalization and trade liberalization. We were presented in Mexico with recent survey data which shows that a full 60% of those canvassed felt that they would "not at all" or "not really" benefit from NAFTA.(7) While the central government does not agree with this public opinion, President Fox does acknowledge that the agreement has caused some pain in the transition to a liberalized trading regime and that not all sectors have benefited from free trade.

This section examines some of the concerns witnesses raised about where they felt NAFTA had either failed to deliver on its promises, or had negatively impacted on the Mexican economy.

1. Economic Growth has Decreased

The Committee heard that despite the increase in trade and investment in Mexico, there has not been any noticeable improvement in economic growth in that country. Sandra Polaski observed that from 1994 to 2003, GDP growth in Mexico was nearly identical to the ten-year period immediately preceding NAFTA. Witnesses from the World Bank came to a similar conclusion.

This view was corroborated in Mexico. In the words of one witness, Mexico's recent economic performance since 1994 has been "terribly disappointing." We heard that not only was there no acceleration in growth post-NAFTA compared to the period prior to implementation, but GDP growth was in fact significantly slower than historic rates. Economic growth since NAFTA was implemented

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7 At the same time, surveys also suggest that many in Mexico continue to view NAFTA as beneficial. A witness stated that a very recent survey showed that 70% of those polled felt that Mexico had benefited at least "a little" from NAFTA.

was only one-third the average rate of growth from 1946-1970. Furthermore, we heard that the advantages of NAFTA did not help Mexico grow faster than some other Latin American countries. For example, Mexico's GDP growth rate in the past ten years is half the rate of growth in Chile over the same period.

Most witnesses did not blame NAFTA directly for the slow economic growth in Mexico since 1994. They acknowledged that the recession caused by the peso crisis in 1994-1995 played a major role. As well, most also pointed to the slowdown in the U.S. economy over the past three years as the primary reason for Mexico's recent economic stagnation. Some witnesses, however, felt that NAFTA failed to overcome those obstacles and deliver strong growth.

2. Concerns Regarding Employment, Wages and Poverty

The report has already discussed the gains in employment and productivity that have occurred in the Mexican manufacturing sector, the sector that has been most positively affected by NAFTA. However, some critics maintain that the *overall* effect of the trade agreement on employment, wages and poverty reduction in Mexico has not been as positive.

Sandra Polaski, for one, expressed surprise that the trade liberalization under NAFTA, together with the increase in foreign investment that was experienced in Mexico, did not lead to sizeable job growth in that country. Instead, such growth was "surprisingly weak and certainly disappointing in light of Mexico's needs to create employment for its growing population." The above-mentioned Carnegie report that she co-authored concluded that the surge in Mexican manufacturing employment experienced after NAFTA's launch had been more than offset by a large-scale (i.e., 1.3 million) loss of jobs in the agricultural sector.

Not all agreed with this view, however. A study by the World Bank found no evidence that free trade had caused a decline in employment or in job quality. Some witnesses in Mexico also maintained that, on the whole, employment in Mexico has benefited from NAFTA. To some extent, the difficulty in assessing the results lies in the fact that most statistics in Mexico do not cover activities in the informal economy.

As for wages, the Committee heard that Mexico's strong productivity growth since the early 1990s has not yet translated into wage gains. In fact, both the World Bank and Carnegie Endowment reports show that real wages in manufacturing in Mexico are below pre-NAFTA levels. As mentioned above, however, the Committee did hear evidence that wages in export-dependent industries in Mexico were 40% higher than the average wage. We found it difficult to reconcile how, if exporting firms had created half of all manufacturing jobs in Mexico, and wages in those areas were 40% above average, how overall manufacturing wages could be below 1994 levels. Again, this may be an issue of the use of different or incomplete statistical series.

Regardless, the general lack of wage growth and loss of rural employment has meant that poverty rates in Mexico remain high and consumer demand had not increased appreciably. The Committee heard that not only did Mexico not realize the economic benefits that it hoped from NAFTA, the lack of significant growth in Mexican consumer demand had restrained Canadian and U.S. exports into Mexico and had made the Mexican economy even that much more dependent on the large U.S. market.

The poverty situation in Mexico is particularly worrisome. Laura Macdonald pointed out to the Committee that over half the population is below the poverty line and that the situation has actually deteriorated since NAFTA's implementation. According to her, Mexicans' expectations in the areas of employment and higher wages have not been met. Ms. Polaski pointed to a high and rising incidence of income inequality in Mexico, arguing that this development was "a cause for concern because it undermines social stability and political cohesion, and because highly unequal economies have been shown to reduce poverty less effectively than more equal societies."

3. Regional Disparities Continue to Exist

The Committee was informed that regional development continues to be a serious issue within Mexico. Laura Macdonald told Committee members that GDP in the south-southeast of the country stood at a mere 40% of the national average. Moreover, a key initiative of the Fox Administration to address the regional development challenge, the Plan Puebla Panama, has not been accorded adequate financing.

On the effects of NAFTA on regional disparities, World Bank analysis reveals that the benefits from the trade treaty were not evenly distributed within Mexico. Luis Servén, commenting on his employer's analysis, indicated that "the southern border states of Mexico benefited very little from the passage of NAFTA, whereas the northern states actually experienced an increase in the rate of growth of the per capita income. In the southern states, basically nothing happened. The NAFTA train passed them by." However, he also maintained that the gap in regional development had been widening well before NAFTA. There continues to be a need to expand the benefits of free trade to all regions of the country.

Mr. Servén identified a number of factors explaining why some of the southern Mexican states managed to benefit less from NAFTA than others have. These included low education levels, poor endowments of infrastructure, weak institutions, and political instability.

The Committee also heard a great deal on the issue of regional disparities while in Mexico. One witness stated that addressing these disparities did not require a large cash infusion, but only political will. For example, limits on FDI in Mexico's energy sector affect the development of the southern states, which is the source of the country's rich energy deposits. Infrastructure improvements are also needed in the south, as is the availability of financing. We heard that since 1994, Mexican banks have been reluctant to lend, particularly in poor areas.

In all cases, however, witnesses agreed that the presence, or even the exacerbation, of regional disparities was not the result of NAFTA, but rather that Mexico had failed to distribute the benefits of the agreement. For example, we heard that 90% of all FDI into Mexico goes to four states – none of which are in the south.

4. Agriculture has been Deeply Affected

The impact of NAFTA on agriculture was easily the most contentious issue the Committee encountered over the course of its hearings. While some witnesses pointed to some positive developments in the agriculture sector, NAFTA is widely blamed by the public for the agriculture problems in Mexico. There is strong opposition from agricultural unions, farmers and opposition parties to large-scale farm imports. Corn imports from the U.S. mid-west are, as a recent analysis of NAFTA put it, "the most hated aspect of NAFTA for Mexicans."[8]

Broadly speaking, at issue is the fact that Mexican farmers, particularly those involved in grain production, are unable to compete, in the absence of tariff protection, with U.S. goods. As a result, Mexico's trade deficit with the U.S. in agricultural products has soared, and unprecedented numbers of Mexicans are no longer able to make a living on the farm. This stands in sharp contrast to the promised benefits of NAFTA. Mexicans were told that developing countries have a comparative advantage in agriculture because of the abundance of labour. Specifically, NAFTA was sold as a boon to Mexican farmers who would gain access to U.S. markets for their products.

Regrettably, as tariffs on imported agricultural goods came down, Mexico was forced to compete with U.S. farmers who were not only considerably more efficient, but heavily subsidized as well. As Sandra Polaski stated, "U.S. agricultural exports often benefit from significant U.S. government subsidies. In addition to any efficiency advantages that U.S. crops have, they may also be sold in Mexico below their cost of production in many cases. This has been an important factor with corn, which has pushed down prices in Mexico. In some crops, production has declined significantly, which we can relate to the falloff in employment. That would be true in wheat and in soybeans. Maize production has not fallen off, but that is primarily because maize production has been maintained for so-called auto-consumption or for household consumption by poor households. However, because of the fall in prices, rural incomes fell broadly, and many households have been forced to send members to work in non-farm occupations."

The Committee is deeply concerned that these U.S. subsidies are exerting a devastating impact on poor Mexican peasants. Her Excellency Maria Teresa Garcia Segovia de Madero was right to point out that the Mexican treasury "cannot compete with the U.S. on these subsidies but Mexico is attempting to help raise the efficiency of its farms and aid its farmers adjust to the new situation."

As a result, employment in agriculture in Mexico has fallen dramatically. According to Ms. Polaski, a full 1.3 million jobs were lost in the agriculture sector over the 1993-2002 period. "Mexican agriculture has been a net loser in trade with the U.S., and employment in the sector has sharply declined. It is not possible to say how much of that decline was directly attributable to NAFTA, but NAFTA involved very significant tariff reductions on agricultural products by Mexico, and so the pact was clearly one important factor, among others, that accounts for the job losses."

However, not all witnesses felt that this was an accurate assessment of the job losses in agriculture. While in Mexico, we heard that agriculture is frequently confused with rural development. Some rural areas have little agricultural potential, but because the people living there are so poor, they have little else in the way of economic opportunities. As such, most subsistence farmers might not be accurately described as agriculture producers. Even so, it is these farmers that have been deeply affected by the trade liberalization that Mexico has agreed to.

Given the inability of many farmers in Mexico to earn a living off the land, it is hardly surprising that the Fox Administration has encountered resistance and opposition to NAFTA, particularly from agricultural producers. According to Andrea Lyon, however, the administration "has nonetheless remained committed to the full implementation of the North American Free Trade Agreement and has committed to honour all of its NAFTA obligations."

8 "Free trade on trial," *The Economist*, 3 January 2004, p. 15.

To help make agricultural production more productive and competitive, the administration agreed to a "National Agreement on the Countryside" with farm leaders in April 2003. This accord committed the Mexican government to attempt to protect its bean and corn production, tariffs on which expire in 2008. More specifically, it committed the government to begin NAFTA consultations on the construction of side accords designed to create a new permanent mechanism to govern import rules for dried beans and white corn; to impose interim additional quotas and tariffs on white corn and dry beans; to initiate trade remedy investigations on imports of dry beans; and to establish new programs that would boost domestic production.

The Committee also heard that from a production standpoint the industry had benefited considerably from NAFTA. Specifically, William Maloney showed that although Mexico's imports of agricultural products from the U.S. (and Canada) are higher, domestic agricultural production in Mexico has also increased dramatically since NAFTA came into effect. Similarly, Mexican exports of agricultural goods have gone up, with horticultural activity in Mexico particularly strong. Production and export of fruits, vegetables and flowers have increased significantly, as has employment on commercial farms in that sector.

Mr. Maloney also observed that rain-fed agricultural production in Mexico is increasing, while output on irrigated lands is falling. This could be seen as evidence of a move towards a more efficient allocation of resources in the agriculture sector as the output shifts towards land better suited for crop production.

5. Migration Flows Remain a Problem

A final concern worth mentioning is the incidence of migration out of Mexico and into particularly the United States. Laura Macdonald informed the Committee that hundreds of thousands of poor Mexican peasants were attempting to gain entry into the U.S., largely owing to their inability to support themselves financially in the traditional agricultural manner.

Again, this stands in contrast to the expectations of NAFTA. The trade agreement was sold as the solution to the problem of illegal migration to the U.S. As the Mexican economy grew, it was argued that more jobs and opportunities would be created domestically, reducing the need for Mexicans to enter the U.S. looking for work.

Instead of decreasing, however, the number of illegal migrants from Mexico to the U.S. has accelerated sharply. Even despite the economic slowdown in the U.S. and the additional border security imposed after September 11th, migration to the U.S. increased by about 250% from 1996 to 2003. In Mexico, the Committee heard that some 500,000 individuals leave the country each year. Some witnesses felt that this was evidence of the fact that NAFTA was not providing Mexico with the strong economic growth it so badly needs.

Although the sharp rise in migration to the U.S. is undoubtedly an excellent example of an area where NAFTA did not deliver on the benefits that were promised, the Committee heard alternate explanations for why migration rates might be increasing. One explanation is that although U.S. employment growth has been stagnant recently, demand for inexpensive Mexican labour remains strong. As well, the combination of displaced subsistence farmers looking for alternate employment, Mexico's very young population[9] and a lack of robust employment growth in recent years, has created

9 About 54% of Mexicans are under the age of 25.

a major labour surplus in Mexico. This is likely an important factor behind the rise in migration, although it does not speak to the fact that NAFTA was sold as a solution to the migration problem.

The news is not all bad, however, for the remittances that Mexican workers in the U.S. send back to their relatives is an important factor in sustaining the Mexican economy. In fact, remittances from abroad are Mexico's second-largest source of revenues, behind only the energy sector. Remittances serve as an especially important injection of funds into the southern Mexico region. According to Marc Lortie, there are some 22 million Mexicans residing in the U.S., of which 5 million are considered illegal migrants. All told, these individuals remit an impressive $11 billion per year back into the Mexican economy.

6. Why NAFTA cannot be Blamed for all of Mexico's Woes

It is easy to blame NAFTA for all of Mexico's economic troubles, such as income inequality, poverty, regional disparities and the problems facing subsistence farmers. Indeed, we heard in Mexico that NAFTA has become a "lightning rod." It tends to be assigned the blame for any negative economic development in Mexico, regardless of whether or not the agreement played a role.

A number of witnesses observed that critics of the agreement were trying to condemn the regional trade deal on the basis of its failure to meet objectives it was never designed to address. The truth is, that most of the keys to economic success lie at home. Trade matters but it is only one element in a broader development framework.

As we were told, economic progress in Mexico has suffered because of the failure of the country's political leaders to take advantage of the economic gains from NAFTA to invest in innovation, education, telecommunications and infrastructure; to undertake key structural reforms (e.g., energy privatization, tax reform, labour-market reform), to make progress in establishing adequate institutions to control corruption and establish law and order throughout the country, and to prepare vulnerable sectors of the Mexican economy in the transition to NAFTA. The trade deal should be viewed primarily as a useful tool in the quest for greater economic development, but not as the solution of all of a country's difficulties.

To take full advantage of the potential benefits of free trade, a treaty such as NAFTA needs to operate in a hospitable environment. Virtually all witnesses were agreed on this point. As Luis Servén argued, "A treaty of this kind needs to be accompanied by complementary domestic reforms. In the case of Mexico, it is most importantly in the institutional domain, education, technology and infrastructure. To a large extent, the magnitude of benefits that can be received from this kind of trade agreement are largely dependent on how far those reforms go."

The Committee heard considerable evidence to support this line of thought, in Canada and in Mexico. Marc Lortie perhaps captured the essence of the argument best during his testimony before the Committee: "NAFTA is an instrument to create growth and not an instrument to reduce inequality. What would reduce inequality in an economy? Fiscal policies, investing more in education and ensuring that the social programming is taking place. NAFTA does not do that; rather it is the responsibility of the government to do that… NAFTA is an instrument to give confidence to the private sector to embark on trade, to open up the economy and to move it forward."

Certainly, a key problem lies in the difficulty that the Fox Administration is experiencing in passing its desired structural reforms through Congress. Some Mexican witnesses described the political situation in their country as ripe for paralysis. President Fox's National Action Party (PAN) does not have a majority in Congress, making it extremely difficult to proceed with political and economic reforms. As Mr. Lortie suggested, "Fiscal reform, energy reform, labour reform and federalism reform all became more challenging because they could not reach proper compromises between the opposition that dominates Congress and the presidency." Yet progress in each of these areas needs to be made.

In the specific areas of employment and wages, NAFTA is often used as a scapegoat for insufficient job creation and real wage declines. Again, this is an area where NAFTA was sold on benefits it was not designed to produce. Economic theory suggests that free trade is not about creating new jobs but rather it is about enabling resources to find their most efficient use and therefore about redeploying workers to higher-paying employment. On wages, the Committee heard that two additional factors were at play, namely the currency crisis of 1994-1995 and the Mexican government's policies on minimum wages and trade unions.

As mentioned above, part of the wage picture can be attributed, of course, to an oversupply of labour, but some part of it is also attributable to Mexican government policies, which have included repression of the minimum wage and independent trade unions. There is some indication that the Fox Administration has relaxed the policy of repressing minimum wage over the last few years, and minimum wages are again beginning to recover. However, there has been no progress yet on reforming freedom of association in Mexico. We received considerable testimony that many labour unions in Mexico had indirect ties to the PRI – the former governing party. Witnesses suggested that union leaders do not always act in the best interests of workers.

On migration, the Committee was informed that NAFTA should not have been billed as the solution to such a long-standing problem. Nor, for that matter, is it accurate to pin the jump in migration solely on the trade agreement. As this report has already indicated, the recent rise in migration can be at least partly explained by strong demand for workers in the U.S. market. Another factor to note is the inability of Mexico's weak economic growth to absorb the one million young individuals that enter the labour force each year.

Finally, if the Mexican agricultural sector is losing jobs and farms under free trade, it is not only because of NAFTA. Witnesses offered a number of alternative explanations. For one thing, small farmers have been hard hit by massive corn exports from heavily subsidized U.S. producers – a factor quite independent of the trade agreement. Moreover, we also heard that most of the country is not suited for efficient farming and tariff removal exposes the uneconomic nature of the country's large subsistent farm culture. It is true, however, that agricultural adjustment policies in Mexico were not strong enough to look after an agricultural sector suddenly faced with new imports from the country's northern neighbour. It is the domestic government's role to aid agricultural producers, particularly subsistence farmers, adversely affected by trade liberalization.

BOOSTING CANADA-MEXICO TRADE AND INVESTMENT

Within North America, Canada's relationship with the United States will always be of paramount importance. While Canada-Mexico trade remains a very small part of total NAFTA trade, Mexico's importance as a trading partner has grown during the past decade. Andrea Lyon told Committee members that Mexico is now Canada's 6th largest export market in the world and by far our leading Latin American trading partner. It is also our 4th largest source of imports.

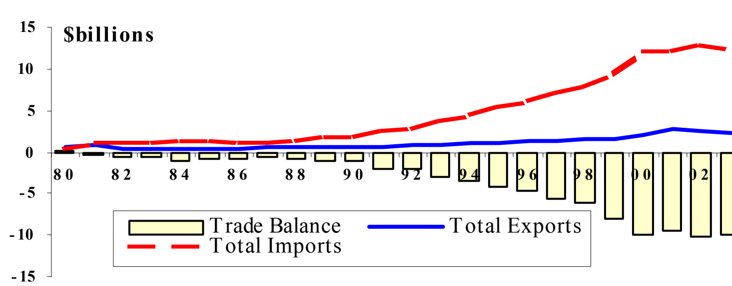
However, while commercial opportunities exist for Canadian businesses in Mexico, several obstacles continue to stand in the way of an even stronger bilateral economic bond. These include, among others, the less-than-vibrant Mexican economy; the lack of progress on structural reforms within Mexico that would lead to greater Canadian investment and subsequent trade; the continued fixation of Canadian business on the U.S. market; and a number of trade concerns in the farm sector. This section of the report presents both a snapshot of the current economic relationship and a discussion of the challenges that would have to be overcome to stimulate additional trade and investment links between the two countries.

A. Canada-Mexico Trade and Investment Links

Two-way trade between 1993 and 2003 has grown by an impressive annual average of 12.2%. This is about three times the rate of growth of our bilateral trade with non-NAFTA countries; Mexico is the only major non-U.S. Canadian export market having seen a rise in market share since 1990.[10] However, many of the trade gains were made in the initial honeymoon period following the signing of the trade agreement.

In terms of actual numbers, bilateral merchandise trade reached the $14.4 billion mark in 2003. Canada shipped $2.2 billion in goods southward and imported $12.2 billion from Mexico. However, these export figures tend to ignore the sizeable transhipment of Canadian products through the U.S. For 2002, for instance, there was a $4.6 billion gap between what the Mexican statistical agency INEGI reported as Mexican imports from Canada and the value of Canadian exports reported by Statistics Canada. **The statistics have yet to be officially reconciled.**

Chart 1 – Canada's Merchandise Trade with Mexico, 1980-2003



Source: Library of Parliament using Statistics Canada data.

10 House of Commons Standing Committee on Foreign Affairs and International Trade, Partners in North America: Advancing Canada's Relations with the United States and Mexico, December 2002, p. 63.

According to Canadian trade data, Canada's trade deficit with Mexico rose over the past decade from $2.9 billion in 1993 to $10.3 billion in 2002, before falling slightly to $10.0 billion in 2003.(11) Canada's exports have benefited from the aggressive promotion in Mexico of Canadian capabilities, technology and expertise, while the growth in imports can be attributed to the implementation of NAFTA, increased Mexican production and capacity from its Maquiladoras(12) and an increased Canadian awareness of competitively-priced Mexican products. To date, trade irritants have been manageable, either bilaterally or in the various NAFTA fora. The Honourable Luis Ernesto Derbez Bautista (Secretary of Foreign Affairs, Government of Mexico) informed the Committee that only one or two trade disputes existed between the two countries.

Another point to consider is that merchandise trade with Mexico is highly concentrated in only a few product groups. For example, product data provided to the Committee by Marc Lortie revealed that over 70% of Canada's merchandise imports from Mexico in 2002 were made up of vehicles and parts (29.0)%; electrical machinery (26.9%) and other types of machinery (15.8%). On the export side, the same product groups generated 34.1%, 6.7% and 10.9% of the total respectively. One could also add to this list Canadian exports of agricultural products, which at roughly 20% of the total have become significant export commodities to Mexico in recent years. The federal government's current priority sectors for Canadian export growth include energy, agri-food, automotive and related industries, environmental technologies, safety and security, and information and communications technologies.(13)

Services exports are also substantial even if the exact figures are difficult to quantify. The Department of Foreign Affairs and International Trade estimates that services exports make up roughly 40% of the total exports of Canadian goods and services to Mexico. These exports have been primarily generated through a small number of high-value contracts earned by Canadian service providers.

Turning to investment, the story is largely one of outflows from Canada as Mexican investment in this country remains low at $84 million. On the other hand, over 1,300 Canadian firms based in Mexico have injected upwards of $3.4 billion (by the end of 2002) in the Mexican economy. Stable throughout most of the 1980s, the stock of Canadian direct investment in Mexico has tripled since the implementation of the NAFTA so that Canada is now ranked 4th in terms of Mexico's foreign investors (up from 9th in 1993).

Much of this growth was recorded in the early years of the agreement. Between 2000 and 2002, in contrast, investment actually only grew by a mere 1% per year. Possible explanations for this trailing off of capital inflows include the lack of progress in achieving meaningful Mexican structural reforms, and the effect of the economic slowdown of the U.S. economy.

The manufacturing sector, with 61.8% of the total stock of investment, dominates the figures. Key industries and products affected include auto parts, steel and railway cars. Canadian investment in services makes up an additional 19.6% share.

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11 Using import data from both countries suggests a much smaller trade deficit.

12 These are foreign-owned assembly plants, situated along the Mexico-U.S. border, in which companies transform imported machinery and materials into finished products for export.

13 Department of Foreign Affairs and International Trade, Opening Doors To The World: Canada's International Market Access Priorities – 2003, 2003, p. 48.

B. Challenges to a Closer Economic Relationship

Mexico has surpassed Brazil as the largest economy in Latin America. It posseses a young and relatively inexpensive – albeit not as inexpensive as competitors such as China – labour force, natural resources, and a large population of some 100 million individuals with one-fifth of these enjoying similar purchasing power to that of the average Canadian. It is also one of the most open countries in the world, with foreign direct investment having been encouraged and business activity deregulated. There continue to be significant opportunities for Canadian business activity with Mexico; for a number of reasons (e.g., greater ease of servicing the U.S. market), these opportunities have not yet been fully realized.

Also worth mentioning is the fact that since the early 1990s, Mexico has implemented a strategic trade liberalization policy. Its membership in NAFTA has been supplemented by entry into other free trade agreements with countries in the Americas, Europe, Asia, and the Middle East (i.e., Israel). As a result, Mexico now enjoys preferential access to over 800 million consumers in as many as 32 countries. It has tried to position itself as a global trading hub, capable of luring foreign businesses into the country to engage in productive re-export (i.e., to the countries to which Mexico has preferential access) activity. In this way, it hopes also to lessen its economic dependence on the powerful U.S. market.

Indeed, Mexico has made considerably more rapid progress than Canada in creating a network of formal trade agreements and for that they should be commended. Outside of NAFTA, Canada has completed only three such agreements – with Chile, Israel and Costa Rica. This Committee believes that Canada should follow the example of Mexico and build its own network of formal trade links. We have already made recommendations to that effect in our June 2003 report *Uncertain Access: The Consequences Of U.S. Security And Trade Actions For Canadian Trade Policy* (Recommendations 13 and 14). The Committee recommends:

Recommendation 1:

That, so as to diversify its own external trade, the Government of Canada closely examine the success that Mexico has had in negotiating free trade agreements outside of NAFTA and use the Mexican experience to develop a comprehensive Canadian network of free trade arrangements.

There is no question that it would be in the best interests of both Canada and Mexico to achieve additional bilateral trade and investment.(14) Not only could such an achievement be useful in its own right, a closer bilateral relationship could strengthen the two NAFTA partners' hands when dealing with the U.S. on key North American issues. But what are the challenges to arriving at this goal?

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14 In particular, Mexico views Canada as a strategic partner in its own economic and political progress. Traditionally, Mexico has not been seen by either the Canadian government or Canada's private sector in such an exuberant manner.

1. Weakness in the Mexican Economy

Much of Mexico's economic strength has tended lately to be driven by the fortunes of the U.S. economy, to which it is intricately tied.(15) Replicating the Canadian export concentration, 85% of Mexico's total merchandise exports are destined for the U.S. market. This high level of export dependence, combined with the fact that the U.S. is the source of a full three-quarters of all foreign investment in the country, can have adverse negative consequences during periods when the American economy displays weakness, as it did beginning in the fall of 2000. The three-year period since then has exhibited a sluggish Mexican economy with a poor export performance, significant unemployment and considerable financial insecurity. A new development, and one that could be troubling to Mexicans, is that even though Mexico's economy is now on an upswing, its growth has remained modest (approximately 1% in 2003) especially when compared with the current robust performance of the U.S. economy. At the present time, however, forecasters are expecting growth to improve in 2004 as U.S. demand for Mexican products increases and as Mexico's price competitiveness in European markets takes hold.

It is safe to assume that the sluggishness of the Mexican economy has had a negative impact on Canadian exports to that country. While trade between Canada and Mexico has grown even in light of the economic slowdown experience in North America – a 5.6% increase was recorded in two-way trade between 2000 and 2001 – this annual growth level was far below the 12.2% annual average recorded since the implementation of NAFTA.

2. Mexican Structural Reforms Have Stalled

Canadian businesses are looking to the achievement of structural reforms in key economic sectors in Mexico before they commit additional investment dollars to that country. For example, Canadian energy companies are extremely interested in the Mexican energy market and are waiting for reforms to occur in that sector (see below).

Injecting momentum into the reform process would help Mexican economic competitiveness and growth. On the list of possible changes are the opening of the energy sector to foreign direct investment,(16) a reform of taxation, judicial and labour law reform and a continuation of industrial and agricultural sector deregulation.

Stating the need for reforms is the easy part; implementing the desired changes has proven to be quite difficult for President Fox. As this paper has already alluded to, Mexican reforms have stalled. Virtually all presidential policy initiatives during the first three years of the Fox regime faced a legislative veto from the political opposition, resulting in his inability to pass the desired reforms. The lack of a majority in Congress, and Fox's inability to craft necessary congressional alliances, has meant that progress to date has been less than hoped for. Given the trouncing of Fox's ruling PAN party in the summer mid-term elections – it lost 54 seats in the Chamber of Deputies (Mexico's Lower House) – future prospects appear to be poor for the passage of the relevant legislation. If bills do emerge from the legislature, one can expect them to be watered down versions of the originals.

Regarding the energy sector specifically, Mexico has provided an opportunity for certain Canadian energy firms. These typically supply equipment to the publicly owned Mexican energy

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15 Mexico's economic performance is also dependent on world oil prices. Oil production supplies a full 35% of the Mexican government's revenues.

16 Achieving energy reforms is believed by many to be of critical importance in advancing Mexico's economic prospects.

sector. Canadian investment in the energy sector in Mexico amounted to over $1 billion as of Oct. 2001. Canadian companies are highly valued by the Mexican government and would like to undertake significantly more investment activity but existing restrictions precludes such investments. The key problem is that since 1938, Mexico's constitution has not allowed large-scale foreign ownership of the oil and gas sector, with energy activity continuing to be dominated by PEMEX, the large state-owned firm. Similarly, the electricity authority is also under public ownership. As a result, firms active in oil and gas exploration and in private electricity generation are having difficulties entering the Mexican market.

The Mexican government views measures to open up energy supply to private investment as vital to lift Mexico's economy out of three years of stagnation. President Fox has long wanted to reform his country's constitution to enable foreign firms to play a bigger role in the energy sector, especially with respect to electricity and natural gas. With regards to natural gas, Mexico is actually a net importer despite the presence of sizeable resources. Fox has attempted to push legislative changes enabling greater inflows of foreign investment through the Congress but up to now the opposition PRI party has desired only modest reform.

3. Canadian Business Continues to be Largely Fixated on the U.S. Economy

Laura Macdonald informed the Committee that Canada has not adequately captured the opportunities that the Mexican market provides and that the explanation for this lies in the Canadian private sector's focus on the U.S. market. Specifically, Canada could be exporting more in the way of high-tech and transportation-related products to Mexico.

4. Challenges in the Farm Sector

Mexico has now become Canada's third most important market for agriculture and food products, behind only the U.S. and Japan. In a brief submitted to the Committee by the Canadian Agri-Food Trade Alliance (CAFTA), significant credit for this emergence in bilateral farm trade was given to NAFTA. In terms of the agricultural trade balance between the two countries, Canada possesses a surplus of over $200 million.

Notwithstanding this positive performance, the Committee heard during the course of its hearings that Mexican authorities were erecting non-tariff barriers in the form of health and sanitary requirements, often at the border. Concrete evidence of this was that country's arbitrary suspension in January 2003 of imports of dry beans from both Canada and the U.S., in contradiction to Mexico's NAFTA and World Trade Organization (WTO) obligations.

The CAFTA submission also highlighted a number of trade problems worth mentioning. First, the brief confirmed that non-tariff barriers to trade are a definite cause for concern. Canadian producers, processors and exporters are experiencing difficulties in penetrating the Mexican farm product market. Food processors must deal with "onerous and inconsistent" Mexican labelling and packaging requirements. For their part, exporters face regulatory inconsistencies, both between regulators in Mexico and between border crossings, often causing costly delays in crossing the border. They must also cope with Mexican Customs and other regulations, often imposed without any explanation given. Again, costs increase for our exporters.

A second cause for concern involves Canada's inability to compete with its NAFTA partners in some products such as dry beans and corn. For these agricultural commodities, Mexico has accorded the Americans considerably higher levels of duty-free quotas than they have Canada.

C. Where do we go From Here?

The Committee heard varying interpretations of the current state of the bilateral economic relationship. On the upbeat side, Marc Lortie characterized the relationship as "a major success story" in that considerable progress had been achieved over the past decade and that Mexico had become a leading market for Canadian exports and investment. The Government of Canada is encouraging Canadian firms to adopt a medium- to long-term perspective on Mexico, given that the emergence of a larger Mexican middle class will open major opportunities for Canadian services exporters. For Mexico, Mr. Lortie told the Committee, Canada had become a "great strategic partner" in Mexican development, a designation not often received from another country.

Other witnesses, however, urged Canada to place greater emphasis on Mexico. Luis Derbez noted that while strengthening Mexico's relationship with Canada is a key Mexican foreign policy objective, both countries need to place greater priority on this relationship as they approach the sixtieth year of bilateral relations. Laura Macdonald shared this view and called on the Committee to support the deepening of the bilateral relationship. Mexico is important both for direct (i.e., trade and investment) and indirect (i.e., social) reasons, she said. In Mexico, the Committee was informed that the bilateral relationship remains in its infancy, has not attained its full potential and, therefore, requires expansion.

The Committee is also keen to see a stronger and more vibrant Canada-Mexico relationship. To that end, we recommend:

Recommendation 2:

That the Government of Canada increase its efforts to significantly advance all aspects of the bilateral relationship between Canada and Mexico, including educational exchanges, culture and sports. Consideration should be given to:

- **Enhancing the knowledge and understanding about Mexico in Canada, and Canada in Mexico; and**

- **Promoting improved ties between Canadian and Mexican business, public sector agencies and non-governmental organizations.**

Recommendation 3:

That, recognizing the increased significance of the Canada-Mexico economic relationship, an official Canada-Mexico Parliamentary Association be established with full funding.

The Committee heard very little practical advice, both on how the bilateral trade and investment relationship could be strengthened and on how Canada could assist Mexico in its development efforts and in more effectively reaping the benefits of NAFTA. On the latter front, the Committee heard in Mexico that a key Canadian objective is to support that country's reform efforts. Much of that support to date has come in the form of assisting Mexicans with democratic governance. Early in his term of office, President Fox had requested that Canadians share their valuable experience in all of the many governance and democracy areas (e.g., elections, budgeting and planning, public service reform, legislation, access to information). Mexicans, we were told, have come to appreciate the unagressive and unassuming manner in which Canada has come to their aid.

Marc Lortie informed the Committee that Canada is already cooperating with the Mexicans on issues such as e-government, in other words to encourage the use of new technologies in Mexico to change that country's governmental structure of the last century. Laura Macdonald suggested that Canada could provide advice to Mexico in designing its social programs and in redistributing income to the poor within society.

The Committee has already noted the views of many witnesses expressing the urgent need for structural reforms in Mexico. Canada could provide Mexicans with useful information on the Canadian experience in each of the reform areas already being contemplated in Mexico, not simply in governance. We recommend:

Recommendation 4:

That, recognizing the benefits that could arise from the structural reforms under consideration in Mexico, the Government of Canada offer to engage with its Mexican counterpart in an exchange of information and best practices towards the implementation of these reforms.

PROSPECTS FOR CLOSER COOPERATION ON NORTH AMERICAN ECONOMIC ISSUES

North America has evolved without much thought given to the type of relationship that could emerge or the institutions that would be required. Today, the concept of North American economic integration can be looked at as consisting of four relationships: three bilateral ones and a relatively limited form of trilateral cooperation whose centrepiece is the NAFTA.

When President Fox first assumed office, he stressed the importance of both improving bilateral relations with the U.S. and reinvigorating the North American partnership. On the latter point, he saw enhanced North American integration as the best way to address Mexico's economic and social development challenges and to encourage economic convergence between the three NAFTA partners. By far the biggest challenge for him was to distribute the NAFTA benefits to the entire Mexican population.

As part of a more open and active foreign policy, Mexico advocated deepening the long-term strategic relationship with North America. President Fox called for the free movement of capital, goods, services and people within the continent – in essence a North American Community – and accompanying supranational North American institutions. Closer North American integration would also include improved macroeconomic policy coordination, a North American development fund and trilateral mechanisms for discussing common interests in migration, security, energy, labour and other issues.

Luis Derbez told the Committee that the current Mexican government continues to favour implementation of President Fox's long-term (25-30 years) "NAFTA Plus" vision in North America. This vision would extend NAFTA to include technical and cultural cooperation as well as political dialogue between the three countries, for example on terrorism and "a security frontier." It would also address migration and labour relations issues, and explore the potential for greater economic integration within key industries such as steel. Her Excellency Maria Teresa Garcia Segovia de Madero remarked that President Fox had even proposed extending NAFTA beyond trade to such areas as education, culture, infrastructure and financing development. It is not clear, however, how that would be managed.

Although President Fox still holds to his long-term vision of North America, the Committee heard that expectations in Mexico on future trilateral integration have tempered. Mexico has recognized that enthusiasm in Canada and the U.S. for further trilateral integration is limited. According to Marc Lortie, the Government of Canada has not responded as boldly to Fox's NAFTA Plus vision as Mexico would have liked. There is "a certain lack of appetite" outside of Mexico for creating North American institutions, with the U.S. being especially uninterested. North American integration continues to be seen in different ways in the three NAFTA members: in Mexico, through an economic development lens; in the U.S. from the perspective of alleviating security and energy concerns and in Canada through the angle of ensuring access to the U.S. market for its exports. It would appear that considerable effort will have to be undertaken to coordinate the contrasting perspectives to arrive at a common approach to closer continental integration.

As witnesses in Mexico stated, as a result, there is no consensus on what the future of integration, and especially trilateralism might be. There is currently no North American vision for formal trilateral integration or supra-national institutions, although there remain elements of such a vision in certain areas like common economic policies and enhanced regulatory security.

As such, the term "NAFTA Plus" does not have the same meaning today as it once did. One government witness in Mexico stated that "NAFTA Plus" is not a specific program or initiative, but rather a "what's next?" attitude towards integration; first you need to define a vision, then you proceed.

This has caused a change in approach to promoting trilateral institutions in Mexico. The Committee heard that there is a need to review the trilateral agenda on a more regular basis and to enhance mutual understanding through more government missions, increased contact, cooperation and so on. Trilateral institutions need to be examined closely on an individual basis and pursued on their merits rather than simply for the sake of increased integration.

All this is not to say that the appetite for increased North American integration has waned in Mexico. On the contrary, the Committee received considerable testimony on ways in which Canada, the U.S. and Mexico could more closely cooperate for mutual advantage. In some cases, witnesses felt that aspects of NAFTA needed to be improved upon. For example, the ongoing need to create standing dispute resolution panels was raised, as was the need to harmonize rules of origin. We also heard that "more teeth" were needed in NAFTA's environment and labour side agreements. For the most part, however, witnesses who advocated closer integration focused on improving economic relations in North America, and making NAFTA work more effectively, through closer cooperation on specific issues.

We heard two major reasons for why closer cooperation should be pursued. First, Mexico is concerned that it will be unable to compete for manufacturing jobs with low-cost producers like China. Curiously, one witness suggested that Mexico should not *want* to compete with what he considered less-than-subsistence wages in Asia. This appeared to be a rather provocative suggestion given the current Mexican unemployment situation. Even so, Mexico is already feeling the effects of competition from the region. Manufacturing employment in Mexico is falling, and Asia is attracting the lion's share of new foreign direct investment.

At the same time, Mexico is looking with concern at the recent surge in bilateral trade agreements in the U.S. and the apparent failure of meaningful negotiations at the Free Trade Area of the Americas (FTAA). Mexico views the proliferation of these agreements as eroding the special access it currently enjoys to the U.S. market. Each time the U.S. signs a new agreement, part of Mexico's advantage in the U.S. slips away.

For these two reasons, Mexico is anxious to improve the efficiency of the North American market. Lowering the cost of doing business in North America not only ensures that countries like Mexico and Canada retain their market share in the U.S., but will also help them (somewhat) offset the advantages of low-cost producers like China.

Turning to specific integration issues, a key Mexican shortcoming is the inferior nature of the country's infrastructure, when compared with that of the remainder of North America. To truly benefit from a more open economy, a country such as Mexico requires adequate infrastructure such as airports, roadways and modern harbours. Sadly, such infrastructure is not always available in all parts of the country.

When President Fox was first elected, there was much talk on the part of the Mexicans of the three NAFTA partners establishing a regional infrastructure funding mechanism such as a North America Development Fund. With such a fund in place, Canada could participate in specific infrastructure projects such as airports, roadways and modern harbours that would benefit trade among all three NAFTA partners.

Her Excellency Maria Teresa Garcia Segovia de Madero urged NAFTA partners to explore new mechanisms of cooperation that could help promote regional development within Mexico. This is important since "a developed Mexico translates into a healthier, more competitive North America." With 99% of traded goods now not subject to tariffs, according to her, it is time to examine achieving greater continental economic integration and helping Mexico solve its development challenges.

Laura Macdonald argued that Canada should carefully examine trilateral mechanisms through which it can help support Mexico's development. "If Mexico does better, Canada will do better. We will have more markets for our goods and we will have a more stable and predictable relationship with our North American partners." Canada and its NAFTA partners should examine ways to reform the North American Development Bank to make it considerably more effective and efficient. Moreover, the concept of regional development funds similar to those existing within the European Union should be explored.

The truth of the matter, however, is that Canada has never called for such a trilateral regional development funding initiative. Even if they were to do so, it is not at all clear that the U.S. would accept the proposal. This reticence has been noted in Mexico and although they remain in favour of such an initiative, do not expect any progress in the foreseeable future.

Another key issue related to North American integration is the question of how to effectively resolve trade disputes on this continent. This Committee, in its June 2003 report *Uncertain Access: The Consequences Of U.S. Security And Trade Actions For Canadian Trade Policy*, has already recorded its unhappiness with the current NAFTA dispute settlement system and has noted that such disputes are increasingly being resolved at the WTO in Geneva. We continue to maintain that progress in resolving trade disputes more effectively lies in improving the WTO dispute settlement system.
On the topic of energy, Marc Lortie informed the Committee that integration has been a key subject of discussion between the three NAFTA countries. A working group on North American energy has been established, but the mandate of this group does not really extend beyond information sharing. That having been said, "energy remains a major card for Mexico in the North American context." Even so, the Committee is not optimistic that major energy reforms are imminent. We were told in Mexico that energy reforms remain a very contentious issue and, given the current political stalemate in the country, progress on this front is unlikely.

On the issue of border cooperation, Laura Macdonald felt that a trilateral approach was required in order to address ineffective U.S. responses to their security concerns (e.g., entry and exit control systems, militarization of borders). She suggested that Canada should share technology and "best practices" to ensure a secure and trade-efficient U.S.-Mexico border. According to her, that did not necessarily imply that the approaches to the two borders had to be identical. However, Canada's responses to requests for trilateral solutions to North American border problems have typically been much less positive.

Mexico also recognises that border security is the key obstacle to further North American economic integration. Since the U.S. increasingly views both its northern and southern borders through a security lens, Canada and Mexico must work to assuage U.S. concerns in that area in order to preserve access to U.S. markets. To that end, both Canada and Mexico have implemented action plans to address border security. However, this will not be enough. There is already some evidence that the growing preoccupation with security in the U.S. could serve to raise implicit barriers to trade. The Committee heard that the U.S. has raised food and beverage import restrictions in the name of security concerns. Close cooperation is needed between the three countries to ensure that trade continues without compromising security.

An open Mexican-U.S. border is ultimately also in Canada's best interests. Given that over 80% of our Canada-Mexico trade occurs by land, a more open southern border would facilitate the flow of our exports. Canada and Mexico could exchange their own experiences on border management and related security issues. It would also be helpful if the U.S.-Mexico dispute over trucking were to be resolved. That dispute has precluded U.S. trucks from entering Mexican territory (and vice versa), with these border restrictions resulting in increased transportation costs being imposed for North American trade.

Another priority area for Mexico to increase cooperation is labour mobility. The Committee heard that Mexico is very happy with its temporary workers program with Canada. The number of workers taking advantage of this program is relatively modest – only about 1,000 to 2,000 per year – but Mexico wants to use this program as a model for temporary worker programs elsewhere, most notably in the U.S.

Action to achieve greater mobility of both skilled and unskilled workers within North America would address one of NAFTA's shortcomings. Laura Macdonald advocated that Canada promote a trilateral dialogue to address restrictions in the cross-border movement of the North American labour force. The reality, however, is that the events of September 11th focused U.S. attention on border security and counter-terrorism and dampened the enthusiasm for progress on mobility issues.

In addition to these major areas for increased cooperation, witnesses in Mexico highlighted a host of other areas where opportunities for closer cooperation exist to "fortify" NAFTA. These include the development of human capital; cooperation in environmental projects; regulatory improvement; border infrastructure; improving the business environment; and seeking common policies and cooperation where appropriate (e.g. sectoral approaches, technical regulations, standards, sanitary and phytosanitary measures).

The Committee is aware of the desire, especially in evidence in Mexico, for increased cooperation on a host of issues found in North America. As this chapter has attempted to demonstrate, the list of such issues is indeed a lengthy one. We are also cognizant of the current lack of appetite outside of Mexico for common North American institutions and for additional formal trilateral integration. For this reason, we would advocate that senior Canadian officials meet with their Mexican counterparts, to determine if there are common approaches to North American cooperative efforts that can be realized. Should the answer be in the affirmative, practical joint proposals could then be presented to the relevant U.S. policy-makers for their consideration. The Committee recommends:

Recommendation 5:

That senior Government of Canada officials enter into discussions with their Mexican counterparts to explore the potential for common approaches to dealing cooperatively with the North American economic and trade-related security issues that this report has identified. Should common ground be found, practical joint proposals could then be made to the relevant United States authorities.

Recommendation 6:

That to more effectively present issues, concerns and proposals (including those referred to in Recommendation 4 above) to key U.S. decision-makers, the Government of Canada immediately implement Recommendation 10 of this Committee's June 2003 report on the Canada-U.S. trade relationship (*Uncertain Access: The Consequences Of U.S. Security And Trade Actions For Canadian Trade Policy)*, which called for a Parliamentary Office to be established in Washington, D.C. to aid Canadian Parliamentarians in their interaction with U.S. legislators and officials.

Canadian Association of Importers and Exporters

- Mr. Robert Armstrong, President and CEO

February 24, 2004

Canadian Council for the Americas

- Mr. David Winfield, Chairman

February 24, 2004

Canadian Foundation for the Americas

- Mr. Donald Mackay, Executive Director
- Mr. Paul Haslam

February 25, 2004

Carnegie Endowment for International Peace

- Ms. Sandra Polaski, Senior Associate and Project Director, Trade Equity and Development Project

February 25, 2004

Department of Foreign Affairs and International Trade

- Mr. Marc Lortie, Assistant Deputy Minister (Americas)
- Ms. Andrea Lyon, Director General, Trade Policy; General Trade Policy Bureau
- Mr. Graeme Clark, Director, Mexico Division

February 17, 2004

Export Development Canada

- Mr. Marvin K. Hough, Regional Vice-President, Latin America

February 17, 2004

NAFTA Office of Mexico in Canada

- Mr. Carlos Piñera Gonzáles, Chief Representative

February 24, 2004

World Bank, Office of the Chief Economist of the Latin America and Caribbean Region

- Mr. Luis Servén, Lead Specialist Regional Studies
- Mr. William Maloney, Lead Economist

February 25, 2004

Brief

Canadian Agri-Food Trade Alliance

- Canada’s Trading Relationship with Mexico Agriculture and Agri-Food

February 2004

Fact Finding Mission: Mexico City, February 28 – March 3, 2004

As an individual

- Dr. Jorge Castañeda, former Foreign Affairs Minister

February 29, 2004

Businesses Coordination Council

- Mr. Hector Rangel Domene, Chair

March 2, 2004

Centre for Economic Studies of the Private Sector

- Mr. Mario Rodarte Esquivel, Director General

March 1, 2004

Centro de Investigacíon y Docencia Econónicasm, A.C., (CIDE)

- Mr. Antonio Ortiz Mena López Negrette, Director, International Studies Division

March 1, 2004

Chamber of Deputies, Congress of Mexico

- Mrs. Adriana Gonzalez Carrillo, Chair, Foreign Affairs Committee
- Mr. Carlos Jiménez Macías, Deputy Chair, Foreign Affairs Committee
- Mr. Jorge Martínez Ramos, Deputy Chair, Foreign Affairs Committee
- Mr. Francisco Arroyo Vieyria, Deputy Chair, Steering Committee, Parliamentary Chamber
- Mr. José Luis Flores Hernández
- Mr. Sami David David
- Mr. Humberto Cervantes Vega
- Mr. Francisco Saucedo Pérez
- Mr. Ángel Alonso Díaz Caneja
- Mr. José Álberto Aguilar Iñárritu
- Mrs. Marcela González Salas y Petricioli
- Mr. Juan José García Ochoa
- Mr. Julio César Códova Martínez, Chair, Sciences and Technology Committee
- Mrs. Betina Claudia Chavez Soriano Rojo, Clerk, Foreign Affairs Committee

March 2, 2004

Department of Energy

- Mr. Salvador Beltran del Rio, Director General, International Affairs

March 2, 2004

Ecanal

- Mr. Rogelio Ramirez de la O, President

March 2, 2004

Embassy of Canada, Mexico

- Mr. Gaëtan Lavertu, Ambassador
- Mrs. Geneviève des Rivières, Minister Consellor (Trade)
- Mr. Neil Reeder, Minister Consellor (General Relations)
- Mr. Emmanuel Kamarianakis, First Secretary (Trade Policy)
- Mrs. Heidi Kutz, First Secretary (Political)
- Mr. Michael Grant, First Secretary (Economic)
- Mr. Christophe Leroy, Congressional Relations Officer
- Mrs. Adriana Caudillo, Congressional Relations Assistant

February 29, 2004

Guerra Castellanos y Associados

- Mr. Gabriel Guerra-Castellanos, Director

March 2, 2004

Insituto Tecnologico Autonomo de Mexico (ITAM)

- Mr. Rafael Fernandez de Castro, Director, International Affairs

March 2, 2004

Jonathan Heath y Associados

- Mr. Jonathan Heath, Director General

March 1, 2004

Ministry of the Economy

- Mr. Eduardo Ramos, Chief of Staff and Lead Analyst to the Undersecretary for International Trade Negotiations
- Mr. Juan Carlos Baker, Director for Normalization Procedures and for the Textiles Sector

March 1, 2004

Ministry of Foreign Affairs

- Mr. Gerónimo Gutiérrez Fernández, Undersecretay for North America

March 1, 2004

MUND Americas

- Mr. Dan Lund, President

March 1, 2004

National Agrifood Council

- Mr. Armando Paredes Arroyo, President

March 1, 2004

National Food Inspection Service

- Mr. Octavio Carranza, Secretary

March 2, 2004

Office of the Presidency

- Mr. Alerto Ortega Vensor, Presidential Advisor on Public Policies

March 1, 2004

SAI Consultores

- Mr. Enrique Espinosa Reyes, Associate

March 2, 2004

Senate of Mexico

- The Honourable Senator Silvia Hernández, Chair, Foreign Affairs Committee, North America
- The Honourable Senator Genaro Borrego Estrada, Chair, Government Reform Committee
- The Honourable Senator Héctor Guillermo Osuna Jaime, Chair, Transportation and Communications Committee
- The Honourable Senator Dulce María Sauri Riancho, Chair, Foreign Affairs Committee, Asia-Pacific
- The Honourable Senator Jeffrey Jones, Chair, Border Affairs Committee
- The Honourable Senator César Camacho Quiroz, Chair, Federalism and Municipal Development Committee
- The Honourable Senator José Bonilla Robles, Chair, Rural Development Committee
- The Honourable Senator Jorge Lozano, Deputy Chair, Economic Promotion Committee
- The Honourable Senator Orlando Paredes Lara, Deputy Chair, Justice Committee

- The Honourable Senator Filomena Margaiz Ramírez, Deputy Chair, Trade and Industrial Promotion Committee
- The Honourable Senator José Ernesto Gil Elorduy, member of the Foreign Affairs Committee.

March 2, 2004

Scotiabank Inverlat

- Mr. Troy Wright, Director General

March 2, 2004

TransAlta México, S.A. de C.V.

- Mrs. JoAnne Butler, Director General

March 1, 2004

Organizations

Bank of Canada

- Mr. John Murray, Head of International Department

October 7, 2003

Canadian Auto Workers (CAW)

- Mr. Jim Stanford, Economist

October 8, 2003

Centre for the Study of Living Standards

- Mr. Andrew Sharpe, Executive Director

October 21, 2003

Department of Finance Canada

- Mr. Steven James, Director, Economic Analysis and Forecasting Division

October 7, 2003

Export Development Canada

- Mr. Stephen Poloz, Chief Economist

October 21, 2003

Industry Canada

- Mr. Someshwar Rao, Director, Strategic Investment Analysis

October 7, 2003

Informetrica Limited

- Mr. Michael McCracken, Chair

October 8, 2003

J.P. Morgan Securities Canada

- Mr. Ted Carmichael, Economist

October 8, 2003

RBC Financial Group

- Mr. John Anania, Assistant Chief Economist

October 21, 2003

TD Economics

- Mr. Don Drummond, Senior Vice-President & Chief Economist

October 22, 2003

UBS Securities Canada Incorporated

- Mr. George Vasic, Chief Canadian Economist

October 22, 2003

Brief

Canadian Labour Congress

- Mr. Andrew Jackson, Economist

October 8, 2003

Organizations

Agricultural Producers Association of Saskatchewan

- Mr. Dave Brown, Vice-President

February 21, 2003

Agriculture and Agri-Food Canada

- Mr. Rory McAlpine, Acting Director General, International Trade Policy
- Mr. Ian Thomson, Acting Director, Western Hemisphere Trade Policy Division

February 5, 2003

Alberta Canola Producers Commission

- Mr. Kenton Ziegler, Chair
- Mr. Ward W. Toma, General Manager

February 19, 2003

Asia-Pacific Foundation of Canada

- Mr. John Wiebe, President and Chief Executive Officer

March 26, 2003

British Columbia Lumber Trade Council

- Mr. John Allan, President

February 17, 2003

Canadian Agri-Food Trade Alliance

- Mr. Ted Menzies, President
- Ms. Patty Townsend, Executive Director

February 5, 2003

Canadian / American Border Trade Alliance

- Mr. Jim Phillips, President and Chief Executive Officer

March 18, 2003

Canadian Association of Petroleum Producers

- Mr. Pierre Alvarez, President

February 19, 2003

Canadian Cattlemen's Association

- Mr. Dennis Laycraft, Executive Vice President

February 19, 2003

Canadian Centre for Policy Alternatives

- Mr. Bruce Campbell, Executive Director

March 26, 2003

APPENDIX III: WITNESSES WHO CONTRIBUTED TO VOLUME I OF THIS STUDY

Canadian Manufacturers and Exporters

- The Honourable Perrin Beatty, President and Chief Executive Officer

April 1, 2003

Canadian Trucking Alliance

- Mr. David H. Bradley, President and Chief Executive Officer
- Ms. Elly Meister, Vice President, Public Affairs

April 9, 2003

Canadian Vehicle Manufacturers' Association

- Mr. David C. Adams, Vice-President, Policy

April 1, 2003

Canadian Wheat Board

- The Honourable Ralph Goodale, P.C., M.P., Minister of Public Works and Government Services and Minister responsible for the Canadian Wheat Board

May 14, 2003

- Mr. Ian McCreary, Director
- Mr. Victor Jarjour, Vice-President
- Ms. Alexandra Lamont, Policy Advisor

February 21, 2003

Canfor Corporation

- Mr. Kenneth O. Higginbotham, Vice-President, Forestry and Environment

February 18, 2003

Centre for Trade Policy and Law

- Mr. William A. Dymond, Executive Director

February 3, 2003

Communications, Energy and Paperworkers Union of Canada

- Mr. Fred Wilson, National Representative

February 11, 2003

Department of Citizenship and Immigration

- Mr. Daniel Jean, Acting Assistant Deputy Minister, Policy and Program Development

April 9, 2003

Department of Foreign Affairs and International Trade

- The Honourable Pierre Pettigrew, P.C., M.P., Minister of International Trade

February 3, 2003

- Mr. Marc Lortie, Assistant Deputy Minister (Americas)

April 8, 2003

- Mr. Doug Waddell, Assistant Deputy Minister, Trade, Economic and Environmental Policy

March 19, 2003

- Mr. Carlos Rojas-Arbulú, Trade Commissioner, Mexico Division

April 8, 2003

- Mr. Claude Carrière, Director General, Trade Policy Bureau

February 3, 2003
March 25, 2003

Department of Foreign Affairs and International Trade

(continued)

- Ms. Elaine Feldman, Director General, Export and Import Controls Bureau

March 19, 2003

- Ms. Suzanne Vinet, Director General, Trade Policy II, Services, Investment and Intellectual Property Bureau

March 25, 2003

- Mr. Bruce Levy, Director, Transborder Relations with the United States

February 3, 2003

- Mr. Claudio Vallé, Director, Technical Barriers and Regulations

April 8, 2003

- Mr. Graeme C. Clark, Acting Director, Mexico Division

April 8, 2003

- Mr. Matthew Kronby, Counsel, Deputy Director, Trade Law

March 25, 2003

Doman Industries Limited

- Mr. Bob Flitton, Manager, Real Estate and Governmental Affairs

February 17, 2003

Embassy of Mexico in Ottawa

- H.E. Maria Theresa Garcia S. de Madero, Ambassador of Mexico to Canada

April 8, 2003 &
May 5, 2003

- Ms. Cecilia Jaber, Deputy Head of Mission

May 5, 2003

- Mr. Carlos Pinera, Representative of the Mexican Secretariat of the Economy in Canada

April 8, 2003

- Mr. Fernando Espinosa, Economic Attaché

April 8, 2003

Fisheries Council of Canada

- Mr. Ronald W. Bulmer, President

March 18, 2003

Forest Products Association of Canada

- Mr. Avrim Lazar, President

February 11, 2003

Fraser Institute

- Mr. Fred McMahon, Director, Centre for Globalization Studies

February 18, 2003

Free Trade Lumber Council

- Mr. Frank Dottori, Co-President

- Mr. Carl Grenier, Senior Vice-President

February 11, 2003

Government of Mexico

- The Honourable Luis Ernesto Derbez Bautista, Secretary of Foreign Affairs

- Mr. Geronimo Gutiérrez, Undersecretary of Foreign Affairs

May 5, 2003

Independent Lumber Remanufacturers Association

- Mr. Russ Cameron, President

February 18, 2003

Industrial, Wood & Allied Workers of Canada

- Mr. Kim Pollock, National Director, Public Policy and Environment

February 17, 2003

Maritime Lumber Bureau

- Ms. Diana Blenkhorn, President and Chief Executive Officer

February 11, 2003

National Farmers Union

- Mr. Darrin Qualman, Executive Director

February 21, 2003

Nova Scotia Fish Packers

- Mr. Denny Morrow, Executive Director

March 18, 2003

United Steelworkers of America

- Mr. Dennis Deveau, Government Liaison, Legislative Department

April 1, 2003

Western Barley Growers Association

- Mr. Douglas McBain, President

February 19, 2003

Weyerhaeuser

- Mr. David A. Larsen, Vice President, Government and Public Affairs

February 17, 2003

Wild Rose Agricultural Producers

- Mr. Brent McBean, Director

February 19, 2003

Individuals

Professor Don Barry

International Relations
University of Calgary

February 20, 2003

Mr. Anthony Campbell

Consultant

March 18, 2003

Mr. Peter Clark

Partner
Grey, Clark, Shih and Associates, Ltd.

February 3, 2003

Professor Theodore Cohn

Department of Political Science
Simon Fraser University

February 18, 2003

Professor Gilbert Gagné

Department of Political Studies
Bishop University

February 3, 2003

Mr. Billy Garton

Partner
Bull, Housser & Tupper

February 17, 2003

Mr. Charles Gastle

Partner, Shibley Righton

February 11, 2003

Professor Richard Harris

Economics Department
Simon Fraser University

February 17, 2003

Professor John Helliwell

Department of Economics
University of British Columbia

February 18, 2003

Mr. Lawrence L. Herman

Counsel
Cassels, Brock & Blackwell LLP

February 4, 2003

Mr. Jon Johnson

Partner
Goodmans LLP

February 4, 2003

Professor Laura Macdonald

Associate Professor and Director, Centre for North American Politics and Society
Carleton University

April 8, 2003

The Honourable Roy MacLaren

Former Minister for International Trade

February 4, 2003

Professor George MacLean

Political Studies
University of Manitoba

February 21, 2003

Ms. Kathleen Macmillan

President, International Trade Policy Consultants

February 3, 2003

Professor Donald McRae

Business and Trade Law
University of Ottawa

February 3, 2003

Professor Armand de Mestral

Faculty of Law
McGill University

February 27, 2003

Professor Rolf Mirus

Director, Centre for Economic Research, School of Business
University of Alberta

February 20, 2003

Mr. Tim O'Neill

Executive Vice-President and Chief Economist
BMO Financial Group

March 26, 2003

Professor Richard Ouellet

Assistant Professor, Faculty of Law
Laval University

February 27, 2003

Mr. Les Reed

Forest Policy Consultant

February 17, 2003

Mr. Steven Shrybman

Lawyer
Sack Goldblatt Mitchell

February 27, 2003

Mr. David Usherwood

February 19, 2003

Fact Finding Mission: Washington, D.C., April 28 – May 1st, 2003

American Consumers for Affordable Homes

- Ms. Susan E. Petrunias
- Mr. Bruce H. Hahn, President, American Homeowners Foundation
- Mr. Kent Knutson, Vice President, Governmental Relations, Home Depot
- Mr. Jonathan Gold, Vice President, International Trade Policy, International Mass Retail Association
- Mr. Michael S. Carliner, Staff Vice President, Economics, National Association of Home Builders
- Mr. Jason M. Lynn, Legislative Director, National Association of Home Builders
- Mr. Michael Strauss, Legislative Communications Director, National Association of Home Builders
- Ms. Pamela J. Slater, Legislative Representative, Consumers for World Trade
- Mr. Donald Ferguson, Geduldig and Ferguson
- Mr. Gary Horlick, Wilmer, Cutler and Pickering

May 1st, 2003

American Enterprise Institute for Public Policy Research

- Mr. John C. Fortier, Ph.D., Research Associate

April 29, 2003

Americans for Better Borders Coalition

- Ms. Theresa Cardinal Brown, Coalition Co-Chair
- Mr. John Murphy, Vice-President, U.S. Chamber of Commerce

April 30, 2003

Canadian Embassy in the United States of America

- Ambassador Michael F. Kergin, Ambassador of Canada to the United States of America
- Mr. Bertin Côté, Minister (Economic) and Deputy Head of Mission
- Mr. Peter Boehm, Minister (Political)
- Mr. William R. Crosbie, Minister-Counsellor (Economic and Trade Policy)

April 29-30, 2003
May 1, 2003

Canadian Embassy in the United States of America

(continued)

- Mr. Ariel N. Delouya, Minister-Counsellor (Congressional and Legal Affairs)
- Mr. Terry R. Colli, Director, Public Affairs
- Mr. Alan H. Minz, Counsellor (Trade Policy)
- Mr. Christopher A. Shapardanov, Counsellor (Political Affairs)
- Ms. Birgit Matthiesen, Economic and Trade Policy Division
- Ms. Catherine Vézina, Multilateral Affairs

April 29-30, 2003
May 1, 2003

Congressional Research Service

- Mr. Ian F. Ferguson, Analyst in International Trade and Finance

April 29, 2003

Embassy of the United States of America, Ottawa

- His Excellency Paul Cellucci, Ambassador of the United States of America to Canada
- Mr. Michael Gallagher, Minister-Counsellor for Economic Affairs

Ottawa, April 28, 2003

Murphy Frazer & Selfridge

- Mr. Paul Frazer

April 29, 2003

Northern Border Caucus

- Congressman Earl Pomeroy (D-ND), Co-Chair
- Mr. Michael Morrow, Senior Staff Assistant, Trade Subcommittee, Ways and Means Committee
- Ms. Juliet A. Bender, LEGIS Fellow, Trade Subcommittee, Ways and Means Committee
- Mr. Jasper MacSlarrow, Senior Legislative Assistant, Congressman Rick Larsen
- Mr. Beau Schuyler, Senior Legislative Assistant, Congressman John Turner
- Mr. Darin T. Beffa, Legislative Assistant, Congressman George R. Nethercutt Jr.
- Ms. Lori Mrowka, Legislative Assistant, Congressman Bart Stupak
- Ms. Andrea Salinas, Legislative Assistant, Congressman Fortney H. (Pete) Stark

May 1st, 2003

Appendix III: WITNESSES WHO CONTRIBUTED TO VOLUME I OF THIS STUDY

Office of the United States Trade Representative

- Mr. John M. Melle, Deputy Assistant U.S. Trade Representative for North America
- Ms. Sharon Bomer Lauritsen, Deputy Assistant U.S. Trade Representative for Agricultural Affairs
- Ms. E. Sage Chandler, Director for Canadian Affairs

April 29, 2003

Permanent Mission of Canada to the Organisation of American States

- Ms. Gwyneth Kutz, Counsellor and Alternate Representative of Canada to the Organization of American States

May 1st, 2003

Senate Committee on Governmental Affairs

- Senator Susan M. Collins (R-ME), Chair
- Mr. Rob Owen, Counsel, Senator Susan M. Collins
- Ms. Jane Alonso, Legislative Assistant, Senator Susan M. Collins

April 30, 2003

Senate Subcommittee on International Trade

- Senator Craig Thomas (R-WY), Chairman
- Mr. Bryn N. Stewart, General Counsel, Senator Craig Thomas

April 29, 2003

United States Department of Commerce

- Mr. William Henry Lash III, Assistant Secretary of Commerce for Market Access and Compliance
- Mr. Andrew I. Rudman, Acting Director, Office of NAFTA and Inter-American Affairs
- Ms. Geri C. Word, NAFTA Compliance Team Leader
- Mr. Carlos Busquets, Canada Desk Officer
- Mr. Pierce Scranton, Special Assistant

May 1st, 2003

United States House of Representatives

- Congressman Amo Houghton (R- Corning)
- Mr. Bob Van Wicklin, Legislative Director, Congressman Amo Houghton

April 29, 2003

University of Maryland

- Professor Peter Morici, Professor of International Business, Robert H. Smith School of Business

April 29, 2003