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Rooting for Canada and Mexico in the TPP



Takeaways

We explain how teaming up with our neighbors in the TPP could:

- Help boost U.S. exports;
- Make regional trade more efficient;
- Support the "re-shoring" of production to North America; and
- Provide important opportunities to update and modernize NAFTA.

A typical Mexican export contains twenty times more American content than a typical export from Europe to the United States. ¹ This is one reason why America should celebrate – not bemoan – the fact that Canada and Mexico have joined in negotiating for a Trans-Pacific Partnership (TPP) trade deal. Because trade among our three nations is vast, and our businesses are highly integrated, the United States often wins when our Canadian and Mexican neighbors succeed in global markets. Concluding a strong and fair TPP trade agreement would enable America to tap into fastgrowing Asian markets and would support stronger U.S. economic growth. Additionally, the TPP would enhance trade with America's two closest neighbors and provide a key opportunity to upgrade and modernize the North American Free Trade Agreement (NAFTA).

Canada, Mexico, and the Trans-Pacific Partnership

In October 2012, Canada and Mexico joined the United States and eight other countries ² in negotiating for a groundbreaking, high-standard Trans-Pacific Partnership trade deal. ³ The United States has enthusiastically welcomed our North American neighbors to the TPP talks. ⁴

But how does adding Canada and Mexico to the TPP help the United States? Didn't we already open up trade with Canada and Mexico under NAFTA? And won't their addition to the TPP simply help Canada and Mexico expand into lucrative Asian markets-perhaps at America's expense?

America's current trade with our North American neighbors is vital to the U.S. economy, supporting an estimated 14 million American jobs. ⁵ Together, the United States, Canada, and Mexico form the world's largest and most dynamic trading bloc:

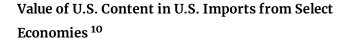
- Every day, \$3 billion in goods crosses America's borders with Canada and Mexico. This astounding two-way trade is valued at over \$1.1 trillion annually, and accounts for almost 30% of America's total trade in goods.
- Canada is the #1 destination for U.S. exports. America's \$292 billion in annual exported goods to Canada equals the combined value of all our goods exports to Japan, the United Kingdom, Germany, Brazil, the Netherlands, and Hong Kong.
- Mexico is America's #2 export destination. Our \$216 billion in goods exports to Mexico is *double* the value of our exports to China (our #3 export destination), three times our exports to Japan, and *four times* our exports to the United Kingdom. ⁶

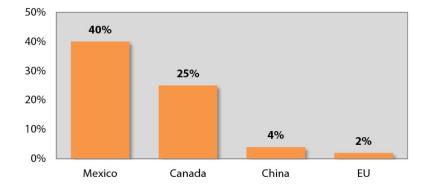
Working together in the TPP could help the United States, Canada, and Mexico further build on this success, supporting increased trade and good jobs for America's producers and workers. ⁷ We highlight below four reasons why expanded teamwork with our closest neighbors in the TPP could be good for the United States.

Together in the TPP: Four Advantages for the United States

1. Launching Pads for American Exports

When our neighbors in Canada and Mexico make things, they frequently use a high percentage of inputs that are "Made in the USA." ⁸ One study, for example, estimates that 40% of the content of Mexico's exports to the United States is originally from America. Similarly, Canada's U.S.-bound exports are an estimated 25% U.S. content. By contrast, other countries tend to use much less American content. Only 4% of the content of China's exports to the United States, for example, is American. ⁹





Because Canadian and Mexican products often contain such high levels of U.S. content, America wins when Canada and Mexico boost their exports to the rest of the world. ¹¹ The TPP would enhance the ability of Canada and Mexico to act as global export platforms for more American content in two important ways.

First, the TPP would open major new markets for exports from Canada and Mexico, especially in East Asia. Canada, for example, currently has no free trade deals in the East Asian region. The TPP would open up six significant countries in the region to Canadian exports (and American content), including Malaysia, Singapore, and Vietnam. ¹²

Second, under the TPP, more exports from Canada and Mexico would qualify for preferred access to foreign markets. Mexico, for instance, already has an extensive roster of free trade agreements, but its exports often don't qualify for tariff preferences under these non–U.S. deals because they contain so much U.S. content. American content would count under TPP origin rules, enabling Mexico (and Canada) to sell more of their products (with more U.S. content) to our TPP partners. ¹³

Flying American Content to the World

Canada's Bombardier makes business and commercial aircraft for customers around the globe. Its planes contain an extensive array of "Made in the USA" systems, parts, and technologies – sourced from over 2000 U.S. suppliers. Bombardier's new CSeries aircraft, for example, incorporates systems from such U.S. suppliers as C&D Zodiac (seating and interiors), Kidde (fire systems), Hamilton Sundstrand (power systems), and Rockwell Collins (avionics.)¹⁴

2. Greasing the Skids for Regional Trade

Canada, Mexico, and the United States don't just make things-they make things *together*. NAFTA enables our countries to use highly integrated supply chains to coproduce-and sell to the world-an astonishing array of "Made in North America" products, from cars and cookies, to engines and electronics, and pasta and planes. ¹⁵

North America's shared production is deep and extensive. Cars co-produced by Canada and the United States, for example, contain parts and subassemblies that have crossed the border an *average of six times*. One-third of all U.S.-Canada trade is intra-company trade–Ford selling to Ford or GE selling to GE. ¹⁶ And over 40% of U.S.-Mexico trade is between companies in the same industry. ¹⁷

But the flow of North American commerce is hardly seamless. Even under NAFTA, border barriers ¹⁸ and regulatory differences ¹⁹ still cause serious "chokepoints" that raise the cost and reduce the efficiency of trade in the region. And the highly integrated nature of North America's economy only magnifies the negative impacts of these chokepoints. For instance, frequent border crossings impose an estimated \$700 per vehicle penalty on the integrated co-production of cars in North America. ²⁰

Cross-border Meltdowns

Indiana-based Hoosier Gasket had a searing experience with border barriers-when summer heat and long border delays combined to warp an entire shipment of gaskets destined for manufacturers in Mexico. ²¹ Because of different food rules, General Mills runs separate production lines for Cheerios sold in Canada and the United States, and Campbell's sells soup in different-sized cans in the two markets. ²²

In recent years, the United States, Canada, and Mexico have significantly boosted joint efforts to reduce border and regulatory barriers. ²³ The United States and Canada, for example, are pursuing 29 initiatives that would eliminate unnecessary differences in rules and ensure that regulators are on the same page as they develop new standards in areas like nanotechnology. ²⁴

This shared experience makes Canada and Mexico natural partners with the United States in negotiations to facilitate the flow of trade among the TPP's eleven partner countries– economies that have a combined GDP of almost \$21 trillion. And the TPP's strong emphasis on "holistic" approaches to efficient supply chains will not only help expedite trade at our common borders, but will better link North America's integrated economies to business opportunities in the Asia-Pacific region. ²⁵

3. "Re-shoring" Production

As wages and costs in countries like China continue to rise, businesses are looking at a broad matrix of factors in deciding where to locate or re-locate production. These factors include transport and energy costs, proximity to markets and suppliers, skilled workers, legal enforcement, supply chain efficiency, and infrastructure. ²⁶ When judged on this broader basis, "re-shoring" to America makes increasing economic sense-both for producers and for the overall U.S. economy. ²⁷

Co-producing products in the United States, Canada, and Mexico can be a particularly effective "re-shoring" strategy– one that takes advantage of our region's overall competitive advantages, while strongly supporting U.S. production and jobs.

U.S. and international companies, for example, increasingly see Mexico-with its skilled workforce, improving infrastructure, and relatively higher levels of legal protection-as a better long-term alternative than China for locating production facilities. ²⁸ And, because of Mexico's proximity and close integration with U.S. supply chains, more production in Mexico creates greater opportunities for U.Sbased suppliers of parts and components and their U.S. workers. ²⁹

Cooperating with Canada and Mexico through the TPP could help to reinforce these important trends. The TPP's emphasis on trade facilitation would make North American supply chains more efficient and make North America a more desirable location for production. At the same time, the TPP would open growing, new Asian markets to an array of North American-made products. And, with the addition of Canada and Mexico, it would be easier to develop strong TPP origin rules that would promote production and jobs in North America. ³⁰

Driving North American

North America's growing, integrated auto sector is increasingly exporting to the world–shipping Jeeps from Ohio and Toyotas from Indiana. Honda recently announced that it is poised to become a net exporter from North America, as its U.S., Canadian, and Mexican plants increasingly sell globally. New trade deals like the TPP can help drive this trend. After the United States concluded its recent trade deal with South Korea, for instance, companies including Ford, Honda, and Toyota ramped up exports of U.S.-built cars to Korea. ³¹

4. A Facelift for NAFTA

Negotiating in the TPP with Canada and Mexico also allows the United States to address nettlesome trade issues that still exist under NAFTA. These include:

- Canadian "supply management" rules that severely limit the ability of U.S. farmers to export dairy, chicken, eggs, and turkey to Canada;
- Barriers caused by Canada's intellectual property (IP) laws and IP enforcement, as well as its local content quotas for Canadian TV and radio; and ³²
- Mexico's failures to protect and enforce certain U.S. IP, its limits on telecom access and foreign investment, and its anticompetitive business practices. ³³

The TPP talks also offer the opportunity to upgrade NAFTA's side agreements on labor and the environment by adopting strong and enforceable labor and environment rules, such as those included in the U.S.-Peru Free Trade Agreement. ³⁴

Raising these and other issues in the context of the TPP talks could provide new avenues—and potential new allies and possible new trade-offs—to help the United States to tackle difficult trade issues with Canada and Mexico. Progress on these fronts could further boost U.S. exports to our neighbors and advance global adoption of high-standard trade rules.

Conclusion

In the past, it was often easy to measure the benefits of trade. Producers and workers in Country A would make a finished product from local inputs and export it to Country B. In today's global economy, however, trade is much more complex. Exports like cars, electronics, processed foods, and financial services are frequently co-produced in multiple countries and can contain extensive "embedded" content from producers around the world. ³⁵

It's vital to keep this modern reality in mind when evaluating the importance to the United States of Canada's and Mexico's participation in the TPP. Because of their proximity and extensive integration in regional supply chains, when Canada and Mexico succeed in global markets, America often wins too.

Our three countries are also integrated by two decades of common experience under NAFTA and shared political and commercial values. ³⁶ And working together, the United States, Canada, and Mexico could create momentum for further expanding the TPP–and advancing our shared desire to extend strong and fair trade rules throughout the broader Asia-Pacific region. ³⁷

For these reasons-and many others-it's good for the United States to have our North American neighbors as negotiating partners in the TPP.



END NOTES

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