

Canada and Mexico: Searching for Common Ground on the North American Continent

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Executive Summary

Thought-provoking discussions about the complex issues involved in a North American perspective continue amongst policy planners and non-governmental actors in Canada, the United States, and Mexico. Mexico, for its part, is presently exploring ways in which a more integrated North America could eventually reduce the income gap between itself and the other NAFTA partners.

The act of integrating into a broader North American community could in itself accelerate Mexico's development process. Yet, many Canadian policy experts maintain that while trilateral and bilateral approaches to continental relations will occur simultaneously, Mexico will "catch up" faster through its own national policies and restructured institutions. In this scenario, bilateral support from the United States, Canada and other countries should be available when requested, as well as multilateral support from the International Financial Institutions. The most appropriate role for Canada would be to facilitate Mexico's ability to face its own challenges by providing financial support when possible, and more importantly technical assistance in the form of sharing knowledge and building capacity.

As a continuation of FOCAL's discussion, debate and analysis about emerging issues in North America, this Policy Discussion paper searches for a common point of departure for Canada and Mexico vis-à-vis the continental relationship. The paper concludes by suggesting the following steps:

Mexico:

- Cultivate the bilateral agenda with Canada, while encouraging increased contact among officials.
- Continue to "push the envelope" on the future of North America, while offering more detailed explanations of its ideas and how they could be achieved.
- Continue to explore the validity of a North American financial transfer mechanism.

Canada:

- Continue to prioritize bilateral initiatives related to governance, and explore cooperation on initiatives with a poverty reduction/human capital development focus.
- Improve knowledge about Mexico in Canada, particularly within government departments with functional responsibilities.
- Participate actively in discussions about the future of North America. Exhibit more openness to entertaining an enhanced trilateral approach.



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RÉSUMÉ

Des discussions poussées sur les questions complexes qui se posent dans un contexte nord-américain se poursuivent entre les planificateurs de politiques et les intervenants non gouvernementaux du Canada, des États-Unis et du Mexique. Le Mexique, pour sa part, étudie de quelles façons l'intégration accrue de l'Amérique du Nord pourrait éventuellement réduire les écarts de revenus qui existent entre elle et les autres partenaires de l'ALENA.

L'intégration au sein d'une communauté

nord-américaine élargie pourrait accélérer le processus de développement du Mexique. Pourtant, de nombreux spécialistes des politiques canadiens soutiennent que même si la question des relations continentales sera abordée simultanément de manière trilatérale et bilatérale, le Mexique comblera les écarts bien plus rapidement en mettant en place ses propres politiques nationales et en restructurant ses institutions. Dans ce scénario, l'aide bilatérale des États-Unis, du Canada et d'autres pays, devrait être disponible lorsque le besoin s'en fait sentir, tout comme l'aide multilatérale des institutions financières internationales. Le rôle le plus approprié pour le Canada serait d'aider le Mexique à relever ses propres défis en lui fournissant, chaque fois que possible, l'aide financière dont il aura besoin et, plus important encore, de l'aide technique sous forme de partage des connaissances et de renforcement des capacités.

Ce document d'analyse politique poursuit les discussions, débats et analyses de FOCAL sur l'Amérique du Nord et tente de trouver un point de départ commun pour le Canada et le Mexique à propos des relations continentales. Le document se termine en suggérant les étapes suivantes :

Mexique :

- Poursuivre le programme bilatéral avec le Canada tout en encourageant un rapprochement entre les fonctionnaires des deux pays.
- Continuer à repousser les limites pour ce qui est de l'avenir de l'Amérique du Nord tout en offrant des explications détaillées de certaines idées et démontrer comment elles pourraient être appliquées.
- Continuer d'explorer la validité d'un mécanisme de transfert financier nord-américain.

Canada :

- Continuer à prioriser les initiatives bilatérales en matière de gouvernance et explorer certaines initiatives de coopération ayant comme problématique la réduction de la pauvreté et le développement du capital humain.
- Améliorer nos connaissances à l'égard du Mexique, particulièrement au sein des départements gouvernementaux possédant des responsabilités politiques.
- Participer activement aux discussions sur l'avenir de l'Amérique du Nord. Démontrer une plus grande ouverture à l'égard d'un développement accru d'une approche trilatérale.

RESUMEN

Los encargados de formular políticas y el sector no gubernamental en Canadá, los Estados Unidos, y México continúan inmersos en un reflexivo debate acerca de los complejos temas que envuelven a Norteamérica actualmente. México, por su parte, examina de qué forma una mayor unidad de Norteamérica podría dar al traste con la disminución de sus diferencias de ingresos con respecto a sus otros dos socios del TLCAN.

La integración a una comunidad norteamericana más amplia podría en sí misma acelerar el proceso de desarrollo de México. Sin embargo, numerosos expertos canadienses aseguran que la adopción de enfoques trilaterales y bilaterales en las relaciones continentales se producirán simultáneamente, y que México podría “dar alcance” a sus socios más rápidamente a través de sus propias políticas nacionales y la reestructuración de sus instituciones. En este sentido, es necesario que México pueda contar — cuando lo requiera — con el apoyo bilateral de Canadá, los Estados Unidos, y de otros países, así como con la cooperación de las instituciones financieras internacionales en el ámbito multilateral. La postura más apropiada que debería adoptar Canadá sería la de brindar apoyo a México en el enfrentamiento de sus desafíos a través de la ayuda financiera, cuando sea posible, y más importante aún, a través de la asistencia técnica como el intercambio de conocimientos y la creación de capacidades.

Como parte de su trabajo de discusión y análisis sobre el tema de Norteamérica, FOCAL intenta en este documento hallar un punto de partida común tanto para Canadá como para México a la hora de abordar sus relaciones en este contexto continental. Al concluir se ofrecen las siguientes recomendaciones:

México deberá:

- Cultivar su agenda de trabajo bilateral con Canadá y promover al mismo tiempo los contactos entre representantes oficiales.
- Continuar ampliando las perspectivas del futuro de Norteamérica y ofrecer más detalles sobre sus ideas y como llevarlas a cabo.
- Continuar analizando la utilidad de crear un mecanismo de transferencia financiera para Norteamérica.

Canadá:

- Seguir dando prioridad a las iniciativas bilaterales en materia de gobierno y examinar nuevas iniciativas de cooperación enfocadas en los temas de reducción de la pobreza y desarrollo de capital humano.
- Ampliar el conocimiento sobre México en Canadá, especialmente en aquellos departamentos con atribuciones prácticas.
- Participar activamente en los debates sobre el futuro de Norteamérica y mostrar mayor disposición a considerar iniciativas que tengan un enfoque trilateral más renovado.

Introduction

An earlier FOCAL Policy Discussion Paper titled *Overcoming Obstacles on the Road to North American Integration: A View From Canada* provided a basic introduction to the policy issues involved in what is regarded by some as a gradual, yet inevitable process of continental integration.

The November 2001 paper maintained that when challenges or threats clearly require collective action by Canada, the United States and Mexico, sub-regional cooperation should be encouraged. However, even within the context of a North American perspective, it is justifiable that Canada would continue to prioritize bilateral relations with each NAFTA partner over a trilateral approach. It is equally appropriate and predictable that Mexico would also prioritize bilateral relations and policy dialogues within the same context. Additionally, in this context it is not surprising that both Canada and Mexico would continue to give top priority to their respective relations with the United States.

Given this dynamic, a central position of the paper was that the unrealized potential of the Canada-Mexico bilateral relationship hinders deeper North American engagement. The paper concluded by suggesting that Canada consider the following measures toward Mexico: articulate a position as soon as possible on the “North America” question; include Mexico in thinking about North America; educate Canadians about Mexico; and support Mexico’s developmental objectives.

As a continuation of FOCAL’s discussion, debate, and analysis about emerging issues in North America, this paper takes the above-mentioned suggestions a step further by searching for a common point of departure for Canada and Mexico vis-à-vis the gradually evolving North American relationship. The following questions

are considered: Has Mexico’s “vision” for a more integrated North American continent developed into a concrete proposal over the last 18 months? Are Mexico’s developmental challenges better addressed bilaterally or trilaterally through this North American perspective? What are Canada’s priorities with regard to its bilateral relationship with Mexico? Finally, how can Canada’s sustained bilateral agenda with Mexico complement the latter’s desire for a more integrated North America?

Mexico’s North American Perspective

During a visit to Ottawa in August 2000, President-elect Vicente Fox proposed that initiatives be undertaken toward a long-term (20 to 30 year) goal of an integrated North American sub-region, loosely modeled on the integration experience of the European Union (EU). At that time he made general reference to a number of objectives including: an eventual customs union that would require Canada, the United States and Mexico to adopt a common external tariff, improved policy coordination, common monetary policies, mobile pools of labour, and fiscal transfers from the north to the south. The proposal opened thought-provoking discussions amongst policy planners and non-governmental actors in the three countries about these and other complex issues involved in a North American perspective. As these discussions continue, President Fox and his team now prioritize one overarching goal: reduce the income gap, i.e, attain “economic convergence” between Mexico and its NAFTA partners.

Economic Convergence:

Mexico maintains that economic inequality within NAFTA will inevitably require that some kind of financial transfer mechanism be put in place to allow Mexico to “catch up” with its northern partners. The initiative implies that “Canada and the United States would share some of the cost

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required to help Mexico structurally complete the transformation of its economic and social model” [Ambassador Andrés Rozental, Special Envoy to the President of Mexico]. The initiative has also been approached through the idea of *Economic Convergence* — i.e. a mechanism that would channel resources to less developed areas and boost development of those sectors where economic growth has been insufficient.

Over the last 18 months, Mexico has periodically requested the establishment of a development fund, which would make grants to Mexico’s poorer regions. It has suggested that the fund be administered by the existing North American Development Bank (NADbank) — which would require a modified and expanded mandate, as well as membership by Canada. Other observers argue that if such a fund were to exist, it would be better administered by the Inter-American Development Bank — in which Canada and the United States are already significant contributors. Mexico anticipates that this institutional mechanism would then evolve into a system of social cohesion funds, as it did in the EU experience. The EU social cohesion funds assisted Spain, Portugal, Ireland, and Greece to achieve higher levels of economic growth.

The EU economic convergence strategies are regarded as having been successful in transferring resources from the richer to the poorer countries of Europe. Yet there is little detailed analysis to prove this theory. Ireland, for example, combined sound fiscal policy, a strong human development policy, commitment to the rule of law, and peaceful labour relations in an open economy to achieve respectable economic growth. The role of social cohesion funds in the Irish experience is not obvious.

To date, no concrete proposal has been put forward by Mexico as to how a development fund or how social cohesion funds would work in a North American context. Further, while discussions on the subject continue in the

governmental and non-governmental spheres — i.e. the topic was one focal point at a tri-national roundtable held at the Brookings Institution in December 2001 — at this stage, the discussions focus only on whether such an initiative is necessary. The intricacies of *how* to achieve this goal still require far more deliberation.

Agreement on the inescapability of an economic convergence strategy may very well result from the ongoing discussions among policy-makers and non-governmental actors. In this scenario, a number of questions will naturally arise. How would this strategy work? Should the strategy be implemented after further domestic reforms in Mexico or simultaneously? While such a strategy could plausibly be negotiated bilaterally with the United States given the challenge of illegal migration from Mexico and the importance of the Hispanic vote in US electoral politics, what would

be Canada’s stake in the initiative? Finally, and perhaps most importantly, is this economic strategy really a NAFTA responsibility, or a wider international donor responsibility? Why should it be restricted to the NAFTA partners to carry the financial burden? Other

Organization for Economic Cooperation and Development (OECD) members, in particular, would benefit from a more prosperous and equitable Mexico.

An Institutional Framework for NAFTA:

The financial transfer mechanism is part of a broader proposal for an institutional framework for NAFTA. The idea has proponents in all three countries. Robert A. Pastor best articulates it in his book *Toward a North American Community: Lessons from the Old World for the New* [Institute for International Economics, August 2001]. According to Pastor the weakest link in NAFTA is its lack of credible institutions. He proposes the establishment of an anchor institution, namely a North American Commission. The commission would be in charge of preparing an agenda on North American issues for the three leaders to consider at semi-annual Summits and then

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monitor the implementation of decisions and plans. Other institutions would include: 1) a North American Parliamentary Group; 2) a Permanent Court on Trade and Investment; and 3) a Commission of Cabinet members [Robert A. Pastor *NAFTA is not Enough: An Alternative Vision of a North American Community*, paper prepared for Brookings Institution Tri-National Roundtable December 2001].

Above and beyond an institution for financial transfers, Mexico promotes the need for more NAFTA institutions in general. It agrees that at a minimum a North American Commission needs to be established, though details as to the responsibilities of the Commission do not go beyond those articulated by Robert A. Pastor. When issuing statements on the concept, Mexico appears to fluctuate between the possibility of a think tank to study, discuss, and make recommendations to policy-makers, and that of an action-oriented institution in charge of policy implementation.

Little discussion has taken place on defining exactly what NAFTA institutions should do or what are realistic criteria for their design. Moreover, the belief that tri-national institutions function better than the existing bilateral processes remains to be demonstrated. When Canada has a problem with one particular country, it generally tries for bilateral resolution. If that does not work, it goes to a multilateral route — i.e. Organization of American States, World Trade Organization, United Nations. The idea of working trilaterally with Mexico to solve a problem that is specifically related to the United States — e.g. softwood lumber — adds little leverage.

Much of the present thinking does not extend to moving forward with those institutional areas in which only a start has been achieved — i.e. labour and environment. Trilateral cooperation within the framework of the North American Labour and Environment Commissions is limited

to the minimum necessary to fill their original mandates, and neither institution has grown beyond its original conception. Mexico did not support the expansion of these institutions' mandates in the past, for example, by assigning a role in the regulatory harmonization in labour and environmental standards.

While Mexico may be quick to establish institutions as a solution to problems, the United States, and to an extent Canada, are equally quick to dismiss them. Many US and Canadian observers argue that trans-national institutions should be essentially re-built every 20 years or so to prevent the onset of stagnation and redundancy. The same observers warn of the danger in falling prey to the presumption that institutions automatically push things forward and solve problems. In lieu of creating more

North American institutions, one proposition is for the United States and Canada (this paper focuses specifically on Canada) to work with Mexico on a bilateral basis to overcome its developmental challenges. In other words, work to get to the root of why Mexico is pursuing a North American agenda in the first place.

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Responding to Mexico's Domestic Priorities

The Fox government has effectively communicated the thematic priorities of *economic growth, social development, and order and respect* since taking office on December 1, 2000. Mexico's economic growth strategy continues to emphasize exports and foreign investment. The country has followed a policy of strategic bilateral free trade agreements to reap the benefits of trade liberalization. Mexico's new constructive foreign policy approach serves, among other things, to strengthen the country's economic growth strategy. The approach is most evident in Mexico's intention to use its new seat in the UN Security Council as a forum for international activism. It is in this area that Mexico's star continues to rise.

The foundations needed to confront Mexico's developmental challenges are slowly being built, though there have been few success stories in the short-term. *Democracy*, in the form of an independent legislature, has proven to be an encumbrance to the Fox administration. Gone are the days when Congress merely functioned as a rubber stamp of presidential decree. Not only does the PAN not hold a congressional majority, its freedom to assume independent views regarding the details of public policies often blocks the President's initiatives. Many observers argue, however, that these obstacles have less to do with a functioning Congress and more to do with a shortage of seasoned political operators who can negotiate behind the scenes with legislators and Mexico's major interest groups. The persistent difficulty of elaborating effective social and development policies in a society plagued by historical inequalities became evident as the Fox government failed to pass a crucial fiscal reform bill in December 2001.

The Fox government is trying to do more with less to assist Mexico's 40 million poor. The government hopes that the ambitious Plan Puebla Panama, undertaken with six Central American countries, will trigger the development of Mexico's fragile southern states with investments in education, trade linkages, and physical infrastructure. The traditional poverty alleviation institutions of the PRI have been revamped by the Fox government to be more cost-effective, transparent, and efficient. Other examples of Mexico's poverty reduction efforts include: the Inter-American Development Bank approval of its largest-ever country loan of \$1 billion to Mexico's Progreso program; a new housing plan that intends to provide affordable housing and stimulate the construction industry; and the highly ineffective agrarian reform policy — a relic from the onset

of PRI rule — has ended. The time is especially ripe for new rural development strategies as Mexico faces an agricultural crisis marked by low productivity, migration to cities and the United States, foreign competition, and the legacy of land title disputes stemming from agrarian reform.

Order and respect have taken precedence in Mexico as the Fox government undertakes the difficult and sensitive task of enforcing the rule of law and confronting corruption. Courts are assuming a greater role in ensuring the proper functioning of democracy, as seen by the resolution of electoral disputes in the Yucatan and Tabasco states. The Supreme Court flexed its judicial muscle when it recently demanded an investigation into the 1968 student massacre, and President Fox intervened in three cases of questionable illegal imprisonment. Impunity and corruption continue to be serious problems. The government is taking strides to make the public sector more transparent and accountable, and a freedom of information act is now ready to go before Congress. Yet, recent statistics from Transparency International indicating that the poorest Mexican households spend 14% of their income on bribes to public

officials was one more illustration that corruption continues to plague Mexican society [Transparency International: Mexico Chapter Survey Report Released October 31, 2001].

Given these and other challenges, the North American perspective is regarded by Mexico primarily as a means to an end. The premise is that linking itself as closely as possible to North America will accelerate economic and social development domestically. The same premise applied to Mexico's entry into NAFTA in 1994 and its 1995 membership in the OECD — a decision that was strongly supported by Mexico's

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partners in NAFTA. Yet, are Mexico's developmental challenges better addressed trilaterally within a North American context, bilaterally on a one-to-one basis with the northern partners, multilaterally through the International Financial Institutions and the Organization of American States, or some other route?

***Supporting Mexico's Development Agenda:
A Social Capital Angle***

In recent years Canada, along with other OECD countries, adopted a human capital approach to income inequality and development. The approach emphasizes building the capacity of individuals to adapt to economic change and to grasp the opportunities of a "new economy". The concept of social capital is a significant element of the human capital approach. The OECD defines social capital as the institutions, relationships and norms that shape the quality and quantity of human capital. These include public and private institutions, and social arrangements such as political and legal systems. As highlighted by Michael Woolcock, "The latest equipment and most innovative ideas in the hands or mind of the brightest, fittest person, will amount to little unless that person also has access to others to inform, correct, improve and disseminate his or her work" [*The Place of Social Capital in Understanding Social and Economic Outcomes*, in the Report of HRDC and OECD International Symposium on Social Capital, September 2001, p. 69]. Social capital therefore requires that attention be paid to the institutions and relationships which shape the realization of one's human capital potential.

The social capital angle emphasizes the importance of well-functioning domestic institutions. Weak governments and weak institutions have a negative effect on social

capital. Governments that mobilize human and social resources in pursuit of a more inclusive economy and society, respect civil liberties, uphold the rule of law and resist corruption have a positive effect on social capital. Additionally, the central medium of development, according to the social capital angle, is a country's ability to manage transition.

Much transition has occurred in Mexico. Successive Mexican governments worked to integrate the country into the global economy by opening domestic markets and encouraging trade and foreign investment. Additionally, a slow, yet steady process of political reform in Mexico, culminating in the historic election of Vicente Fox of the PAN, has put the country on route to a fully consolidated democracy.

The priorities of the Fox government, as noted above, are compatible with a human capital development approach. However, the government must contend with a set of institutions and social arrangements that were not designed to accommodate the country's ongoing transitions.

The priorities of the Fox government, as noted above, are compatible with a human capital development approach. However, the government must contend with a set of institutions and social arrangements that were not designed to accommodate the country's ongoing transitions. It is important to recall that Mexico's existing social model is framed by corporate entities that were designed primarily to maintain peace and stability, and to keep the long-ruling PRI in power for

seven decades. The model produced, among other enormous challenges, a public sector based on party patronage, paternalistic social programs that often reinforced inequalities rather than narrowing them, and a weak legal system that tolerated impunity and corruption.

A North American perspective or trilateral approach could very well encourage more investment in Mexico and accelerate regional development. The act of integrating into a broader North American community could in itself accelerate Mexico's institutional restructuring process. But overall, this is

something that Mexico must do alone with bilateral support from the United States, Canada and other countries when requested, and with multilateral support from the International Financial Institutions. The most appropriate role for Canada would be to facilitate Mexico's ability to face its own challenges by providing financial support when possible, and more importantly, technical assistance in the form of sharing knowledge and building capacity.

The Canada-Mexico Bilateral Agenda

Over the past 14 months, contact between Canada and Mexico became far more frequent. President Fox undertook an official State Visit to Canada in April 2001, prior to the Quebec City Summit of the Americas. Prime Minister Chrétien is expected to embark on two visits to Mexico this year. Virtually all Mexican Cabinet Ministers met with their Canadian counterparts over the last 14 months and Mexican government officials visit Ottawa periodically in search of experiences and best practices on running the central machinery of government. There is also very strong bilateral cooperation between independent institutions such as the respective Human Rights Commissions, Elections Canada and the Mexican Federal Electoral Institute, and the Department of Indian and Northern Affairs Canada and Mexico's National Indigenous Institute. Canada is committed to working bilaterally with Mexico to ensure that the latter's transition processes go as smoothly as possible.

The Nuts and Bolts of Cooperation:

A book-length inventory of bilateral cooperation initiatives between Canada and Mexico could be composed. Most of the initiatives, while extremely significant, are so technical that they are not the stuff of newspaper headlines. They range from Health Canada's healthy aging project and Human Resource Development Canada's temporary worker program, to individual university agreements (some 350) and joint agricultural projects. Since the election of President Fox in July 2000, Canada has been

working to prioritize issues related to good governance. The modernization of the Mexican state is seen as the essential first step in the process of institutional restructuring. According to many observers, it is here where Canada can make its best contribution to Mexico's long-term development process. Examples of this contribution include:

- Discussions among Canada's Auditor General and senior staff with their Mexican counterparts and legislators on questions of transparency in public accounts, and subsequent training courses for Mexican staff;
- Experience sharing between the Clerk of the Privy Council Office and the Mexican office responsible for producing the National Development Plan on budget processes and program reviews. The initiative is related to the ongoing objective of creating a career civil service in Mexico;
- Courses at the Pearson Peacekeeping Centre for senior Mexican officials from the Departments of External Affairs and Defence;
- Parliamentary interchanges including the visit of two Congressional Commissions to Canada in 2001 to observe "best practices" for legislators. The 12th Canada-Mexico Parliamentary Exchange meeting will be held in Canada in May 2002; and
- Support of Mexico's objective to reform its highly centralized federal system. Canada is well placed as a primary partner for Mexico as the latter transfers more power and financial responsibilities to the states and municipalities.

Mexico regards Canada as a valuable partner, and often as a model for institutional restructuring.

Next Steps:

Mexico regards Canada as a valuable partner, and often as a model, for institutional restructuring. Good governance is a crucial element of social capital development, and Canada is filling a valuable niche. Legal system reform/enforcing the rule of law, though a sensitive area, is one in which Canada could make a contribution, as interest in cooperating with Mexico advances within such departments as Solicitor General

Canada and the RCMP. Canada is less active in the poverty reduction side of cooperation. Given that Canada is a major promoter of the social capital concept, it should work to underscore those bilateral initiatives that assist Mexico to better mobilize human and social capital in pursuit of a more inclusive economy and society. It remains to be determined which agency or department could lead cooperation in this area. CIDA does not have a bilateral program with Mexico, since as an OECD country, Mexico is not eligible for Official Development Assistance. Over the past three years a relatively small annual average of \$7 million CAN was transferred to Mexico, the majority via CIDA's NGO/NGI Partnership and Industrial Cooperation programs. There is also a Canada Fund for Local Initiatives, administered through the Canadian Embassy in Mexico, which has earmarked 75% of an annual \$500,000 CAN in grants to projects in Mexico's southern states.

To be effective, all of the above initiatives would require a stronger bilateral relationship at the working level of government. While daily interactions occur between some Federal government departments in Ottawa and Mexico City, most suffer from a lack of or incomplete knowledge about each other. This is partially due to incomplete networks, and possibly cultural, but certainly linguistic gaps. Nonetheless, the political will and enthusiasm to share experiences is growing. More interchanges and study tours should be arranged for working level personnel, and more opportunities should be provided for these individuals to interact with their counterparts.

Likewise, a stronger bilateral relationship should be built between the non-governmental sectors of Canada and Mexico. This is particularly true of the academic/policy research areas. There are relatively few "Mexico" experts in Canada, and even fewer "Canadian" experts in Mexico. Not unlike the government sector, more interchanges between these individuals would be beneficial. In addition, Canadian and Mexican research on the

opportunities and challenges involved in increased trilateral cooperation between the NAFTA partners should be encouraged.

Searching For Common Ground

Overall, Mexico exhibits a fine ability to visualize its future and an acute awareness of where it wants to be in the long term. Fundamentally, Mexico and Canada agree on what needs to be done to overcome Mexico's developmental challenges, but do not necessarily agree on how to get there. Moreover, the two countries frequently disagree on the direction that any future North American integration should take. There are major questions of sovereignty that appear in the public debate in Canada vis-à-vis integration with the United States and Mexico that would need to be resolved for trilateral discussions to be taken seriously. This public

debate has not begun in Mexico. Overall, it is not clear at this point how far either Mexico or Canada is willing to go in integration discussions.

The gradual process of North American integration was a reality long before President Fox embraced the perspective. Recent trends strongly suggest that the

societies and economies of Canada, the United States, and Mexico are likely to draw closer and closer together. The dilemma is how to manage the process properly. There are policy areas where a North American or trilateral approach would be far more effective and efficient, and Canada is open to further discussions about these possibilities. There are other policy areas where bilateral approaches will remain most appropriate. Yet, while bilateral relations with Mexico will naturally continue and become stronger, they can no longer be isolated from trilateral dynamics. Both approaches can be taken simultaneously. The query here is not whether one approach is better than the other, but rather, that the Canada-Mexico relationship is strong enough not to be overshadowed by each country's enthrallment with the United States.

Overall, Mexico exhibits a fine ability to visualize its future and an acute awareness of where it wants to be in the long term.

Mexico's development process will require strong bilateral relations with Canada and the United States, as well as a North American membership. On the whole, Mexico should realize that many of its goals could be accomplished on a bilateral basis. Canada, for its part, should continue to remain open to the possibility that discussions about North American integration may very well lead to something concrete someday. The search for common ground may begin with the following proposals:

Mexico:

- **Cultivate the bilateral agenda with Canada, while encouraging increased contact among officials.** Develop detailed proposals for initiatives that the two countries could collaborate on. Draw attention to those initiatives related to poverty reduction and human capital development.
- **Continue to “push the envelope” on the future of North America, while offering more detailed explanations of its ideas and how they could be achieved.** Encourage tri-national debate and dialogue on the policy issues involved in a North American perspective. At the same time, demonstrate increased Mexican support for those institutions such as the North American Commissions for Environmental Cooperation and Labour Cooperation, which already exist and are important instruments of trilateral cooperation for Canada and the United States.
- **Continue to explore the validity of a North American financial transfer mechanism.** Answer the necessary questions, come up with concrete details, and articulate how such a mechanism could work in the North American context.

Canada:

- **Continue to prioritize bilateral initiatives related to governance, and explore cooperation on initiatives with a poverty reduction/human capital development focus.** Underscore knowledge sharing and capacity building, but be open to the possibility of a North American financial transfer mechanism for Mexico. Consider how far Canada would be willing to go on this matter, and what would be acceptable to the United States.
- **Improve Knowledge about Mexico in Canada.** Canadians cannot be convinced of the value of working with Mexico if they know little about that country. Since NAFTA was implemented in 1994, the broadly based fear of Canadians that their jobs would be displaced to Mexico has been largely refuted. Numerous polls show that the Canadian public has lost its economic fear of Mexico, but that fear has not been replaced by anything approaching a broad-based understanding of Mexico, particularly in the area of social and political realities.
- **Participate actively in discussions about the future of North America.** Exhibit more openness to entertaining an enhanced trilateral approach. Canada is part of that future, and to date there has not been a strong Canadian presence in these discussions. Move beyond the often heard, but inaccurate argument, that as Mexico's living standards and social indicators improve in a North American integration scenario, Canada's would automatically deteriorate. Falling prey to such a defensive position would hinder the continuation of thought-provoking debate and dialogue. Trade with Mexico has increased by five times since 1994. Mexico now represents a small market for Canada (perhaps 30 to 40 million consumers who can afford Canadian products). A Mexico with 100 million consumers with the purchasing power to buy Canadian goods and services would be an economic bonanza for Canada.

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FOCAL is an independent, non-governmental organization that fosters informed and timely debate and dialogue on issues of importance to decision-makers and opinion leaders in Canada and throughout the Western Hemisphere. Established in 1990, FOCAL's mission is to develop a greater understanding of important hemispheric issues and help to build a stronger community of the Americas.



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