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Creating a Shared Space for the Mexico-Canada Relationship Within North America


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Although the diplomatic relationship between Mexico and Canada has existed for 80 years, it is important to note that it underwent a radical change with the negotiation and implementation of the North American Free Trade Agreement (NAFTA).

The bilateral relationship of limited commercial exchange in the 1980s grew with surprising dynamism, not only in trade and investment, but also in other sectors, such as migration regulated by the Temporary Agricultural Workers Program (TWA), which has grown exponentially and today encompasses other areas, such as the service sector in Canada.

Among the changes, the performance of Mexican workers in Canada is highly valued, not only in agricultural, but also in areas closely linked to foreign trade, which has led to an increase in employment of Mexican nationals in manufacturing, especially in the automotive and electronics industries, as well as in petroleum and tar sands exploitation.

This is evidence that Canada has become a profitable and reliable destination for Mexicans abroad, beyond the widespread belief that the United States could be the only option. The economic relationship between Mexico and Canada is not limited to trade and seasonal labor migration. It also highlights the interest of corporations from both countries to invest in key sectors such as mining, petroleum, electric power, and banking. Mexican companies have been steadily investing in Canada for years. An example is the multinational baker Bimbo, which currently controls a sizeable market share through the acquisition of Canada Bread and Vachon in 2004. Other examples are Grupo Alfa's Nemak (aluminum), Grupo México (mining), and Industrias CH (steel), which have been investing for years in the industrial corridor of Windsor, Ontario.

Despite notable advances in the bilateral relationship, the trade balance between these nations has shown a persistent deficit for Canada that can be attributed to very specific factors. During 2023, bilateral trade increased by 6.1 percent, with an 8.3 percent increase in Mexican imports and a 4.2 percent decrease in exports from Canada, exacerbating the deficit.

The Canadian deficit has been a constant in this trade relationship, which deserves a broader explanation to understand how Mexico has positioned itself as a key partner for the Canadian manufacturing. The answer lies in the composition of Mexican supply chains, which are a complementary factor for the proper functioning of Canadian manufacturing. This includes vehicles, auto parts, and mechanical equipment, as well as the electronics and aircraft industries.

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Paradoxically, this trend did not change much under NAFTA, despite the fact that trade between the two countries increased rapidly and production was diversified. This feature can be explained by the way in which the bilateral economic relationship has developed, in which both the Canadian government and its corporate sector have opted for policies of expansion outside North America, in an effort to reduce their dependence on the United States.

Canada has been implementing a number of strategies to address its trade deficit for several years, including: the diversification of its export markets, particularly with China and Japan; the promotion of non-energy sectors, such as consumer goods, metal products, forestry products, vehicles and auto parts; the negotiation of trade agreements beyond the United States, Mexico, Canada Agreement (USMCA); the improvement of infrastructure and logistics —including investment in ports, roads, and railroads— in order to streamline the movement of goods within North America; and finally, the support of innovation and industrial diversification.

Regarding this strategy, the critical situation that the final approval of the Comprehensive Economic and Trade Agreement between the European Union and Canada (CETA) has gone through stands out, after the French Senate decided to reject it in March 2024, and it is feared that something similar will happen in the French National Assembly. Since 2017, about 90 percent of the CETA has been implemented. However, the section that addresses protection of foreign investment and arbitration mechanisms will not be integrated into the text until it is ratified by the plenary of the European Union. In contrast to the CETA crisis, Canada's trade diversification strategy will be favored when it assumes leadership of the Trans-Pacific Partnership in 2024, offering it a privileged space within a grouping of countries that operates outside U.S. control.

Canada's current low level of labor productivity —annual labor productivity declined 1.8 percent in 2023— has favored nearshoring in Mexico. Last year was the third consecutive year of decline, which is attributed to lagging investment in machinery, equipment, and intellectual property. This has reduced the Canadian economy's ability to attract nearshoring investment.

Mexico, with a more favorable economic situation, has become a global destination for manufacturing goods that are subsequently exported to the United States and Canada. The current dynamism of Mexico's value chains is attributable to the boost that the United States and, to a certain extent, Canada and China have given to Mexican chains in their search for nearby suppliers that lower the final cost of production and enable them to maintain higher levels of competitiveness with the rest of the world.

Nearshoring, understood as the relocation of multinational subsidiaries to places that are closer to principal points of final consumption, is not a new business strategy. However, the COVID-19 pandemic and the increase in global geopolitical tensions have undoubtedly been factors that have influenced the decision of U.S. companies to relocate supply chains. The success of nearshoring can be explained by the abrupt interruption of these supply chains in China during the three years of the COVID-19 pandemic. The shift counteracts a trend where capitalist countries had been transferring entire segments of their domestic production to China for decades, mainly attracted by low production costs.

By its very nature, nearshoring is an economic phenomenon that has impacted the Canadian economy to a lesser degree than the Mexican economy. However, although Mexico offers a skilled labor force and very competitive labor costs, there is a danger that the pressure of nearshoring will produce bottlenecks due to a scarcity of specifically trained workers and a repetition of the phenomenon of high worker turnover that has occurred with the maquiladoras on Mexico's northern border. Additionally, the deficiency of infrastructure to provide sufficient access to potable water, housing, and industrial warehouses, represents an obstacle to growth.

On the other hand, Canadian mining in Mexico has been —for the past twenty-five years— the activity that has most specifically jeopardized the good terms on which the bilateral relationship has been conducted. While manufacturing activity has followed traditional channels, mining has been a disruptive factor due in part to its abrupt appearance in a highly protected space that exclusively favored Mexican mining companies. The liberalization of mining in Mexico in 1994 opened the doors to one of Mexico's most protected industries in exchange for prolonging the government's exclusive right to exploit and commercialize Mexican oil through the state-owned company, Petróleos Mexicanos (Pemex).

Canadian mining companies have global presence. According to Statistics Canada, total Canadian mining

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assets abroad amounted to $214 billion in 2022, and within Canada they totaled $105.54 billion. Paradoxically, in Latin America the countries that captured the highest Canadian mining investment were Argentina ($1 billion), Brazil ($1.2 billion, and Chile ($10.8 billion).

As of 2019, Canadian mining companies in Mexico began a gradual disinvestment process that in 2022 implied an investment of only $700 million, attributable to the change in the Mexican government's policies, which—among other measures—included the elimination of new concessions for exploration or exploitation awarded to domestic and foreign mining companies. In addition, the majority of Canadian mining companies in Mexico —with the exception of some that are in the production stage—are dedicated to exploration and stock market speculation.

According to official data, in 2021 there were 132 Canadian mining companies operating in Mexico, while in 2022 this number fell to 124. This contrasts with consistent growth in previous years. The United States captured the most foreign investment from Canadian mining companies; as of 2023, Canadian investment was $44.7 billion in 328 companies.

Lithium has become a coveted mineral as an essential input in the manufacture of electric cars, computers, and batteries, and in Mexico there are several Canadian companies involved in its exploitation. In 2022, the Mexican government created the state-owned company LitioMx as part of its energy transition plan. This initiative would affect Canadian investment in the future if the Mexican government decides to make LitioMx the new Pemex. Some Canadian mining companies have proposed partnering with President López Obrador in LitioMx. However, the most important deposits are in the hands of Chinese-based Gangfeng. The Bacanora mine in Sonora is considered to have the largest lithium deposits in the world, with 244 tons of tested reserves.

The changes inherent to NAFTA, and now to USMCA, have not only had economic effects, such as Mexico's rise to first place in the list of U.S. trading partners, ahead of Canada and China. There has also been an important empowerment of the Mexico-Canada relationship, which has opened a space for dialogue and advocacy regarding the interests of civil society, something that was difficult to foresee in 1994.

Since the NAFTA negotiations —but especially with the USMCA— Canada insisted that these agreements were not only about trade, but also sought to integrate the interests of civil society, and in this sense pushed for the creation of two parallel agreements: one on the environment and the other on labor. However, the environmental and labor accords were not part of the final NAFTA text, so they lacked a coercive and binding effect to allow them to function effectively.

During the USMCA negotiations, the Commission for Environmental Cooperation was included in Chapter 24 and, within Chapter 31, the Rapid Response Labor Mechanism was also integrated, which represents some of the strongest and most far-reaching provisions in a trade agreement. Among these provisions is the one that establishes that within the rules of origin all goods produced in the manufacturing export sector must comply with the regulation that establishes that workers must earn at least US$16 per hour in order to receive USMCA tariff exemption.

In addition, the Canada-Mexico Partnership is undoubtedly the mechanism that most strongly serves as a facilitator for concrete actions of mutual interest between governments, companies and civil societies. It was created to discuss and resolve issues that are of interest to the aforementioned groups. It focuses on strengthening the Mexico-Canada relationship and has served as a catalyst to coordinate actions of mutual interest.

Throughout this analysis we have sought to demonstrate how the relationship between Mexico and Canada has been transformed and consolidated through mechanisms that show a genuine partnership that has transcended commerce and economic growth. The configuration of this shared space is based on a considerable number of diverse structures that offer new spaces to actors that were not initially considered by nafta. Undoubtedly, the success of the Mexico-Canada relationship lies in its inclusive nature. VM