



**Submission to Mexico's Secretariat of Economy on
the Modernization of the North American Free
Trade Agreement**

July 26, 2017

Introduction

The Canadian Chamber of Commerce is pleased to submit comments to Mexico's Secretariat of Economy in response to the open consultation on the modernization of the North American Free Trade Agreement (NAFTA). We welcome the opportunity to engage directly with Mexico's government and the business community at this pivotal time.

In 1994, the North American Free Trade Agreement (NAFTA) came into effect, creating one of the world's largest free trade zones and laying the foundations for strong economic growth and rising prosperity for Canada, Mexico and the United States.

Since then, Canada's trade with the U.S. has risen by 254% to \$670 billion, while our trade with Mexico has grown by a staggering 900% to \$41 billion, sustaining millions of jobs.

Under NAFTA Mexico has emerged to take its place as a powerful partner and engine of the North American economy. Attesting to the country's significance and global connectivity, Mexico has steadily captured growing international attention, including by world markets which saw wild fluctuations in the Mexican peso throughout 2016. Rising prosperity in Mexico is good for North America, and NAFTA has been a powerful tool for our region's growth.

NAFTA has systematically eliminated most tariff and non-tariff barriers to free trade and investment between the three North American countries. This has increased trade and investment levels in North America, bringing strong economic growth, job creation, and better prices and selection in consumer goods. NAFTA improves our competitiveness by providing businesses with better access to materials, technologies, investment capital, and talent available across North America.

More than 20 years after its signing, there are several areas where the Agreement has fallen behind the pace of change. The Canadian Chamber of Commerce believes that the North American partners have an opportunity in this re-negotiation to overhaul a critical but aged agreement. It is our view that the below objectives for a new NAFTA, focused on but not exclusive to the Canada-Mexico relationship, can help us achieve a modernization that is beneficial for all three countries.

Objectives

Increase bilateral engagement between Canada and Mexico

Canada and Mexico are each other's third largest trading partner and Canada is the fifth largest foreign investor in Mexico. Bilateral trade grew nine-fold since the implementation of NAFTA.

Despite this rapid growth, the potential for the Canada-Mexico relationship is still far from met. Mexico is Canada's fifth destination for exports (Canada is Mexico's third largest) and Canadian investment in Mexico remains highly concentrated in a handful of sectors. Re-negotiating the NAFTA presents an opportunity to revitalize our countries' bilateral engagement through increased business-to-business and business-to-government dialogue between our countries, complementing the work of the government-led annual Canada-Mexico Partnership dialogue.

E-commerce and digital trade

E-commerce is arguably the most critical area where the Agreement has fallen behind the pace of change. In the time since NAFTA was negotiated, both Canada and Mexico have negotiated more modern agreements that take into account this crucial ecosystem. It will be critical for the NAFTA partners to

introduce a principles-based e-commerce and digital trade chapter in a new North American Free Trade Agreement to provide greater legal certainty for business.

Dispute Settlement Mechanisms

The Canada-U.S. Free Trade Agreement, a precursor to NAFTA signed in 1987, was in great measure driven by the necessity to establish rules and disciplines when trade disputes arose between the then two partners. The agreement at that time sought relief from lengthy and expensive court proceedings and to avoid deeply damaging trade wars.

Since then, NAFTA-wide dispute settlement mechanisms have become a cornerstone of trade rules in North America. It will be crucially important to retain and improve NAFTA's Chapters 11, 19 and 20 in a new North American Agreement. Chapter 11 should further be extended to cover Mexico's energy sector, keeping up with its pace of reform and openness to private investment.

Preserving NAFTA's Article 802 safeguard exclusions is a priority for business so as to provide certainty to our highly integrated supply chains and to protect industry against unpredictable trade restrictive measures aimed at others. The interconnectedness of the North American value chains makes it highly unlikely that a punitive measure imposed by one partner would not significantly hurt businesses across the region, hence the importance to preserve North America's safeguard exclusions.

Mobility of Workers

North American businesses of all sizes have much to gain from improved labour mobility. The Government of Canada has already recognized this in its recently-launched Global Talent Stream program for highly-skilled workers, as well as through the expansions to labour mobility between Canada and Europe through CETA.

NAFTA's list of professionals eligible for temporary visa status under Chapter 16 has long been outdated. This presents challenges for businesses and professionals whose occupations did not exist at the time the Agreement was negotiated. Unless resolved, this ambiguity will create increasing challenges as jobs change further through technology and new work arrangements, and undermine the goal of professional mobility.

The NAFTA renegotiation is a crucial opportunity to address the efficient movement of professionals across borders to facilitate business in all three countries. In expanding the list of professions eligible for temporary entry under NAFTA's Chapter 16, a modern agreement should be flexible enough to allow for new, as-yet-to-be created professions to be added in the future, keeping pace with the evolving nature of North America's labour markets. To do so, a NAFTA-backed platform for continued Ministerial-level dialogue and regulatory cooperation among all three parties should include worker mobility as an area of discussion.

Lastly, North America's current Mutual Recognition Agreements (MRAs) that permit the recognition of credentials (academic and/or professional) and are intended to foster mobility for highly skilled services providers should be preserved and improved upon. A modern NAFTA should seek to expand these at the federal and sub-national levels with both the United States and Mexico.

Reduce the Administrative burden of Rules of Origin

The rules of origin set out in the NAFTA, designed for goods manufactured in the 1990's, are critically out of date. Product descriptions of goods traded 20 years ago are no longer adequate for today's integrated value chains and advanced manufactures. Working with outdated rules of origin has

implications for business in how their products are classified but also on how regional content is calculated. This impacts purchasing and assembly decisions and ultimately, productivity in the highly-integrated North American supply chains.

A pragmatic modernization of NAFTA's rules of origin, taking into account the delicate balance that has been achieved up until today, should provide greater certainty to North American manufacturers and exporters, allowing for more accurate product descriptions and clearer methods to calculate regional content.

Regulatory cooperation and trade facilitation

Efficient regulation boosts economic performance and enhances the public interest for which the regulation is created. In the deeply interconnected North American trading relationships, a lack of regulatory commonality imposes huge costs and hampers our competitiveness.

The Government of Canada has recognized the need for structured forms of regulatory cooperation, such as through the U.S.-Canada Regulatory Cooperation Council (RCC) established in 2011. More recently, regulatory cooperation was included as a chapter in CETA, which could further serve as inspiration in a modernized NAFTA regulatory cooperation effort. The Chamber urges the inclusion of a Regulatory Cooperation chapter in the NAFTA framework.

Canada and Mexico have in recent years established a productive dialogue on regulatory cooperation in the energy sector, with exchanges at the Federal and Provincial and State levels. This dialogue should be sustained and formalized, notably as it promotes the yet untapped opportunities for investment in Mexico.

To increase the Canada-Mexico regulatory dialogue, the activities proposed by the government-led annual Canada-Mexico Partnership should ideally include greater participation from businesses in both countries, similar to the U.S.-Canada RCC.

Both Canada and Mexico have ratified the World Trade Organization's Trade Facilitation Agreement which, once fully implemented, will improve flows of trade between our countries and with the rest of the world. All three NAFTA partners should strive towards more efficient, secure and borders through the implementation of modern IT platforms, trusted trader programmes and strategic improvements in border infrastructure.

Infrastructure

Public infrastructure is critical to healthy and prosperous economies and societies. The lack of adequate infrastructure in North America is currently limiting the region's potential for economic growth.

Given the recent commitments made by the Canadian, Mexican, and US governments to invest significantly more in infrastructure before the end of this decade, the upcoming NAFTA renegotiation presents an opportunity for the three countries to work towards a collective solution and collaborate on strategic infrastructure planning.

The NAFTA partners should consider establishing a North American infrastructure investment pact inclusive of government procurement during the renegotiations. Such an agreement could provide for non-discrimination protections at the federal and sub-national levels, public-private partnership (P3) guidelines, and streamlined investment opportunities specific to the infrastructure sector. Not only would this help directly create economic opportunities in all three countries and lessen their respective

infrastructure gaps but it would indirectly improve the efficiency and functioning of the North American economy.

About us

Since 1925, the Canadian Chamber of Commerce has connected businesses of all sizes, from all sectors and from all regions of the country to advocate for public policies that will foster a strong, competitive economic environment that benefits businesses, communities and families across Canada.

With a network of over 450 chambers of commerce and boards of trade, representing 200,000 businesses of all sizes in all sectors of the economy and in all regions, we are the largest business association in Canada.

The Canadian Chamber of Commerce would like to take this opportunity to thank the Government of Mexico for providing this avenue for input from a wide array of stakeholders. Our membership supports efforts to modernize NAFTA, and we would be pleased to discuss any of these issues and recommendations in greater detail.