

## MEXICO, CANADA AND THE TPP: COMMON ISSUES; COMMON CONCERNS

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Mexico and Canada are celebrating the 70th anniversary of the establishment of their diplomatic relations, both sharing similar challenges and opportunities ahead, and looking to extend their international presence through new agreements with other nations like those participating in the Trans-Pacific Partnership (TPP).

In June of 2012, at the G20 meeting in Los Cabos, Mexico and Canada were invited to join the Trans-Pacific Partnership (TPP) trade negotiations, the culmination of many months of lobbying the then 9 member states engaged in the negotiations.<sup>1</sup> Canada and Mexico, both NAFTA partners of the United States, had initially hung back as the TPP evolved from the initial four small economies (New Zealand, Chile, Singapore and Brunei) to being a significant trade agreement involving the US and a number of countries in Asia-Pacific. By the time Canada and Mexico came to the realization that the TPP was an agreement they needed to be part of, the talks had been underway for several years and a number of elements of the agreement had already been drafted. The newcomers were required to accept all agreed text where consensus had been reached by the other parties, and this “take it or leave it” requirement led to domestic opposition in both countries, along with concern by TPP opponents that the US was using the TPP to push its trade agenda with respect to investment, intellectual property and services.

In Canada, the government had initially ignored the TPP but once the US joined, and as it became clear that the agreement had the potential to become one of the building blocks of a possible broader Free Trade Area of the Asia-Pacific (FTAAP), the scramble to get inside the tent began. Both Canada and Mexico have embarked on an ambitious program of reaching bilateral free trade agreements in the wake of the impasse facing the WTO’s Do’ha Round, with Mexico being somewhat more successful than Canada in actually concluding agreements. Mexico has a network of ten FTAs with 45 countries including an FTA with the EU dating to 2000 and a bilateral agreement with Japan; Canada has just recently concluded a bilateral agreement with the EU and has agreements with Colombia, Peru and Chile, among other relatively minor agreements. In June 2012, Mexico along with Chile, Colombia and Peru, formally established the Pacific Alliance, a mechanism for economic integration that seeks to become an area of deep integration and a platform towards the rest of the world, particularly to the Asia-Pacific region. Nowadays, the Pacific Alliance represents the 10th largest economy in the world, the 7th largest exporter, 35% of GDP in Latin America, 50% of total trade in the region and a potential market of 209 million people. No wonder eight nations, including Canada, have joined as observers to the Pacific

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<sup>1</sup>New Zealand, Singapore, Chile, Brunei, Peru, Malaysia, Australia, Vietnam, United States

Alliance. While it has made some progress in relations with Latin America, Canada has to date been unable to conclude a single agreement with an Asian economy and the TPP offers an avenue to deal with this problem. However, as much as the need to open markets in Asia-Pacific provided impetus for Canada to chase TPP accession, we should not ignore the NAFTA dimension. Once Mexico started to push for TPP membership, and once the US started sending positive signals to Mexico, it became imperative for Canada to be at the table in order to protect its NAFTA gains. Mexico aspired to TPP membership because they feared the consequences of not doing so, given the strategic importance of the TPP. The Agreement presents a great opportunity to diversify Mexican exports, increase supply of inputs and raise competitiveness. Mexico has identified potential benefits of the TPP to be in excess of U.S. \$ 150 billion in terms of exports. . Additionally, Mexico considers how TPP participation could take advantage of its key role as a link between the American and Asian links in the production chain.

NAFTA, like most trade agreements, has its detractors and its proponents—in all three NAFTA countries. It is generally accepted by most economists that the agreement has brought about a significant expansion of trade and has economically benefited all the NAFTA partners. It still remains unpopular in many circles in the US, however, where it is credited with shifting many manufacturing jobs to Mexico. In Mexico, it has been criticized for its impact on farmers where lower cost US corn has displaced many Mexican subsistence producers (NEED MORE ON MEXICAN REACTION—BOTH POSITIVE AND NEGATIVE—TO NAFTA). With regard to Canada, bilateral Canada-US trade grew strongly during NAFTA's first decade but has been gradually declining in recent years, as the US economy has slowed and China's economy has grown. Canadians have watched with concern as many automotive manufacturing jobs have been shifted to Mexico as car manufacturers adjust North American production to lower cost centres, and close Canadian plants in favour of new plants south of the Rio Grande. Canada's main motivation in entering NAFTA was not to open markets in Mexico but to protect the preferential access to the US market that it had gained through the Canada-US FTA in 1989, and its late conversion to the TPP had a lot to do with ensuring that if the US and Mexico were at the negotiating table making deals which would result in new access for others to the US and Mexican markets, Canada had better be at that bargaining table as well.

For the US, the entry of Canada and Mexico into the TPP is a chance to update some of NAFTA's provisions without re-opening NAFTA, which would be risky given anti-NAFTA sentiment in Congress. NAFTA is now over 15 years old, and does not deal well or at all with a number of current trade issues, such as e-commerce, data flows, and trade facilitation issues. The US would also like to expand intellectual property protection in both the NAFTA and non-NAFTA countries within the TPP and the trans-Pacific negotiations offer another route to grapple with these objectives, such as widespread copyright infringement on the Internet and extended protection for brand-name pharmaceutical manufacturers.

For Mexico, like Canada, the TPP offers the prospect of foothold in Asia and in being on the ground floor as the trade architecture of the region is constructed. Mexico has been an APEC member since 1993 (Canada was one of the original founders of APEC in 1989) but APEC provides only a loose framework for

trade liberalization and facilitation. The ten ASEAN countries<sup>2</sup> have taken the lead in forming an ASEAN-centred trade bloc, which if successful will group China, Japan, Korea, India, Australia and New Zealand with the ASEAN countries in a Regional Comprehensive Economic Partnership (RCEP) agreement. All these countries are on the Asian side of the Pacific. Some see the TPP, with its trans-Pacific dimension and US participation, as a rival to the RCEP—although a number of countries are members of both. While there are no doubt elements of competition between the TPP and RCEP (the TPP will result in a considerable trade diversion effect on China for example), there are also elements of complementarity. As Professors Petri and Plummer have pointed out<sup>3</sup>, the really significant gains for all economies come when the TPP and RCEP are combined in a Free Trade Area of Asia Pacific (FTAAP). Mexico, like Canada, wants to be part of such an arrangement if it comes into being, and be in a position to reap benefit from the economic growth expected over the coming decades in Asia. For Mexico, an immediate benefit would be the opening of six new markets (Singapore, Malaysia, New Zealand, Australia, Brunei and Vietnam) and while these are not large economies, harmonized TPP rules and removal of regulatory barriers will bring internal benefits to Mexico as well.

Critics of the TPP complain that the agreement is intrusive because it goes beyond traditional trade issues, such as tariffs, and into new areas. But trade agreements moved beyond simple tariff reductions and customs procedures years ago. As tariffs have come down, the real obstacles to moving goods and services lie in the wide array of “behind the border” measures that government has created; trade barriers disguised as standards, discriminatory regulatory practices etc. The TPP if successful will reduce or eliminate many of these, and exporters and consumers across the region will benefit.

It is fair to say that Canada and Mexico have a great opportunity through the TPP to be part of a historic agreement which will allow them be present in the Asia-Pacific region with preferential access to a market representing a potential market of 198 million consumers, without including NAFTA countries. It is an agreement that not only opens markets for them, but also will create long-term synergies and additional benefits such as taking advantage of the economic cycles of Australia, Singapore, Malaysia and Vietnam which are in turn related with the economies of China and India. There are studies that predict that the economic benefits of this integration could be reflected by an increase of 2.7% in the GDP of TPP’s members in the medium term.

Whether or not the TPP will be successfully concluded is still an open question. The recent accession of Japan to the negotiations made the ultimate gains much more attractive but also introduced a level of complexity and complication that comes with the introduction of a very large economy with special sectoral interests, such as rice, to protect. TPP ministers had hoped to wrap up the negotiations in December in Singapore but were unable to do so. There is an expressed desire by all parties to conclude the agreement in the spring of 2014 but key concessions have yet to be brokered. For both Mexico and Canada, a positive outcome is important. They both took a circuitous route to TPP participation, but now

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<sup>2</sup>Singapore, Malaysia, Indonesia, Thailand, Philippines, Brunei, Myanmar, Vietnam, Cambodia, Laos

<sup>3</sup>Petri, Peter A. and Plummer, Michael G, The Trans-Pacific Partnership and Asia-Pacific Integration: The Policy Implications, Peterson Institute for Economic Research, June 2012

having thrown their hats in the ring they need to work with the other TPP partners to close the deal. This opportunity to construct a trade bridge across the Pacific is too important to miss.