North American Competitiveness:

The San Diego Agenda

By Laura Dawson, Christopher Sands, and Duncan Wood

November 2013

Foreword

The San Diego Agenda came out of the North American Competitiveness and Innovation Conference (NACIC) held in San Diego October 27-29, 2013 where Canadian Trade Minister Ed Fast, Mexican Economy Secretary Ildefonso Guajardo and U.S. Commerce Secretary Penny Pritzker met to discuss “three countries, two borders, one economy.”

Duncan Wood, Chris Sands and Laura Dawson provided the intellectual framework for the conference. Their vision of what North America – our integrated economic foundation -- can become is brilliant. Malin Burnham, the co-chair of San Diego’s Smart Border Coalition, and I shamelessly appropriated their work in an op-ed we wrote for the *U-T San Diego* newspaper (November 9, 2013) and renamed their recommendations “The San Diego Agenda.”

The idea is that we must deepen North American economic integration in order to compete more effectively globally. That means common regulations and standards on products manufactured in North America, negotiating as a bloc with the Asians and Europeans, making both borders function more efficiently, balancing security with trade and foreign policy concerns, investing in physical infrastructure, supporting innovation and education, facilitating labor mobility, and aligning our energy policies.

Mexico, with its relatively young population and growing economy, will generate the lion’s share of the North American growth. Total North American GDP will rise from $19 trillion today to over $50 trillion by 2050, when Mexico is projected to be one of the world’s five largest economies. Canada provides the key to energy self-sufficiency.

NAFTA was completed in 1994 before the smart phone, before maturation of the IT and biotech industries, and before e-commerce or fracking entered our vernacular. North American businesses have developed interconnected, just-in-time supply chains. We manufacture together. We must deepen North American integration if we are to stand up to new global competitors and prosper in new markets.

The “San Diego Agenda” is the road map. Business understands the importance of open markets, open borders, and the strength of complementary assets. Mayor Eddie Francis of Windsor, Ontario, Mayor Carlos Bustamante of Tijuana, Baja California, and Governor José Calzada of Querétaro, Mexico, who spoke at NACIC, understand it as well. It is not clear that this is a priority for the three federal governments.

We must recognize once that Mexico, Canada and the United States are partners. Separately we are three very important countries. Together, we are a powerhouse. As Malin Burnham said at the close of the conference, it is time for government to lead, follow, or get out of the way.

Ambassador Charles Shapiro
President, Institute of the Americas

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> *NAFTA will represent the most creative step toward a new world order taken by any group of countries since the end of the Cold War, and the first step toward an even larger vision of a free-trade zone for the entire Western Hemisphere.... NAFTA is not a conventional trade agreement, but the architecture of a new international system.*
>
> *Henry Kissinger, 1993*

Introduction

The 1994 North American Free Trade Agreement (NAFTA) among Canada, Mexico, and the United States was a bold experiment in economic integration and regional cooperation. To be successful, the initiative demanded political leadership and a commitment to regionalism. It required a vision that extended beyond short-term national interest and it demanded creative thinking about how three large countries could integrate their markets in a meaningful way.

Twenty years later, NAFTA is a senior citizen among trade agreements and the trilateral experiment is at a crossroads. Political leadership has ebbed and the appeal of North American regionalism is being replaced by the market appeal of Asia Pacific, the European Union and other trade chimeras. But, even if the NAFTA partnership has frayed at the edges, the three economies have already done most of the heavy lifting of economic integration. We have, in fact, achieved a market where tariff barriers are very low, and non-tariff barriers have steadily declined. What we

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lack is a shared vision for NAFTA's next generation that will help us overcome disparities in our national economic, political and security priorities.

NAFTA has been effective, but it has become so routine that it is taken for granted and it has not grown beyond its initial iteration to create the promised integrated North American market. Politically, it is easier to sell a new agreement because new agreements are more potential than substance. Former USTR Robert Zoellick (2013) argues that the U.S. Congress prefers to seek ambitious new agreements rather than improve the old ones because politicians believe that they have a better chance of promoting constituent interests through new deals. By contrast, when every economic woe is blamed on the NAFTA, politicians are reluctant to re-ignite old battles that promise few short-term political gains. [2]

The Trans-Pacific Partnership (TPP), Transatlantic Trade and Investment Partnership (TTIP) and Pacific Alliance are important initiatives but they are glimmers of far-off opportunity. For the United States, pursuing a new global economic architecture through new agreements without first consolidating a North American single market is risky. An ad hoc diversification agenda could rebound to the disadvantage of U.S. interests if investors and talent move to better-governed locations away from North America where they can continue to access U.S. consumers and resources from offshore. A future-oriented approach will not waste the real advantages we have established in the NAFTA, which is now the market for more than 80% of Mexico's exports, 75% of Canada's exports and 31% of U.S. exports (Intracen 2012).

This paper seeks to take stock of NAFTA's advantages and accomplishments. By looking at what we have done right over the past two decades and building on lessons learned, we can create a framework for North American competitiveness and a map for trilateralism for the coming decades.

[2] Trade officials are strangely sanguine about the fact that the only politically feasible path to update the NAFTA is through the TPP negotiations. Since all of the NAFTA signatories are also parties to the TPP, any new TPP commitments that are deeper than those in the NAFTA will take precedence.

Box 1: NAFTA is a $19 trillion marketplace set to reach $50 trillion by 2050

- 460 million consumers, projected to grow to 630 million by 2060
- 14 million U.S. jobs are tied to trade with Canada and Mexico
- Goldman Sachs predicts that by 2050, Mexico will be one of the world's five largest economies and its GDP will quadruple to $9.3 trillion
- Fuelled by Mexico's growth, total NAFTA GDP will rise from $19 trillion today to over $50 trillion by 205⍰

Source: Goldman Sachs Global Economics, *The BRICs 10 Years On: Halfway Through the Great Transformation,* (December 2011); PwC, *The World in 2050: The Accelerating Shift of Global Economic Power* (June 2011);

Canada Perspective

Canada is a trading nation. In 1993, more than 50 percent of the country's GDP was derived from trade. By contrast, in 1993 trade represented only about 15 percent of U.S. GDP and 30% of Mexico's GDP (World Bank). The U.S. signed the NAFTA to alleviate regional stability concerns and Mexico sought stability and development, but for Canada, the NAFTA has always been about economic interests

As an offensive tool, NAFTA provides Canada with secure access to its most important trading partners and a seat at the table where cross-border trade rules are made. As a defensive tool, NAFTA provides Canada with a priority position when the U.S. seeks to liberalize trade with other global partners. Having gained first-mover advantage through the 1989 Canada-US Free Trade Agreement, Canada was not willing to see these benefits eroded by a separate U.S. deal with Mexico and joined the NAFTA instead. This logic continues to inform Canada's current negotiating objectives in the TPP.

For Canada and Mexico, the trilateral relationship has never been an easy one. Both would prefer the full attention of the United States and sometimes resent the presence of a third wheel complicating the bilateral relationship. Although bilateral trade and investment has grown significantly over the past twenty years, with few natural trade linkages and the challenges of distance, culture, and language, Canada and Mexico have always felt more comfortable doing business with the United States than with each other.

But Mexico and United States are very different markets today than they were 20 years ago. Then, Canada wanted guaranteed access to the U.S. (the world's largest trading economy) and was willing to accept a deal with Mexico in order to avoid preference erosion in its bilateral trade with the United States. Today, Canada is no longer as dependent on the U.S. for trade, and Mexico has become a much more important economy – both as a buyer and as a manufacturing partner. Then, free trade agreements were a tool to reduce costs for the big businesses that traded internationally by bringing down tariffs. Today, trade agreements seek to reduce risk and transactions costs for small and medium enterprises seeking international markets, investors and manufacturing partners.

The U.S. and Mexico provide Canada with markets, investors, innovators, and sources of skilled labor. Canada brings to the table affordable energy resources, well-off consumers, an advanced information, communications, and knowledge economy, and a commercial and regulatory policy that is already in lock-step with the United States and increasingly with Mexico. What Canada lacks is priority standing among the world's trading nations unless it is allied with a bloc. However, if the NAFTA alliance fails to hold, Canada's Free Trade Agreement (FTA) diversification efforts suggest that it will seek allies elsewhere.[3]

Box 2: Tourism – the NAFTA elephant

According to the U.S. Department of Commerce, in 2012 Mexican tourism contributed $10 billion to the U.S economy, representing about 36 percent of U.S services exports to Mexico.

Canadian tourism contributed $25 billion to the U.S economy; about 42 percent of U.S. services exports to Canada.[4] This is more than the U.S. earned from worldwide exports of iron and steel, meat, fruit, furniture or cargo trucks.

Statistics Canada reports that Canadian tourists spent $1.6 billion in Mexico in 2012 while Mexican tourists spent $196 million in Canada.

The Bank of Mexico reports 18.4 million tourist visits by the United States and 1.3 million Canadian visits to Mexico in 2012. The Mexican government predicts that tourism will become the country's third largest source of revenue by 2018.

Mexico Perspective

For Mexico, the NAFTA experience began in troubled circumstances, with the Zapatista uprising, the peso crisis of 1994-5 and deep political uncertainty caused by political assassinations and a presidential election. But NAFTA proved its worth

[3] Canada's interest in the Pacific Alliance is evidence of this.
[4] Since it is difficult to track tourism spending with precision, there are differences in the reporting of national agencies. The U.S. Department of Commerce ITA reports Canadian spending of $25 billion for 2012. Statistics Canada reports that Canadians spent $17.5 billion in 2012 of which 4.4 billion was spent in Florida, $1.7 billion in New York, and $1.5 billion in California.

to Mexico as a crucial element in securing financial assistance from the United States in the aftermath of the currency crisis, and strong NAFTA trade ties greatly boosted the country's short- and long-term economic outlook. The agreement was central in reestablishing Mexico's balance of payments and in helping the country return to international borrowing within 18 months.

However, the long-term impact of NAFTA for Mexico has been much more important. Signing the agreement not only put Mexico firmly on the path to trade liberalization, it locked in the economic modernization program that had begun during the 1980s Debt Crisis and continued under President Carlos Salinas. The opening of Mexico, and the increasing orientation of its industrial sector towards exports have resulted in a permanent restructuring of the economy. Unlike the rest of Latin America, Mexico no longer depends on the export of commodities.

Indeed, 20 years after NAFTA Mexico exports more manufactured goods than the rest of Latin America combined. And although the country remains highly dependent on exports to the United States, it is slowly diversifying its export markets. Between 2006 and 2013 exports to the U.S. as a percentage of total Mexican exports dropped from 88% to 80% (Intracen 2012).

Mexico (and indeed all of North America) is diversifying away from commodity exports and single-firm production towards horizontally integrated, cross-border supply chains that take advantage of the complementary advantages of each trading partner. Mexican exports to the U.S. include 40% value-added from the United States. Canada's U.S. exports have an average of 25% U.S. content. This compares to only 4% U.S. content for Chinese exports to the U.S. (Wilson 2011). By the same logic, exports from one NAFTA country to the rest of the world are likely to include a high percentage of value-added from the other two countries.

Successive Mexican presidents have maintained an unwavering commitment to free trade. Today, Mexico has FTAs with 44 countries in three different continents, providing preferential access to a potential world market of more than one billion consumers and investors (NAFTA Mexico 2013).

President Enrique Peña Nieto is as committed to free trade -- and the diversification of Mexico's markets -- as his predecessors. Mexico entered the TPP negotiations in 2012 and its FTA with the European Union took effect in 2000. Since both Canada and Mexico are TPP negotiating parties and both already have a trade deal with the EU, it makes sense to negotiate as a TPP block and coordinate with the U.S. on the

TTIP negotiations to both increase negotiating leverage and ensure that new commitments do not erode the NAFTA.

Of central importance is the question of rules of origin. The three countries not only trade with each other, they manufacture togetherin integrated supply chains. Thus, establishing a North American content rule in negotiations with third parties would greatly enhance regional competitiveness.

The focus on trade to aid in the competitiveness of Mexican manufacturing has been helped greatly by the vertical integration of production processes across North America. The automotive sector continues to lead in this regard, and Mexico has become a global leader in automobile and parts production thanks to the demands of the North American market. Foreign investment in Mexico has been driven by the opportunity to export to the U.S. and this provided a steady flow of FDI into the Mexican economy.

Two-way investment between Mexico and the United States has skyrocketed to more than six times the 1993 level (see Annex 1). While U.S. foreign direct investment is still much larger than investment in the opposite direction, Mexican FDI in the United States is growing quickly. Mexican companies have become leaders in diverse areas of the U.S. market from cement to baked goods, and from tortillas to dairy products. Mexican firms have also invested heavily in U.S. media, mining, beverages, and retail stores.

Mexico's economy has also benefited from geographic proximity to the United States by exploiting the demand for just-in-time production, whereby companies keep minimal inventory and order parts and goods for delivery within a matter of days or weeks. This has made the border an even more crucial element in the North American economic relationship, ratcheting up the costs of border delays or inefficiencies.

Geographic proximity sets Mexico apart from what many see as its most threatening competitor, China. The sheer distance involved in exporting goods across the Pacific Ocean not only implies greater costs, but most importantly time, an increasingly precious commodity in today's manufacturing processes. A container leaving Shanghai takes around 31 days to reach New Jersey; a similar container from Veracruz takes 5 days (SeaRates 2013). Shorter distances, rising energy (transportation) costs and wage rates that are rising slower in Mexico than in China, mean that Mexico is again becoming highly competitive in the North American market.

Box 3: Mexico transforms from a troubled, developing economy to a dynamic global trader

- Strong macroeconomic policies implemented after the 1994-1995 crisis have helped to reduce debt from nearly 17% of GDP to 5%.
- Mexico maintains stable interest rates, low inflation and record high reserves in the Central Bank and recent GDP growth rates approach 4%.
- Through investments in education, Mexico has rapidly increasing stocks of skilled workers and half of the population is under 26.
- Trade represents about 70 percent of Mexico's GDP. By 2020, it is predicted to be 85 percent.
- Mexico has diversified its exports from raw materials to manufacturing and it has FTAs with 44 countries, providing preferential market access to two-thirds of the world's economies.

Source: *Financial Times*, "Open Economy Brings Rewards," (April 16, 2012); NAFTA Office of Mexico (2013).

The reform agenda of Mexico's current administration is likely to advance many of the advantages established by the NAFTA. Successful reforms in the areas of labor, education, telecommunications, finance, energy and fiscal policy are consolidating Mexico's economic success story, and will help strengthen its competitiveness in the coming years. Of particular interest is energy reform, which will not only bring considerable foreign investment into the sector and expand opportunities with joint ventures with NAFTA partners, but also ensure that the price of oil, gas and electricity remain low.

United States Perspective

Twenty years after the implementation of the NAFTA, there is a serious problem with North American governance of cross-border transactions for the movement of goods, people and information. Governance is either too weak (even absent) or too heavy handed and much of this is the result of inconsistent and brokerage-based management of the relationship by the United States.

Unlike the European model of supranational governing institutions, the North American approach to the management of continental economic integration was intended to be achieved through coordination among the three federal governments. Instead, the NAFTA provided for the creation of a commission of trade ministers and working groups of government officials (See Annex 2). Post 9/11 border concerns led the U.S. to launch two sets of bilateral negotiations leading to the Smart Border Accords (2002), elements of which were trilateralized in the 2005 Security and Prosperity Partnership.

The Obama Administration has signaled a willingness to proceed on a dual-bilateral basis in order to continue to make progress on regional issues (an option Canada strongly advocated) meaning that on key issues such as border, regulatory cooperation and energy, the U.S. talks to each of its NAFTA partners, but Mexico and Canada do not talk to each other. Some stakeholders argue that two-way talks yield more efficient progress than in three-party talks.[5] At the same time, separate streams directed by the U.S. do little to promote an integrated North America.

Box 4: Dual bilaterals: the new hub and spoke?

Borders
U.S.-Mexico 21st Century Border Management Commission (2010)
U.S.-Canada Beyond the Border Working Group (2011)
Regulatory Cooperation
U.S.-Mexico High Level Regulatory Cooperation Council (2010)
U.S.-Canada Regulatory Cooperation Council (2011)
Energy
U.S.-Mexico Framework on Clean Energy and Climate Change (2009)
U.S.-Canada Clean Energy Dialogue (2009).

The dual-bilateral approach has led to rising "Americanization" of governance arrangements. The United States is resistant to concessions requested by Canada or Mexico. Progress, when it comes, is the result of Canadian or Mexican acquiescence. For example, Canadian travellers gain from new 'checked-once-cleared-twice' baggage inspection procedures for flights that transit the United States, but the gain depended on Canada's willingness to adopt U.S. airline inspection procedures. While control of the agenda seems like a desirable outcome for the U.S., it also means American negotiators only rely on their own best-practices and are unable (or unwilling) to capitalize on the good ideas of other partners or to launch more ambitious reforms independent of the status quo.

North American integration is proceeding via growing intra-industry trade, cross-ownership of firms, supply chain linkages, and collaborative innovation across borders. This puts increasing pressure on the three North American governments to

[5] The bilateral discussions in the Regulatory Cooperation Council also benefit from cabinet-level political attention that the NAFTA working groups have never enjoyed.

coordinate regulation, security policies, taxation, and infrastructure and enhance labor, capital and goods mobility. Even in areas of progress, manufacturers face rising compliance costs due to duplication of documentation or inspection.

The linkage between competitiveness and reforming governance of cross border transactions is reflected in the fact that the United States has put these issues on the agenda of the TPP and TTIP. Yet the U.S. economy rests on North American supply chains. Without focusing on continental competitiveness through cooperation with Canada and Mexico, U.S. negotiators risk a weaker deal that will provide access to short-term opportunities further afield without resolving problems in North America. In short, a recipe for capital flight, brain drain, and economic weakness.

In Washington, the sectoral approach to governing North American integration satisfies elites by relieving political pressure for action without provoking a backlash from the sovereigntist right or the anti-globalization left. This strategy has minimal political costs, but yields only marginal improvements.

With the low priority of NAFTA on the U.S. agenda, this approach could be sustained indefinitely even in the face of complaints from Canada and Mexico. And yet a strategy of marginal improvements provides limited economic benefits to the United States and erodes the overall effectiveness and sustainability of the NAFTA partnership. A well-functioning NAFTA reduces transaction costs for the movement of goods, services, people and ideas and helps create economies of scale in high-value added and knowledge-intensive supply chains.

There will continue to be a small percentage of U.S. firms that can achieve profits by doing business in regions of the world where poor governance of cross-border transactions does not matter much. But a revitalized NAFTA would help risk-sensitive firms, particularly SMEs, enter or expand their presence in export markets.

An alternative vision for how the United States might approach these issues must keep the political opportunity cost low by increasing the support from a larger number of beneficiaries. The main elements of this vision should be:

- Structuring borders as data-capture sites and moving law enforcement activities inland;
- A negative-list[6] approach to regulatory alignment; and
- Separation of intra-regional labor mobility from citizenship.[7]

[6] A negative list assumes that all products are covered except for those specifically exempted.
[7] More details in the 'Recommendations' section.

To economists and business leaders, the conditions are ripe for change. A reform minded Mexican administration is delivering major reforms at home. A steady Canadian government is pro-U.S. and favors trade and market liberalization. A weak U.S. recovery is hampered by policy-generated uncertainty and growing compliance costs associated with logistics -- but not a lack of capital, labor, or innovation – and will respond well to the efficiency arguments of this agenda.

Engaging States, Provinces, and Territories

Complicating the task of reforming the governance of cross-border economic activity is that each of the three North American countries is a federation, with subfederal jurisdictions whose authority over certain economic policies is highly significant (Sands 2005).

As international trade priorities shift from federally regulated border tariffs to standards and rules that are often under the domain of states, provinces and even cities are increasingly important to competitiveness. Cities and states/provinces also play a disproportionate role as incubators for innovation and laboratories for new policies.

Canada's ten provinces and three territories are the most powerful regional governments in North America, with authority over land-use policy, banking, most services trade, natural resources, education, health care, transportation and agriculture. Such powers are the envy of U.S. and Mexican governors and state legislatures.

There are 31 state governments in Mexico, and the government of the Federal District of Mexico City makes 32. Although weaker than Canadian and U.S. counterparts, each state has its own constitution with the right to legislate and levy taxes other than interstate customs duties. Mexico's states depend on transfers from the federal government, but in recent years their share of the national budget has increased and they have acquired greater freedom in deciding how to spend the money.

The United States has 50 state governments, as well as the District of Columbia and the Commonwealth of Puerto Rico, a self-governing territory whose relative integration with the continental United States makes it a relevant player. Each year, U.S. state governors and legislators meet with their Canadian and Mexican counterparts at various meetings and summits. Since U.S. states can amend their state constitutions, they have become frequent innovators within the United States system affecting what services are delivered and how (Katz 2003).

When changes in trade flows affect jobs and economies, state, provincial and municipal leaders are often the first to react to these changes. This is one reason why U.S. states have taken the lead in reaching out to neighboring Canadian and Mexican jurisdictions to mitigate problems and leverage local advantages.

Add all of these subnational governments together, and there are 97 governments with an important role in the governance of North American integration. It is not necessary to invent new institutions to improve public support for efforts to improve the competitiveness of the regional economy. It is only necessary to listen to what stakeholders, especially those in border communities, have been saying all along. The job of the three federal governments today is to provide leadership and coordination to operationalize and expand local solutions.

At the same time, greater engagement of states and provinces in North American competitiveness planning will avert a potential "democracy deficit" where the policies fostering economic integration are seen by the public to be unaccountable to citizens.

Is There a North American Vision?

NAFTA created extraordinary benefits for all three countries but the next steps are harder because they involve rooting out deeply embedded, politically sensitive trade barriers and sacrificing the expedience of bilateral progress in order to play the trilateral long game.

NAFTA's biggest problem is the lack of a shared vision among the three countries and restoring this vision is necessary to build momentum and sustain political support. All three must be convinced that moving ahead as a block is preferable to going it alone and political leaders must once again be willing to concede national sovereignty in favor of a North American community.[8]

There is no comparison between ambitious statements of our leaders two and three decades ago when they spoke of NAFTA as the architecture for a new international

[8] Robert Pastor has been a fierce proponent of economic, political and social cohesion within a North American community. See *The North American Idea: A Vision of a Continental Future* (2011), Oxford University Press.

system and today when leaders avoid the very mention of trilateralism. The following section outlines the differences in perception among the three countries, highlighting the need for a cohesive and compelling vision before we can pursue the next phase of continental integration.

Canada's Vision – *NAFTA if necessary, but not necessarily NAFTA*

> *The Free Trade Agreement and NAFTA will be regarded one hundred years from now as a major defining moment in the evolution of Canada.*
>
> *Brian Mulroney, 2005*[9]

An effective agreement is robust, active, and the subject of meaningful attention by its signatories. Canada, by contrast, uses NAFTA defensively to prevent its preferential access to the United States from being eroded by other trading partners and as a last resort for solving trade problems when other options have been exhausted. The North American framework has become an ineffective tool of collaboration. Having been left on the sidelines too long without meaningful updates it has little to offer on new trade issues that have emerged since 1994.

Canada's 'NAFTA if necessary, but not necessarily NAFTA' approach means that the nation's most important trading relationship is managed on a transactional basis. Absent a broader trilateral framework, long-term vision and political will, the U.S. will always have the upper hand in deciding what trade benefits Canada will receive.

By sidelining Mexico from serious consideration and proceeding on a mostly ad hoc, bilateral basis, Canada will continue to be a low priority for broader U.S. policy objectives because it lacks the clout it would have if working in concert with Mexico. Stubborn adherence to bilateralism perpetuates a vicious circle whereby Canada will have to work even harder in the future to ensure that those trading partners whom the U.S. considers to be more attractive or strategically important do not encroach on Canadian preferences.

NAFTA also provides Canada with the best opportunity to engage with fast-growing Mexican markets. Canada has been a slow mover on bilateral relations with Mexico but the NAFTA framework provides significant alignment with Mexican commercial policy with little additional effort. A NAFTA approach provides Canadian business with the advantages of U.S. investment and distribution channels, and access to Mexico's growing consumer market and skilled labor pool.

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[9] Quoted in Newman (2006).

Mexico's Vision – *Taking care of business*

> *Our two countries at present are living in an era which is unique in the history of our relations -- an era full of challenges that we must face united, and of opportunities which we must take up together. For it is only in this way that we will be able to make that area of prosperity shared between Mexico and the United States that we are building a reality, along with Canada and all of North America.*
>
> *Vicente Fox, September 5, 2001*

During the Vicente Fox administration, Mexico envisioned NAFTA as a tool of development and consolidation, including a development fund, common external tariff, and even a single currency. But with little support from NAFTA partners and weak domestic approval, development through an expanded North American community was abandoned for a self-help approach. Fulfilling the promises of NAFTA required mutual trust in each other's institutions. Instances such as the 16-year wait before Mexican trucks were allowed on U.S. highways despite a promise to provide full access within 6 years of NAFTA implementation are ample evidence that its NAFTA partners did not consider Mexico an equal player.

Mexico's current reform agenda is a recognition of the need to do many things better. Although the structural reforms that are underway will enable Mexico to take better advantage of the NAFTA, Mexico is diversifying its trade across the globe. Having lost faith in NAFTA's institutions and promises, the United States and Canada will face resistance if they want to encourage Mexico to make it a priority again.

To be sure, Mexico's challenges with drugs, crime and migration are issues that need to be dealt with, but they are not the defining features of the relationship. Canada and the United States must internalize the fact that Mexico is the engine of future North American growth and establish a framework for cooperation that acknowledges that reality.

Box 5: The Ties That Bind?

Surveys by Nanos Research and the University of Buffalo (2013) tracking Canadian and American perceptions of relations with each other and their trading partners revealed gaps in the relationship with Mexico.

For example, Canadians (and Americans) **believe that cargo and travellers from Mexico require more stringent border inspection** than cargo and travellers from other major trading partners including the United States, (Canada), the United Kingdom, France, Germany, Japan and China.

And, Canadians and Americans **do not believe that Mexico shares their business values** as closely as other trade partners.

United States' Vision – *NAFTA as a Condominium Association*

> *The starting point of a sound foreign policy is to build a stable and prosperous neighborhood, with good relations amongst neighbors. Good neighbors work together and benefit from each other's successes.*
>
> *George H.W. Bush, September 5, 2001*

The United States under Barack Obama has done little to further the trilateral relationship, preferring bilateral approaches to problem solving. North America does not fit into a short-term political cost-benefit analysis. Since there is no crisis demanding immediate attention, issues are relegated to incremental fixes handled at the working level -- what some officials call "condominium association" issues.

Galvanizing U.S. action in the short term will be difficult. The Congress is paralyzed by partisanship, President Obama's administration has little political capital left for major initiatives, and it is not clear that any North American regional initiatives would be on an Obama priority list. But, every U.S. president since Ronald Reagan has come, eventually, to address the policy challenge of achieving a North American single market. Now is the time to anticipate that the next U.S. president will have his or her turn, and promote a more ambitious vision.

After twenty years of playing it safe on the governance of North American economic integration – and what will be 25 years by the time the next U.S. presidential administration can take up the issue with a new approach – the need for a significant rethink of the U.S. approach has become urgent. The economics are clear; the challenge is political.

A New Vision as Paradigm Shift

The NAFTA project was launched when the leaders of the United States, Mexico, and Canada sought solutions to calm the internal and external economic storms they faced. They made a leap of faith from inward-oriented protectionism to liberalized regionalism only after policy makers had exhausted domestic options. The leap was made possible by sustained political leadership and a willingness to disrupt the status quo.

Now that the NAFTA has been institutionalized, it is sustained by working-level incrementalism, and its benefits are eroding. It is time for a new leap of faith. It will not be easy, so before North America jumps, we must be convinced that:

- We are more effective as a block than we are individually;
- That each country – and indeed regions within the countries – provide a complementary endowment of resources and capabilities that strengthen the region;
- That longer-term global competitiveness is worth the investment of national sovereignty into a trilateral vision; and
- That regional solidarity is preferable to *a la carte* policy choices that strengthen the individual state at the expense of the group.

Box 6: The Rise and Decline of NAFTA

NAFTA was one of the first modern free trade agreements. Much of the WTO was modeled on its chapters and it was the only FTA to include developed and developing economies. What it lacked, was a mandate for continued integration, so, unlike the EU, it stalled once the initial gains were realized.

NAFTA allowed North American firms to restructure to take advantage of economies of scale. Between 1993 and 2009 the stock of Foreign Direct Investment into NAFTA countries increased by more than $3 trillion. However, new border barriers imposed after 9/11 reversed many of the gains from just-in-time production in an integrated continental market.

The value of intra-North American trade has more than tripled since NAFTA's inception.

In 1993, annual trade within the NAFTA region was less than $300 billion. By 2008, trilateral trade reached a high of $942 billion a year, fully 20 percent of total global trade.

However, most of NAFTA's growth was achieved by 2000. The percentage of intra-NAFTA trade as a share of total trade has been shrinking since 2005 and now sits below pre-NAFTA levels (See Annex 1).

The Political Economy of Trilateralism

The case for trilateralism must not only articulate benefits for all three countries and identity areas where our interests converge, it must clearly demonstrate to the United States – the dominant decision maker – that a regional approach is preferable to every other option.

Even though we are each other's largest trading partners, few of NAFTA's 20-year old provisions have been upgraded to cover key economic developments of the 21st century, including electronic commerce, investment by state-owned enterprises, sub-federal government procurement and energy trade. Government leaders have shied away from touching the political third rail that is NAFTA, but a regional framework is the best way to combine national advantages into regional strengths that enhance global competitiveness far beyond what any one state could achieve on its own.

The major benefits include:

1) The growth potential of Mexico, combined with the international influence and economic weight of the United States, the stabilizing effects of Canada and the shared endowment of energy self-sufficiency will lead to greater economic growth in each of the three countries.

2) Lower costs for producers and consumers through the removal of next-generation trade barriers such as border inefficiencies and regulatory duplication. The goal is to create production and distribution networks that take full advantage of the combined resources of the three countries and do not require workarounds for intractable trade barriers.

3) Expanded and strengthened North American supply chains. Mexico, Canada and the United States build things together. A manufactured export from one is very likely to include content from the other two.

4) The power of a regional block in external negotiations such as the TPP to extract greater concessions from other parties and provide a counterweight against economic powerhouses like China.

5) New solutions that draw from the experiences of all three partners. Trilateralism is about the long game. Bilateralism may move faster but cannot move as far.

Framework and Priorities for North American Competitiveness

The global economy is creating new opportunities and new competition. The ability to keep pace with high-speed, low-cost emerging markets is best achieved by combining the complementary assets of Canada, Mexico and United States. We are convinced that meaningful cooperation is possible while maintaining sovereignty over privacy, consumer protection, security and the environment. Moreover, while the United States has so far dominated the dual-bilateral agendas, both Mexico and Canada are diversifying their trade away from the U.S. and seeking other options so the North American window of opportunity may soon close.

What builds competitiveness?

- Affordable energy
- Innovation - resulting both from R&D and from skilled, educated populations
- Proximity of R&D, production centers and customers
- Affordable labor - Mexico's labor costs are slightly higher than China's but are not accelerating as quickly
- Reduced shipping, transportation, and communications costs through border, regulatory, and infrastructure reforms
- Reduced duplication of effort, creating greater resources for investment in physical and human capital
- Mutual trust and knowledge among trading partners

For each item on this list, NAFTA already provides a basic foundation. The task ahead is to build on these accomplishments to facilitate the legitimate movement of goods, services and people, and to realize the potential for North American energy self-reliance. The six main priority areas for North American competitiveness are:

1) Regulatory Alignment
2) Harmonized Regional Trade Policy
3) Border Security and Efficiency
4) Infrastructure
5) Human Capital
6) Energy
7) Leadership and Stakeholder Engagement[10]

Regulatory Alignment

Unnecessary regulatory differences and duplication in certification and testing methods add between 2 and 10 percent to the final cost of a good, creating higher

[10] U.S.-Mexico regulatory efforts have moved at a slower pace.

prices for producers and consumers (Hart 2007). Governments are increasingly aware of the costs of regulatory duplication and are looking at ways to streamline regulation while maintaining public safety.

Within the NAFTA community, efforts to achieve regulatory alignment are underway through two separate bilateral arrangements: the United States-Mexico High-Level Regulatory Cooperation Council and the United States-Canada Regulatory Cooperation Council (RCC).

The RCC process is seeking cooperation in:

- Regulatory system reliance that reduces duplication;
- Regulatory standard-setting, conformity testing and enforcement;
- Product reviews and approval; and
- Management of third-country import risks.

The RCC initiative provides important first steps but these are not sufficient to provide lasting change. The scope of regulatory alignment must be significantly expanded. The 29 sectors that make up the first phase of the U.S.-Canada RCC work plan are distributed among four main economic areas of agriculture and food, health and consumer products, transportation, and the environment. Despite the breadth of their ambition, they represent a tiny fraction of the goods traded between the countries. In order to deepen and expand regulatory cooperation, there must be continued political commitment to the process and evidence that the **mechanisms established for cooperation will be applicable across a broad range of economic activities.**

A sustainable, broadly applicable regulatory cooperation framework would utilize the principle of **inspected once, cleared twice (or thrice)**. It would also adopt a **negative list approach** that assumes full mutual recognition of standards and testing methods by a certain date unless an exception is negotiated for demonstrated public policy reasons.[11]

As is widely practiced in the European Union, North American governments should **put a greater reliance on private sector labs for testing**. Governments, meanwhile, would continue to publish standards and requirements and certify labs for safety and efficacy. To facilitate mutual recognition and rapid private sector

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[11] This is the approach taken by Australia and New Zealand's Trans-Tasman Mutual Recognition Arrangement (TTMRA), which recognizes that products that are certified in one jurisdiction do not require additional scrutiny in the other.

capacity development, the three federal governments could **agree on common lab certification rules and even conduct joint inspections**.

The dual bilateral agreements of the RCC must be somehow coordinated within a trilateral framework. A first step toward three-party alignment would be to improve transparency by adding **trilateral progress reports** to the annual meetings of both councils[12] and to have a Canadian liaison appointed to the U.S.-Mexico council and a Mexican liaison appointed to the U.S.-Canada RCC.

In all aspects of trilateral cooperation, the devil is in the details. One of the most important instruments of cooperation is U.S. Executive Order 13609 of May 1, 2012 "Promoting International Regulatory Cooperation." E.O. 13609 explicitly recognizes that international regulatory cooperation can reduce, eliminate, or prevent unnecessary differences in regulatory requirements while meeting shared health, safety, labor, security, environmental and other goals.

The executive order requires U.S. agencies to make cooperation a priority and to consider the regulatory approaches of other trading partners. These are critical instructions, not only for the Regulatory Cooperation Council, but also as a principle for other areas of regional cooperation such as borders, trade and infrastructure. **The U.S. is leading the way in formalizing the commitment to consult. Canada and Mexico should adopt similar language and legislation**.

In practice, however, the E.O. remains extremely difficult to operationalize because U.S. Congress has yet to amend the *Administrative Procedures Act* in order to permit regulators to talk to foreign counterparts in countries prior to publishing a rule for advice and comment. If the importance of cross-border regulator communication is codified in our rules and regulations, this will reduce resistance to synchronizing future rules.

At present, the regulatory cooperation process enjoys high-level political oversight but the formal governance mandates end at the close of 2014[13] and 2015/2016 federal elections in Canada and the United States will divert attention from the process. It is important to expand and deepen the work of regulatory alignment among the three countries now.

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[12] As was suggested in an October 2013 joint letter by the Business Roundtable, Canadian Council of Chief Executives and *Consejo Mexicano de Hombres de Negocios*, to Prime Minister Harper, President Obama and President Peña Nieto.

[13] Certain deliverables in the Canada-U.S. work plan extend past 2014.

Harmonized Regional Trade Policy

North America's collective interests are best served by negotiating as a NAFTA block in international trade negotiations. All parties gain leverage to do better collectively than would be possible individually. This approach also ensures that NAFTA remains in synch with the realities of the global trading system but, as some mistakenly suppose, being seated at the same TPP or WTO negotiating table is not the same as engaging a coordinated regional strategy.

Quite likely, the concept of a harmonized NAFTA trade policy will unleash howls of protest from legislators and interest groups who seek to maintain protectionist enclaves for certain products within their national trade regimes. But the alternative –- three isolated and unaligned national trade policies with no consultation among trade officials -- has not served us well. It is time for change.

We must also be realistic, recognizing that here are significant differences among the three. Canada and Mexico do not have the same interests (except to preserve preferred access to the U.S market) and the U.S., as the biggest market by far, has its own set of interests and sensitivities. For this reason we propose a **staged approach, beginning with sectors where there is already a high degree of market and product integration including autos, aerospace and meat.**

Other areas will be more problematic. In government procurement, temporary entry of workers, and intellectual property protection, our interests are not aligned and we are often competitors for investment from third markets. Nevertheless, the habit of consultation and the institutional and political underpinnings supporting this cooperation will lay the groundwork for future harmonization of regional trade policy priorities.

The basic mechanisms and principles are already in place. Chapter One of the NAFTA requires that parties take "all necessary measures" in order to give effect to the agreement and resolve inconsistencies. **NAFTA working groups** (many of which have not met for several years, due to lack of interest and/or consensus. See Annex 2) **should be restarted with a mandate to establish a set of common external positions and principles for each sector, for each negotiation** in which the partners are currently involved.

As the regulatory cooperation experiment demonstrates, it is easier to align future actions than change existing laws. The path of least resistance for a new regional trade policy mechanism would be to **assume harmonization of new policies** unless a party can prove legitimate reasons for difference.

Another lesson from the RCC is the commitment to consult. Modeled on the language of E.O. 13609, all parties affirm that national trade policy differences have a negative impact on the competitiveness of regional businesses and commit to find ways to reduce unnecessary divergences.

A near-term objective for a harmonized regional trade policy would be to **conclude a common set of negotiating priorities oriented toward North American competitiveness for TPP, EU, India, Japan and WTO plurilateral services negotiations**.

Not everything needs to be identical (nor could it be) but **common areas of concern include: rules of origin, sanitary and phytosanitary measures, geographical indications, technical barriers to trade, foreign investment, state-owned enterprises, subsidies and government procurement**.

Border Security and Efficiency

Greater efforts need to be made to **facilitate legitimate cargo and travel**. The focus on illicit trade and activities has overwhelmed the border management process. Recent efforts by officials to sort out which cross-border transactions need greater scrutiny through trusted traveller and shipper programs are a step in the right direction but law enforcement and cargo inspection activities at the border are choke points that decrease efficiency and raise costs. In order to move law enforcement activities away from borders, we require a sophisticated network of overlapping and contiguous law enforcement agencies across the NAFTA territory.

Officials in all three countries have made concerted efforts to try to move security obligations away from the borders, and to focus on key trade corridors where the majority of cargo moves. If these efforts are successful, **the border of the future will serve as a data capture location supported by enforcement activity throughout the three countries**.

Advanced information and communications technology allows for pattern and anomaly spotting. Enforcement is initiated by a first-responder and prosecuted by competent authorities. Continued investment in technology and human resources is critical to these efforts.

"We are convinced that technology allows secure pre-clearance beyond the border and that our government must do more, eventually recognizing the equivalence of our three countries' security systems" (Business Roundtable *et al.* 2013).

Historically, bilateral and trilateral cooperation has been mobilized in response to specific crises – 9/11, Hurricane Katrina, even the SARs crisis – but episodic linkages are not as effective as robust, networks of interactions that are more or less routine in advance of a severe crisis. A first step is to **create a continent-wide Amber Alert system, a North American arrest warrant, and to negotiate a permission-based secure system for accessing criminal record and fingerprint and DNA databases**. When comprehensive information sharing is linked to border enforcement functions, the resulting networks are a powerful tool for public safety and security.

With respect to the efficient movement of goods, the Canada-U.S. Beyond the Border (BTB) initiative has made important strides towards integrating customs activity, minimizing duplication and prioritizing risk management principles. As the mandate of the first phase comes to an end, continued political and stakeholder support is needed to **accelerate deployment of next generation technologies to create a more automated border, including the creation of a single electronic customs window by the end of 2014**.

The only way to achieve seamless information-sharing for people and cargo that is aligned with intra-NAFTA supply chain organization is to **trilateralize the Beyond the Border**. Mexico must be included in a meaningful border program that balances trade facilitation with law enforcement. Just as we recommended for regulatory cooperation, the first step for borders is transparency: all three countries should meet regularly to share progress on bilateral initiatives, **a Mexican official should attend U.S. Canada-BTB meetings; and a Canadian liaison should participate in U.S.-Mexico border initiatives**.

In order to build on current successes, all three countries should work to **trilateralize the trusted traveller programs** including SENTRI, NEXUS, GOES, and TSA Pre, and establish a timeline to **trialteralize trusted trade programs.**

Infrastructure

In addition to improving processes, it is clear that the borders of North America (and by this we mean the U.S.-Canada, U.S.-Mexico, and Mexico-Guatemala) need significant investment in infrastructure. There is an **urgent need to evaluate the**

sufficiency of roads, bridges, and border-crossings, and to determine where investments would provide the biggest return in terms of improved border efficiency.

Borders also need to be understood in a more holistic fashion, not simply as a meeting point between two countries but rather as uniquely binational communities and economies. The three nations' capitals have long ignored the unique needs and opportunities of the borderlands. More must be done to **engage directly with border communities and their leaders**.

To date, NAFTA has provided little in the way of infrastructure facilitation, save for the now defunct CANAMEX corridor initiative that sought to improve the roads connecting the major trade routes of the three countries.[14] We propose a North **American Infrastructure Planning Commission**, modeled on the International Joint Commission (IJC), which would provide a practical tool for collaboration while taking the politics out of the project assessment and planning process.

In 1912, the United States and Canada formed the IJC to study boundary water issues. Composed of three Canadian and three American members. The IJC did not have regulatory authority but it was tasked with providing advice to governments in response to specific federal requests related to the condition of the northern border and the border environment. Still active today, the governments of the United States and Canada can choose to act or not on IJC findings. However, through its hearings, stakeholder interactions and reports, the IJC serves to raise public awareness and build consensus on issues, helping to pave the way for government action. It has been a successful model of how to manage complex, trans-boundary issues.

The governments of **United States, Canada and Mexico should form a similarly structured international commission to study infrastructure needs at land borders, and along the corridors that link borders together**. Such a commission could generate engineering studies, preliminary environmental impact assessments, and transportation and infrastructure (including energy infrastructure) plans. This would help to manage complexity and foster consensus among the many federal, state/provincial, and local governments that need to coordinate actions to design, build and maintain shared and interconnected infrastructure.

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[14] The original intention was to expand CANAMEX corridors to railways, pipelines, and fibre optic cables, the initiative fizzled after some initial enthusiasm around highway improvements.

The planning commission would also play a role in **facilitating public-private partnerships** to make better use of private sector investment to upgrade North American infrastructure. All governments have limited funds and there are enormous sums in the private sector. The challenge is how to structure our projects to make these investments feasible.

By studying technical issues at the request of the federal governments, a joint infrastructure planning commission would prepare the way for multi-year, multi-billion dollar infrastructure projects critical to our economic future. Early priorities of the commission should include **integrated infrastructure analyses for 'mega regions'** including Tijuana-San Diego, Windsor-Detroit, and Vancouver-Seattle.

An existing institution that could serve as a model is the North American Development Bank (NADBank), which is a repository of expertise and has long been involved in environmental infrastructure projects on the U.S.-Mexico border. It is **worth considering an expansion of its mandate** to focus on multiple dimensions of border infrastructure, extending beyond the environment to questions of energy, transportation and logistics.

Human Capital

NAFTA's contribution to human capital development was well intentioned but limited. There is nothing in the agreement to encourage educational transfers, joint R&D investment, or skills development. While there have been public diplomacy programs to encourage academics to study the NAFTA, even these have been more show than substance since about 1999.

The mechanics of the NAFTA are no longer a compelling area of study, but understanding and enhancing market integration and leveraging shared investments should be a major focus for public and private sector research. Not every initiative needs to have equal representation from all three parties. Rather a **trilateral R&D fund** could be established to encourage joint ventures, capacity building through education and training, entrepreneurship and innovation by any combination of NAFTA stakeholders.

The fund could be modeled as a **three-party version of the North American Development Bank**. Co-funded by the United States and Mexico, NADB provides loans and grants to remedy human health or environmental issues on the U.S.-Mexico border. Funds are administered through a transparent procurement process overseen by a board with equal representation from the United States and Mexico.

The NAFTA had ambitious goals with respect to labour mobility, but few of these goals have been realized. Temporary cross-border mobility is weak for workers who do not have a university degree. Senior managers and professionals can use the NAFTA for short-term employment contracts and inter-company transfers and the NAFTA professional (TN) visa allows Canadian and Mexican workers in medical, scientific, and technical professions to avoid the quota-limited, non-immigrant (H1-B) visa to work in the United States. But NAFTA has not been able to deliver on promises of mutual recognition for regulated trades and professions. Only a handful of professions, such as lawyers and architects, have agreed to cross-border credential recognition.

Trilateral progress on labor mobility has been impeded by the fact that the right to work has not been divorced from the right of citizenship. An opportunity for change may be on the horizon. With a growing number of **effective non-immigrant labor programs** (such as the TN visa and Canada's Temporary Foreign Worker Program), the pressure created by Canada's skilled labor shortage and the fact that Mexican growth has reversed the flow of migration from the U.S. to Mexico, now is the time to **make NAFTA a global leader on innovative programs for labor mobility and worker certification**.

The first priority is to **ensure that workers have the skills they need for the workforce and that these skills are easy to verify** at sites where they are needed. These activities demand the cooperation of employers, educators, certifying agencies, unions, and governmental education and labor officials. In the early days of NAFTA, progress on mutual recognition was poor because there was no incentive for regulators to lower barriers to foreigners who would compete with domestic workers. Today, shortages in skilled trades such as welding, heavy equipment operation and pipefitting have employers demanding streamlined cross-border movement, recognition of foreign-acquired skills, and targeted training to cover the gaps (Dawson 2013).

Recognizing that the number one impediment to growth for many North American industries is a **shortage of skilled workers**, the defunct **NAFTA Temporary Entry Working Group should be resurrected as a Skills and Mobility Working Group**. Its mandate would be to meet regularly with employers, unions, and officials to develop pilot programs in high demand sectors that can be expanded and formalized once a track record of success is achieved. The group could also encourage student and faculty educational exchanges, particularly in STEM[15] subjects.

Mexico and the United States have already embarked on a bilateral program to improve education cooperation and it is worthwhile considering the potential for trilateralizing this approach. **Increased student exchanges and research collaboration at the tertiary level** will benefit the formation of human capital in all three countries, and will be applauded by businesses anxious to secure access to skilled labor.

Mutual trust and reliability is central to the trilateral relationship. As such, **Canada should immediately remove the visa requirement for Mexican travelers imposed in 2009**. Continual delays to the promised removal make it very difficult for Mexico to take seriously any Canadian proposals to improve the economic relationship. The Canadian visa process for Mexicans has been accused of being more onerous than the United States, requiring more bank account information and personal data.[16] If Canada insists on keeping a visa requirement, a better solution would be for Canada to **accept the U.S. visa** instead, as Mexico does for citizens of other countries.[17]

Energy

Access to sustainable, affordable energy supplies is key to GDP growth and provides NAFTA companies with a global competitive advantage. North America is on track to meet substantially all of its domestic energy needs within the next two decades. The shale gas revolution, the rapid development of Canadian oil sands, as well as the potential for a meaningful opening of the Mexican hydrocarbons sector, mean that the region should have access to low-cost, secure supplies of oil, gas and electricity for the foreseeable future. What it lacks is an effective continental framework to manage sustainable resource development, use, and distribution.

The leading business organizations of the three countries have recommended the **formation of a trilateral committee at the deputy minister/deputy secretary level** to identify key priorities and opportunities, mechanisms for collaboration, and

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[15] Science, technology, engineering and mathematics.
[16] The burdensome Canadian visa has gained sufficient notoriety to be referenced in a Mexican soap opera (The boyfriend is being interrogated by the girlfriend and he responds "You ask more questions than the Canadian Embassy"!).
[17] This approach is broadly similar to the joint Canada-US Reciprocal Visa Program that the Tourism Industry Association of Canada is proposing to facilitate entry by travellers from third countries.

regular review conferences with the private sector (Business Roundtable *et al*. 2013).

Some of the focus areas for the proposed trilateral energy committee:

- develop technologies for **lower carbon energy and energy efficiency;**
- improve the security and reliability of **cross-border infrastructure** and **offshore safety** standards and practices;
- **align regulatory standards for smart grids** and different types of renewable energy;
- reduce regional and local trade barriers to **cross-border sales** of energy; and
- align **clean energy incentive programs** such as feed-in tariffs and carbon taxes.

A **North American Energy Working Group** showed considerable potential in the early 2000s for understanding the regions' energy needs and supply potential and could serve as an institutional model for this committee as could Canada's Responsible Resource Development Initiative. As well, NAFTA Chapter 6 provides a foundation for future development.

However, before we can make real progress on the shared development of energy resources, a number of impediments originating in the United States need to be resolved. These include **Congressional approval for the proposed Trans-boundary Hydrocarbon Reserves in the Gulf of Mexico Agreement** and **White House approval of the Keystone XL pipeline.**

Leadership and Stakeholder Engagement: From Vision to Action

The institutional proposals set out here require broad-based legitimacy to be successful. The Canada-U.S. regulatory and borders initiatives have worked well because they have had the blessing of the President and Prime Ministers and high-level official attention. Similarly, there is a need to secure a more broadly based legitimacy for future trilateral arrangements. We propose the **creation of a 'blue-ribbon panel,' to better articulate a vision of the regional economy over the next 10 to 15 years**.

While the high-level panel would provide political momentum, each focus area should be **supported by a stakeholder group** so that business and sectoral leaders can provide practical advice on initiatives that directly affect them with the commitment from government representatives that they will respond to their input. (The RCC provides a good model of responsive sectoral dialogues.)

Organizing Principles: A Framework for North American Competitiveness

Joint research and consultation

National sovereignty conflicts with our ability to impose an obligation to cooperate except on matters agreed upon by treaty. But successful cross-border institutions have taught us that if we **begin with a sincere commitment to consult, and if we agree that mutual solutions are often more effective than individual ones**, then we can stack the deck in favor of cooperative actions. Moreover, if, like the IJC we expand the mandate to consult to include joint research, fact-finding and outreach, then we can make build public consensus for cross-border cooperation.

Embedded regionalism

The concept of a regional economy and **regional supply chains as a platform for global competitiveness** must become embedded in our collective consciousness. National protectionism is a waste of time. Even though Canadian and American assembly jobs are moving to Mexico, at least they are offset by other benefits provided by the regional relationship, such as opportunities from higher value-added activities, joint ventures, and investment. By contrast, when those jobs leave for China, they are just gone.

Variable speeds on the same highway

Agreement among three parties will be a continuing challenge for a North American competiveness framework. If we are pragmatic, then **we cannot adopt a "trilateral or nothing" approach to cooperation**. Some partners will always be more willing or more prepared to adopt commitments in various issue areas. The United States has a more intensive relationship with Mexico and Canada than Mexico and Canada have with each other. Still, approaching trilateral cooperation through two-track bilateral agreements controlled by the U.S. is neither fair nor efficient.

Instead, we propose a **two-speed approach where all parties make an explicit commitment to trilateral cooperation in an area such as energy efficiency standards for appliances, but parties adopt the commitments at different speeds**. This model requires transparency and the participation of all three countries in decision-making but it also recognizes that two countries can move ahead on a specific initiative while a third may hold back.

Prospects for long-term success can be strengthened by progress in the **short-term deliverables** articulated here, some of which could be **launched during the North American Leaders Summit** expected in early 2014.

Conclusion

The long-term outlook for North American competitiveness is bright. The combination of low energy prices and abundant supply, a demographic profile that is much younger than that of either Europe or China, a booming Mexican economy, and an openness to global trade and investment means that all three NAFTA countries can look towards the future with optimism.

But the rest of the world will not stand still and we must avoid complacency. North America's future demands deeper integration of our economies and streamlined cross-border processes. Essential elements in ensuring long-term competitiveness include infrastructure spending, energy cooperation, investing in human capital formation, increasing labor mobility and labor market flexibility, regulatory cooperation and more efficient border management.

It was once believed that Mexico, the United States and Canada were distant neighbors whose economies were engaged in direct competition and where gains on one side of the border meant losses on the other. The three countries are now deeply integrated economies and trade among the three countries is not a zero-sum game but a question of mutual interest.

Unlike two decades ago, when the agreement to launch a free trade agreement in North America generated enormous controversy, each of the three NAFTA economies is now inextricably linked to those of its neighbors. This does not mean that economic integration across the border is uncomplicated and that there are no legitimate disputes or real dislocations within particular industries that will need to be addressed. But it is clear that improving the competitiveness of one country increases the competitiveness of all.

Que tiene un buen vecino tiene un buen amigo.
He who has a good neighbor, has a good friend.

Mexican Proverb

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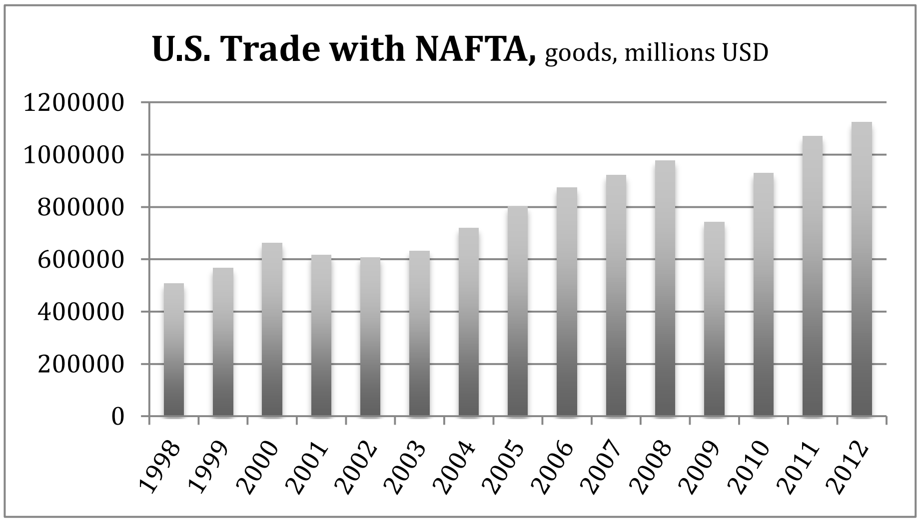
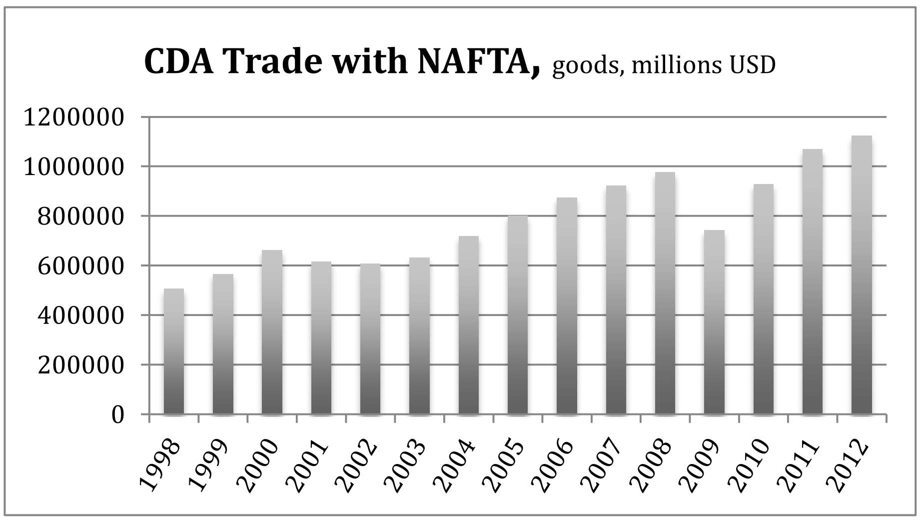
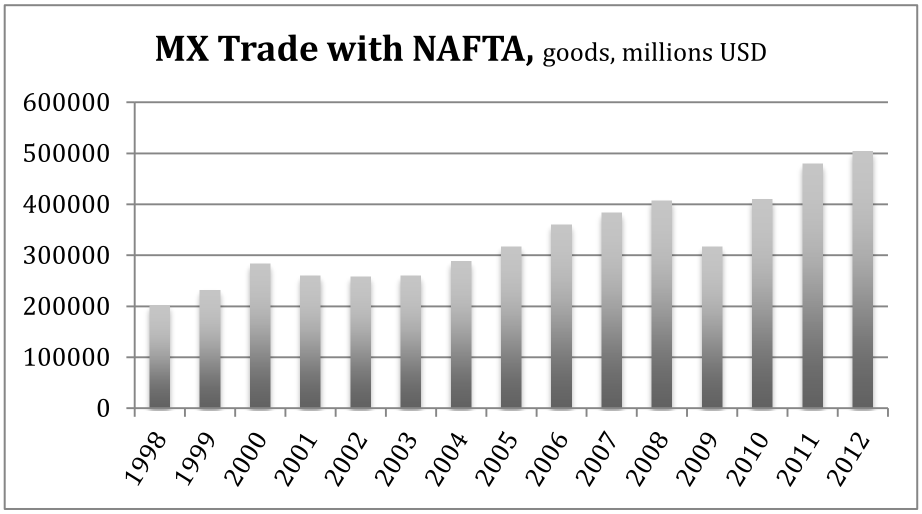
Annex 1 – NAFTA Trade Statistical Summary

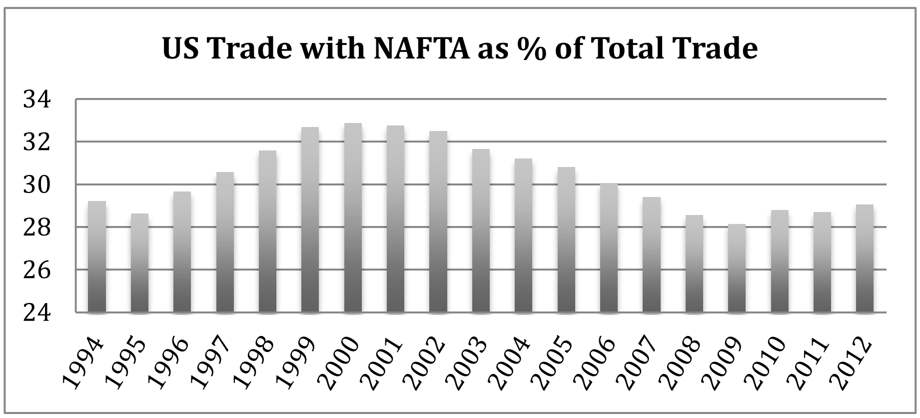
In absolute terms, intra-NAFTA trade is increasing

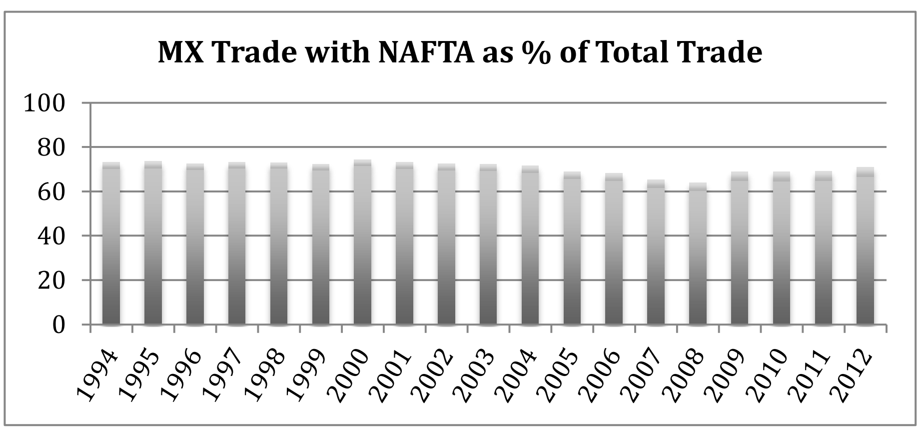


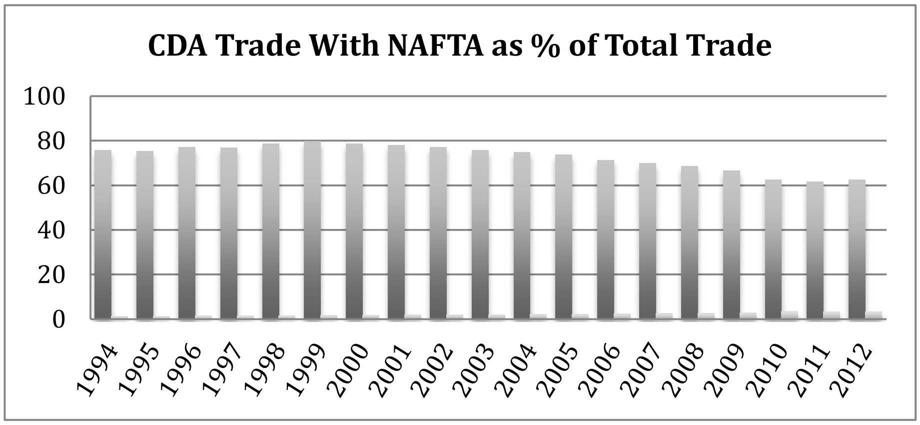




But the relative importance of intra-NAFTA is declining for all trading partners but particularly the United States.







Trade diversification is a healthy policy option but makes it difficult to build support for renewed engagement with existing trading partners.

Year	Canada Trade with World			Total NAFTA Trade as % of Total World Trade
	Exports	Imports	Total Trade	
1994	165,220	148,425	**313,644**	76
1995	191,062	164,315	**355,377**	75
1996	202,286	170,564	**372,849**	76
1997	215,296	197,149	**412,445**	76
1998	214,707	201,202	**415,909**	78
1999	239,198	215,635	**454,833**	79
2000	278,218	240,363	**518,581**	78
2001	260,959	221,581	**482,539**	78
2002	252,416	222,216	**474,632**	78
2003	271,966	239,837	**511,803**	76
2004	316,762	273,427	**590,190**	75
2005	360,164	314,360	**674,524**	73
2006	388,314	350,113	**738,427**	71
2007	418,978	378,953	**797,931**	70
2008	453,560	407,135	**860,695**	68
2009	315,036	319,945	**634,981**	66
2010	387,290	391,994	**779,284**	66
2011	452,424	451,353	**903,777**	65
2012	454,643	462,257	**916,900**	66

Source: Statistics Canada, US Census Bureau, and Ministry of Economy Mexico (2013)
Units: Value in Millions of US Dollars

Year	US Trade with World			Total NAFTA Trade as % of Total World Trade
	Exports	Imports	Total Trade	
1994	512,626	663,256	**1,175,882**	29
1995	583,046	743,543	**1,326,588**	29
1996	625,075	795,289	**1,420,364**	30
1997	689,182	869,704	**1,558,886**	31
1998	682,138	911,896	**1,594,034**	32
1999	695,797	1,024,618	**1,720,415**	33
2000	781,918	1,218,022	**1,999,940**	33
2001	729,100	1,140,999	**1,870,100**	33
2002	693,103	1,161,366	**1,854,469**	32
2003	724,771	1,257,121	**1,981,892**	32
2004	818,775	1,469,704	**2,288,479**	31
2005	905,978	1,673,455	**2,579,432**	31
2006	1,036,635	1,853,938	**2,890,573**	30
2007	1,162,479	1,956,962	**3,119,441**	29
2008	1,287,442	2,103,641	**3,391,083**	29
2009	1,056,043	1,559,625	**2,615,668**	28
2010	1,278,263	1,913,160	**3,191,423**	29
2011	1,480,552	2,206,929	**3,687,481**	29
2012	1,546,455	2,275,392	**3,821,847**	29

Year	Mexico Trade with World			Total NAFTA Trade as % of Total World Trade
	Exports	Imports	Total Trade	
1994	60,817	79,346	**140,163**	75
1995	79,541	72,453	**151,994**	74
1996	96,004	89,469	**185,473**	74
1997	110,237	109,808	**220,045**	74
1998	117,539	125,373	**242,912**	74
1999	136,362	141,975	**278,337**	73
2000	166,121	174,458	**340,579**	75
2001	158,780	168,396	**327,176**	74
2002	161,046	168,679	**329,725**	73
2003	164,766	170,546	**335,312**	73
2004	187,999	196,810	**384,808**	73
2005	214,233	221,820	**436,053**	70
2006	249,925	256,052	**505,977**	69
2007	271,875	281,949	**553,825**	66
2008	291,343	308,603	**599,945**	65
2009	229,783	234,385	**464,168**	70
2010	298,473	301,482	**599,955**	70
2011	349,375	350,843	**700,218**	70
2012	370,915	370,752	**741,666**	71

The picture is similar for investment. Even though intra-NAFTA investment is increasing in absolute terms, it is decreasing in relative terms as we become more diversified. The relative intensity of CDA and US investment in MX is surprisingly low.

STOCK OF FOREIGN DIRECT INVESTMENT ABROAD

(millions of $US)

UNITED STATES	**1995**	**2000**	**2005**	**2010**
TOTAL US FDI ABROAD	699015	1316247	2241656	3741910
US FDI in CANADA	83498	132472	231836	295206
US FDI in CANADA as % of total US FDI abroad	12	10	10	8
US FDI in MEXICO	16873	39352	73687	85751
US FDI in MEXICO as % of total US FDI abroad	2	3	3	2

Source: Balance of Payments and Direct Investment Position Data, Bureau of Economic Analysis, Department of Commerce

CANADA	**1995**	**2000**	**2005**	**2010**
TOTAL Canada FDI ABROAD	156586	346223	439152	618904
Canada FDI in U.S.	82123	172811	196560	244092
Canada FDI in U.S. as % of total Cdn FDI abroad	52	50	45	39
Canada FDI in MEXICO	921	3746	4270	4761
Canada FDI in MEXICO as % of total Cdn FDI abroad	1	1	1	1

Source: Canadian Direct Investments Abroad, Department of Foreign Affairs, Trade and Development Canada

MEXICO	**1995**	**2000**	**2005**	**2010**
TOTAL Mexico FDI ABROAD	4181	8273	64205	104301
Mexico FDI in U.S.	1850	7462	3595	10970
Mexico FDI in U.S. as % of total Mex FDI abroad	44	90	6	11
Mexico FDI in CANADA	156	209	313	185
Mexico FDI in CANADA as % of total Mex FDI abroad	4	3	0	0

Source: Inward and outward foreign direct investment stock, UNCTAD; Balance of Payments and Direct Investment Position Data, Bureau of Economic Analysis, Department of Commerce; Foreign Direct Investment in Canada, Department of Foreign Affairs, Trade and Development Canada

Goods	Canada Exports			Canada Imports			
Year	US	Mexico	NAFTA	US	Mexico	NAFTA	Total Trade with NAFTA
1994	134,196	793	**134,989**	100,551	3,313	**103,864**	238,853
1995	151,348	846	**152,193**	109,772	3,899	**113,671**	265,865
1996	163,678	923	**164,601**	115,109	4,426	**119,535**	284,137
1997	176,160	922	**177,083**	133,202	5,072	**138,274**	315,357
1998	181,997	989	**182,986**	137,273	5,180	**142,452**	325,439
1999	207,335	1,085	**208,421**	145,082	6,418	**151,500**	359,920
2000	241,909	1,370	**243,279**	154,630	8,120	**162,750**	406,029
2001	227,161	1,779	**228,940**	140,972	7,829	**148,801**	377,741
2002	219,929	1,541	**221,470**	139,139	8,115	**147,254**	368,724
2003	233,172	1,578	**234,750**	145,427	8,698	**154,125**	388,875
2004	267,479	2,379	**269,858**	160,565	10,322	**170,887**	440,745
2005	301,882	2,778	**304,661**	177,589	12,047	**189,636**	494,296
2006	316,685	3,858	**320,543**	192,096	14,125	**206,221**	526,764
2007	330,859	4,613	**335,472**	205,516	15,984	**221,500**	556,973
2008	352,237	5,482	**357,720**	213,180	16,807	**229,986**	587,706
2009	236,518	4,206	**240,725**	163,584	14,480	**178,064**	418,789
2010	289,988	4,863	**294,851**	197,447	21,470	**218,917**	513,768
2011	333,398	5,537	**338,935**	223,727	24,842	**248,569**	587,504
2012	338,862	5,391	**344,253**	234,019	25,534	**259,553**	603,806

Sources: Statistics Canada & US Census Bureau (2013)
Units: Value in Millions of US Dollars

Goods	US Exports			US Imports			
Year	**Canada**	**Mexico**	**NAFTA**	**Canada**	**Mexico**	**NAFTA**	**Total Trade with NAFTA**
1994	114,439	50,843	**165,282**	128,406	49,494	**177,900**	343,182
1995	125,967	46,311	**172,278**	144,370	62,101	**206,470**	378,749
1996	134,210	56,792	**191,002**	155,893	74,297	**230,190**	421,192
1997	151,767	71,388	**223,155**	167,234	85,938	**253,172**	476,327
1998	156,603	78,772	**235,376**	173,256	94,629	**267,885**	503,261
1999	166,600	86,909	**253,509**	198,711	109,721	**308,432**	561,941
2000	178,941	111,349	**290,290**	230,838	135,926	**366,765**	657,055
2001	163,424	101,296	**264,721**	216,268	131,338	**347,606**	612,326
2002	160,923	97,470	**258,393**	209,088	134,616	**343,703**	602,096
2003	169,924	97,412	**267,335**	221,595	138,060	**359,655**	626,990
2004	189,880	110,835	**300,715**	256,360	155,902	**412,261**	712,976
2005	211,899	120,365	**332,263**	290,384	170,109	**460,493**	792,756
2006	230,656	133,979	**364,635**	302,438	198,253	**500,691**	865,326
2007	248,888	136,092	**384,980**	317,057	210,714	**527,771**	912,751
2008	261,150	151,220	**412,370**	339,491	215,942	**555,433**	967,803
2009	204,658	128,892	**333,550**	226,248	176,654	**402,903**	736,453
2010	249,105	163,473	**412,578**	277,647	229,908	**507,555**	920,133
2011	280,764	197,544	**478,308**	316,511	263,106	**579,616**	1,057,924
2012	291,757	216,331	**508,088**	324,246	277,653	**601,899**	1,109,987

Sources: Statistics Canada & US Census Bureau (2013)
Units: Value in Millions of US Dollars

Goods	Mexico Exports			Mexico Imports			
Year	US	Canada	NAFTA	US	Canada	NAFTA	Total Trade with NAFTA
1994	49,494	3,313	**52,807**	50,843	793	**51,636**	104,443
1995	62,101	3,899	**66,000**	46,311	846	**47,157**	113,157
1996	74,297	4,426	**78,723**	56,792	923	**57,715**	136,438
1997	85,938	5,072	**91,010**	71,388	922	**72,310**	163,320
1998	94,629	5,180	**99,809**	78,772	989	**79,761**	179,570
1999	109,721	6,418	**116,139**	86,909	1,085	**87,994**	204,133
2000	135,926	8,120	**144,046**	111,349	1,370	**112,719**	256,765
2001	131,338	7,829	**139,167**	101,296	1,779	**103,075**	242,242
2002	134,616	8,115	**142,731**	97,470	1,541	**99,011**	241,742
2003	138,060	8,698	**146,758**	97,412	1,578	**98,990**	245,748
2004	155,902	10,322	**166,224**	110,835	2,379	**113,214**	279,438
2005	170,109	12,047	**182,156**	120,365	2,778	**123,143**	305,299
2006	198,253	14,125	**212,378**	133,979	3,858	**137,837**	350,216
2007	210,714	15,984	**226,698**	136,092	4,613	**140,705**	367,403
2008	215,942	16,807	**232,749**	151,220	5,482	**156,702**	389,451
2009	176,654	14,480	**191,134**	128,892	4,206	**133,098**	324,233
2010	229,908	21,470	**251,378**	163,473	4,863	**168,336**	419,714
2011	263,106	24,842	**287,948**	197,544	5,537	**203,081**	491,029
2012	277,653	25,534	**303,187**	216,331	5,391	**221,722**	524,909

Sources: Statistics Canada, US Census Bureau, and Ministry of Economy Mexico (2013)
Units: Value in Millions of US Dollars

TWO-WAY TRADE WITH PARTNERS IN NORTH AMERICA, ASIA AND EUROPE 1998-2012

(millions of US $)

UNITED STATES	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
CANADA AND MEXICO (Services)	62887	69309	69190	72485	77582	83538	91791	99712	108238	112529	103191	117842	127413	134481
JAPAN AND CHINA (Goods)	284232	328868	306388	321516	352772	417264	481778	554188	598367	620464	519255	643558	704902	759137
JAPAN AND CHINA (Services)	53949	59115	55962	57891	56793	68509	77612	85290	88666	91528	86553	101068	111306	119972
GERMANY AND U.K. (Goods)	160281	174033	171851	164076	175055	192711	211303	232090	254250	269377	211769	232587	259452	271077
GERMANY AND U.K. (Services)	86879	92412	89606	95593	104308	118630	126028	137306	155907	166307	143814	147522	160517	165146

CANADA	**1999**	**2000**	**2001**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
U.S. AND MEXICO (Services)	39252	43701	43099	44274	48268	51841	56557	62868	69903	73018	68830	82322	90283	91540
JAPAN AND CHINA (Goods)	7563	8740	8139	7955	9277	11779	13522	15187	17431	20220	17048	21777	27785	29739
JAPAN AND CHINA (Services)	n.a.	3446	3479	4074	3828	4575	4854	5253	5097	5082	4913	5704	7149	2751
GERMANY AND U.K. (Goods)	4874	5993	5159	4703	6423	8007	9486	12426	15495	16398	13824	19715	22997	22349
GERMANY AND U.K. (Services)	n.a.	6971	6814	7315	8314	9410	10156	11622	12580	12575	10846	12477	14186	9949

MEXICO	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
U.S. AND CANADA (Services)	23635	27392	27925	30299	31712	34319	38272	40152	42267	43927	38649	41040	42816	42941
JAPAN AND CHINA (Goods)	8125	10771	13764	17471	19143	27134	33380	43015	49895	55064	47734	66731	76958	82925
JAPAN (Services)*	n.a.	1198	1254	1215	640	839	1118	1038	1182	1559	976	974	905	n.a.
GERMANY AND U.K. (Goods)	8750	9267	9712	9239	9909	11131	14014	15475	18648	21959	16018	18387	21506	23000
GERMANY AND U.K. (Services)	n.a.	1497	1581	1776	1773	2270	2016	2275	2755	3437	2796	3280	3383	n.a.

*Information not available for trade in services with China

Sources: International Transactions Data, Bureau of Economic Analysis, U.S. Department of Commerce; International Commerce by Country, Department of Foreign Affairs, Trade and Development Canada; Trade Data Online, Industry Canada; Trade Map, International Trade Center,Información estadística y Arancelaria, Secretaría de Economía de México; StatExtracts, Organization for Economic Co-operation and Development; and Trade Data Online, Industry Canada.

Annex 2: Institutions of North American Cooperation

NAFTA COMMITTEES AND WORKING GROUPS

- Committee on Trade in Goods
- Working Group on Textiles & Apparel (WGTA)
- Committee on Trade in Worn Clothing
- Working Group on Rules of Origin
- Customs Subgroup
- Committee on Agricultural Trade (COA)
- Working Group on Tariff Rate Quota Administration
- Working Group on Agricultural Subsidies
- Advisory Committee on Private Commercial Disputes Regarding Agricultural Goods
- Committee on Sanitary and Phytosanitary Measures
- Technical Working Groups on Sanitary and Phytosanitary Measures
- Committee on Standards Related Measures (CSRM)
- Land Transportation Standards Sub-Committee
- Telecommunications Standards Sub-Committee
- Automotive Standards Council
- Sub-Committee on Labelling of Textile and Apparel Goods
- Sub-Committee on Labelling of Packaging and Food Standards
- Working Group on Government Procurement and Committee on Small Business
- Investments Experts Group (IEG)
- Working Group on Services
- Financial Services Committee
- Ad-Hoc Committee of Experts on Trade and Competition Policy
- Temporary Entry Working Group
- Chapter 19 Operational Working Group
- Advisory Committee on Private Commercial Disputes

TRILATERAL COOPERATION AGREEMENTS

North American Agreement on Environmental Cooperation (NAAEC) - 1993

The NAAEC was established in order to address environmental issues of continental concern, it supports the environmental goals and objectives of the NAFTA, while avoiding the creation of trade distortions or new trade barriers. The strategic framework for the regular project activity includes three broad priorities for the cooperative work program of the Commission: Healthy Communities and Ecosystems; Climate Change – Low-Carbon Economy; and Greening the Economy in North America. Additionally, the NAAEC tackles local environmental challenges by means of its annual Environmental Grants Program (NAPECA).
http://www.cec.org/Page.asp?PageID=1115&BL_WebsiteID=1

North American Agreement on Labor Cooperation (NAALC) - 1994

The NAALC is a parallel agreement on labor cooperation designed to promote the effective enforcement of each country's labor laws and regulations, to improve the working conditions and standards of living, and to facilitate further cooperation between NAFTA partners on labor matters. The procedures for claims were long and complicated, never reaching beyond ministerial consultations. As a result, the labor unions and private organizations turned to the ILO or the IACHR, which could actually impose sanctions, and the NAALC and its institutions were slowly deactivated. Its last working group meeting took place in 2004. http://www.naalc.org/

Trilateral Cooperation Charter (TTC) – 2004

The TTC is an international mechanism aimed at increasing cooperation, communication, and information exchange in the drugs, biologics, medical devices, food safety, and nutrition sectors to protect and promote public health. Its working groups include the Canada-U.S.-Mexico Compliance Information Group, Mexico-U.S.-Canada Health Fraud Group (MUCH), Emergency Preparedness and Response Working Group (EPR), and the Laboratory Cooperation Working Group. It has been denounced as a step towards the "harmonization" of North America as a region by groups such as the manufacturers of dietary supplements.
http://www.fda.gov/NewsEvents/Newsroom/PressAnnouncements/2004/ucm108254.htm

The Security and Prosperity Partnership of North America (SPP) – 2005

The SPP was established to promote growth and economic opportunity, to increase security, and to improve the quality of life of those in the region. It included agreements in areas such as the steel sector, rules of origin, infectious disease outbreaks (the Pulse-Net between Canada and the U.S.), safety standards for consumer goods, pipeline regulatory cooperation (Canada-U.S.), the Open-Skies aviation agreement (Canada-U.S.), expansion of air services and code-sharing (Mexico-U.S.), increased navigational accuracy (Canada-Mexico), the U.S.-Mexico Voluntary Repatriation Program, food safety, compatibility of energy regulation, and cross-border public health emergencies. Other achievements included border security and expediting cross-border trade and travel.
http://www.pm.gc.ca/eng/media.asp?id=1084

CANADA-U.S. BILATERAL COOPERATION

International Joint Commission (IJC) - 1912

The IJC regulates shared water uses, the investigation of transboundary issues and proposal of solutions. The IJC's recommendations and decisions take into account a wide range of water uses, including drinking water, commercial shipping, hydroelectric power generation, agriculture, industry, fishing, recreational boating, and shoreline property. The Commission prevents and resolves disputes between the U.S. and Canada under the 1909 Boundary Waters Treaty, and

includes the implementation of the Great Lakes Water Quality Agreement and the improvement of transboundary air quality.
http://www.ijc.org/en_/Role_of_the_Commission

North American Aerospace Defense Command (NORAD) – 1958 (renewed 2006)

NORAD is a bi-national organization in charge of aerospace warning and aerospace control for North America, which includes the detection, validation, and warning of attack against North America whether by aircraft, missiles or space vehicles. At the same time, NORAD ensures air sovereignty and air defense of the airspace of Canada and the United States. The Agreement was renewed in 2006 to add a maritime warning mission.
http://www.norad.mil/Home.aspx

Canada-U.S. Border Cooperation (Smart Border Declaration and Action Plan) - 2001

This agreement was intended to enhance cooperation in the secure flow of people and goods, secure infrastructure; and information sharing. It included: the Cross-Border Crime Forum (CBCF) to address transnational crime issues; Integrated Border Enforcement Teams (IBETs) to fight against cross-border criminal activity; and Project North Star providing a mechanism to enhance existing communications, cooperation, and partnership between agencies and personnel that operate within the U.S.-Canada border area.
http://actionplan.gc.ca/en/page/bbg-tpf/canada-us-border-cooperation

Beyond the Border Action Plan (BTB) – 2011

This Canada-U.S. initiative promotes the strengthening of mutual security by addressing threats as early as possible at the perimeter of North America. It seeks to facilitate trade, economic growth and jobs; build on successful cross-border law enforcement programs; and enhances cross-border critical and cyber infrastructure.
http://actionplan.gc.ca/en/page/bbg-tpf/beyond-border-action-plan-brief

Regulatory Cooperation Council (RCC) - 2011

The RCC Joint Action Plan addresses regulatory cooperation between Canada and the United States, focusing on the areas of agriculture and food, transportation, health and personal care products and workplace chemicals, the environment and two cross-sectoral areas – nanotechnology and small business lens.
http://actionplan.gc.ca/en/page/rcc-ccr/regulatory-cooperation-council

MEXICO-U.S. BILATERAL COOPERATION

U.S.-Mexico Binational Commission - 1981

The Commission (BNC) is a forum designed to allow for regular exchanges at the cabinet-level on a wide range of issues critical to U.S.-Mexico relations. It has created working groups in areas like homeland security and border cooperation; energy; and education.
http://www.state.gov/p/wha/ci/mx/c10787.htm

North America Development Bank (NADB) – 1993

The NADB and its sister institution, the Border Environment Cooperation Commission (BECC), were created by the governments of the United States and Mexico in a joint effort to preserve and enhance environmental conditions and the quality of life of people living along the U.S.-Mexico border. Currently, both institutions function together, working with communities and project sponsors in order to finance and build self-sustaining and affordable projects.

http://www.nadbank.org/about/mission.asp

U.S.-Mexico Border Health Commission – 2000

The Commission is focused in providing international leadership to optimize health and quality of life along the U.S.-Mexico border. Key priorities for the BHC include obesity and diabetes, strategic planning, research, data collection, and academic alliances.
http://www.borderhealth.org/about_us.php

Memorandum of Understanding concerning the Joint Grant Contributions for Drinking Water Supply and Wastewater Infrastructure Projects for Communities in the United States – Mexico Border Area – 2000

This MOU addresses transboundary water and sanitation problems. To date, both governments have supported the implementation of 51 drinking water supply and wastewater infrastructure projects in Mexico, with an investment of $232 million from the U.S. Border Environment Infrastructure Fund (BEIF) and 232 million from Mexican programs.
http://www.un.org/waterforlifedecade/water_cooperation_2013/mexico_usa_case.shtml

U.S.-Mexico High Level Regulatory Cooperation Council (HLRCC) - 2010

The Council was created to improve the economic competitiveness and well-being of both countries through enhanced regulatory cooperation. It includes areas such as food, food safety modernization, E-certification for plants and plant products, **commercial motor vehicle safety standards and procedures, nanotechnology, E-Health, offshore oil and gas development standards, and accreditation of conformity assessment bodies.**
http://trade.gov/hlrcc/

U.S.-Mexico Transboundary Hydrocarbons Agreement - 2012

This Agreement refers to the development of oil and gas reservoirs that cross the international maritime boundary between the two countries in the Gulf of Mexico. It is designed to improve energy security in North America and to exercise responsible stewardship of the Gulf of Mexico, based on a commitment to the safe, efficient, and equitable development of transboundary reservoirs.
http://www.state.gov/r/pa/prs/ps/2013/05/208650.htm

Merida Initiative - 2012

The Merida Initiative was created to combat organized crime and associated violence while supporting respect for human rights and the rule of law. It is based on principles of shared responsibility, mutual trust, and respect for sovereign independence. The Initiative searches to disrupt criminal organizations while strengthening institutions and building strong communities.

http://www.state.gov/j/inl/merida/

CANADA-MEXICO BILATERAL COOPERATION

Air Transport Agreement – 1961 (amended 1999 and 2007)

This agreement was established to provide airlines from both countries with greater market access for passenger, combination and all-cargo services, including pricing flexibility. The agreement seeks to increase the number of people and cargo travelling between Mexico and Canada.
http://www.tc.gc.ca/eng/mediaroom/releases-2011-h072e-6422.htm

Seasonal Agricultural Worker Program (SWAP) – 1974

The SWAP was established in order to satisfy the demand for labour in the Canadian agricultural sector. The Secretaria del Trabajo y Previsión Social in Mexico is responsible for the recruitment process and HRSC is responsible for the protection of the human rights of the workers from their arrival into Canada. In effect since 1974, the number of workers has increased exponentially from 203 to more than 14,000 in 2007. This program is frequently used as a model of international labour mobility arrangements. http://consulmex.sre.gob.mx/montreal/index.php/es/programa-de-trabajadores-agricolas

Electoral Cooperation - 1996

The Electoral Cooperation Agreement was signed by Elections Canada and the Instituto Federal Electoral (IFE) de México in order to hold consultations and information exchange concerning the organization of elections, including a joint analysis of both agencies.
http://www.canadainternational.gc.ca/mexico-mexique/bilat/electcoop-coopelect.aspx

Canada-Mexico Partnership (CMP) – 2004

The CMP promotes collaboration between the public and private sectors in trade, investment, and innovation issues; agribusiness; housing and community development; environment and forestry; human capital development; energy; and labour mobility. Additionally, it involves annual security consultations and political-military talks through the Anti-Crime Capacity Building program.
http://www.canadainternational.gc.ca/mexico-mexique/cmp-pcm.aspx?lang=spa

Canada Mexico Joint Action Plan – 2007 (updated 2010)

The 2010 Action Plan focuses on the following bilateral priorities: fostering competitive and sustainable economies; protecting our citizens; enhancing people-to-people contacts; and projecting our partnership globally and regionally. The plan searches to intensify trade and investment, improve regulatory cooperation, promote social responsibility and clean technologies, and crime prevention. http://embamex.sre.gob.mx/canada/images/mexico-jap.pdf

Anti-Crime Capacity Building Projects (ACCBP) – 2009

Canada's Department of Foreign Affairs, Trade and Development established the Anti-Crime Capacity Building Program to provide technical assistance to key beneficiary states, government entities, and international organizations. In Mexico, these efforts focus on education and training for judges; licensing and education for lawyers; and harmonization of criminal legislation and strengthening of prosecution service. http://www.pm.gc.ca/eng/media.asp?id=3392

INTERNATIONAL COOPERATION AND INFORMATION SHARING

U.S. Financial Crimes Enforcement Network (FinCEN) - 1990
FinCEN combats money laundering and terrorism financing by receiving and maintaining financial transactions data; analyzing and disseminating that data for law enforcement purposes; and building global cooperation with counterpart organizations in other countries and with international bodies. FinCEN exchanges financial information with FIU counterparts around the world in support of U.S. and foreign financial crime investigations. FinCen works closely with Canada's Financial Transactions and Report Analysis Centre (FINTRAC).
http://www.fincen.gov/

Integrated Terrorism Assessment Centre (ITAC) – 2004
ITAC is comprised of experts from across the Canadian security intelligence community to produce integrated threat assessments which are circulated among participating agencies as well as other groups involved in Canadian security, such as first responders. Furthermore, ITAC works with centres with similar mandates in the United Kingdom, United States, Australia, and New Zealand. Therefore, relevant threat assessments are also shared with these countries.
http://www.itac.gc.ca/bt/index-eng.asp

NON-PROFIT ORGANIZATIONS

The Fruit and Vegetable Dispute Resolution Corporation (DRC) - 2000

The Fruit and Vegetable Dispute Resolution Corporation (DRC) was established pursuant to Article 707 of NAFTA, which provides for the creation of a private commercial dispute resolution body for trade in agricultural commodities. It is a non-profit, membership-based organization that provides education and dispute resolution services to the produce trade. DRC deals with all types of disputes including condition, contract and payment issue, and can help with disputes that arise between members domestically.
http://fvdrc.com/en/home.aspx

INTER-STATE TRADE ROUTE

CANAMEX Trade Corridor (1995)

CANAMEX Corridor is a joint project of Arizona, Nevada, Idaho, Utah, and Montana to create a direct trade route from Canada to Mexico that offers safe and efficient multi-modal transportation networks; enhanced global competitiveness; and a shared commitment to the region's quality of life by means of 'smart' initiatives to improve freight, tourism, telecommunications access for rural areas, highways, and process partnerships. In 2008, 84% of the highway in the United States and 86% of the highway in Mexico were compliant with the project. The Canadian portion was completed in 2007.
http://www.canamex.org