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Thomas d'Aquino, Special to Financial Post |

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Canada needs to rethink -relationship with Mexico



The visit of Mexico's president-elect Enrique Peña Nieto to Ottawa this week offers Mr. Peña and host Prime Minister Stephen Harper an important opportunity. In diplomatic and strategic terms, this is a *carpe diem* moment that wisely acted on could kick-start a badly needed rethinking of the Canada-Mexico relationship and the broader trilateral relationship with the United States.

The visit of Mr. Peña prior to formally taking office is a smart move and follows a now-established tradition of Mexican presidents-elect visiting Canada and the United States to lay the foundations for future co-operation. As in the case of presidents-elect Ernesto Zedillo, Vicente Fox and Felipe Calderón, the visit will help Mr. Peña take the measure of his Canadian hosts and we in turn will gain some sense of the new leader's priorities.

Canadians would be wise to pay attention. Since the implementation of the North American Free Trade Agreement (NAFTA) in 1994, Canada-Mexico political, economic and cultural co-operation has advanced in important ways. However, in recent years, the Mexico "brand" has

suffered in the eyes of Canadians. Drug wars raging in various parts of the country and some 60,000 related deaths have captured the headlines. Hidden behind this violence and courageous attempts of President Calderón to break the back of the drug cartels is a Mexico that is on the rise. As pointed out in this week's *The Economist*, Mexico's GDP ranks ahead of South Korea's and, in 2011, Mexico's economy grew faster than Brazil's and is expected to do so again this year.

The most significant aspect of Mexico's rise has been the revival of its manufacturing-based competitiveness. Former Mexican finance minister and my fellow co-chair of the North American Forum, Pedro Aspe, recently explained this phenomenon. "As we have seen China's cost competitiveness erode due to higher wages and transportation costs, Mexico has been a major beneficiary, with fresh inflows of investment and the efficient production of an ever-growing number of manufactured goods destined for the United States market." The *Economist* concurs with this optimistic assessment, suggesting that based on present trends "by 2018 America will import more from Mexico than any other country."

Despite this positive prognosis, Mexico's political and business leadership is the first

to acknowledge that the pace of reform must pick up. Unshackling Mexico's state-controlled energy monopolies is long overdue, as is the need to introduce more rigorous competition in a number of key sectors and to get on with the job of reforming the tax system. These reforms, among others, will help raise Mexican annual growth to Mr. Peña's target of 6% and lead to a more rapid reduction of poverty and income inequality. On the law and order front, one of the most effective ways to respond to public concerns about safety in the streets is to accelerate the establishment of a trusted police capability at the federal and state level.

Yes, Mexico continues to face major challenges, but the bottom line is that it is one of the world's most important emerging economies and a hemispheric neighbour with a population of well over 110 million. It also is our partner in one of the world's leading economic blocs — the North American Free Trade Agreement. Continental supply chains are rapidly growing and Canadian foreign direct investment in Mexico continues to expand.

In 1994 and the years that followed, hopes were high that the NAFTA, the most ambitious of trade agreements at the time, would usher in a new era of increasingly seamless cooperation among Canada, Mexico and the United States. The 9/11 catastrophe changed all that. Bilateral border accords were hastily negotiated and attempts to rebuild trilateral co-operation through the Security and Prosperity Partnership and the North American Council on Competitiveness soon fell by the wayside, victims of politics, bureaucratic overload and indifference. Today, "duo bilateralism" has trumped meaningful trilateral co-operation, borders within North America are obstacle courses, and the NAFTA, despite its signal achievements, is uncelebrated and has

become a virtual political orphan.

This carries a big cost to the people of North America and hampers the continent's prospects in the race for global competitiveness — a race that Asian countries that see the advantages of closer regional economic integration are winning hands down.

President-elect Peña and Prime Minister Harper can change this by agreeing on a joint plan aimed at pressing newly re-elected President Obama and congressional leaders to reactivate the trilateral agenda. The top priorities should be: negotiation of a Canada, Mexico, U.S. common external tariff; establishment of an open continental energy market; acceleration of major North American infrastructure initiatives, particularly in the transportation sector; closer co-operation in harnessing innovation and new technologies; and fast-tracking regulatory convergence in key sectors.

Such a plan to build a formidable North American powerhouse will produce concrete results only if it is driven by steely political will. President-elect Peña and Prime Minister Harper should shake hands tomorrow and pledge come hell or high water to get this initiative underway. *Financial Post*

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