It’s been 20 years since Canada and Mexico were wed by NAFTA.

As the departure from Mississauga of faucet-maker Grohe shows,

the relationship is in a bit of a rut

NEXT EXIT ➔ MONTERREY

by PAUL CHRISTOPHER WEBSTER photographs by ALEJANDRO CARTAGENA
Richard Tsou’s first warning his job was moving to Mexico came in an e-mail from Asia. Tsou was employed as an industrial engineer in Mississauga. The tip came from a friend working for a supplier that shipped parts to Tsou’s employer, Grohe Canada, a manufacturer of luxury kitchen and bathroom faucets. “The supplier was told to redirect their shipments from Canada to Mexico,” Tsou recalls.

At first the idea of a move to Mexico just seemed to be a bizarre rumour. But then, early last summer, after more than 20 years in Mississauga, Grohe, which is based in Düsseldorf, Germany, confirmed it was Mexico-bound. Grohe’s 200 Canadian employees were given notice. In due course, the firm’s 200 Canadian employees were given notice. In due course, the firm's sole Canadian plant was disassembled, machine by machine, loaded into trucks, and shipped to an industrial zone on the outskirts of Monterrey, Mexico’s third-largest city. 

Grohe, which employs 10,000 people worldwide, was a global manufacturing hub. Now it’s all gone. And at this point, I’m really not sure there’s a future for manufacturing in Canada either.” Tsou laments. “When I left Hong Kong in the 1960s, it was a global manufacturing hub. Now it’s all gone. And at this point, I’m really not sure there’s a future for manufacturing in Canada either.”

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As economic development secretary for the state of Nuevo León, Celinda Villarreal has an arresting set of figures at her disposal. For starters, she explains, more than 2,900 foreign companies have built facilities and hired employees in her state. Last year alone, Nuevo León attracted $5.7 billion (U.S.) in new investment, or 16% of total annual foreign investment in Mexico. More than a quarter of the Mexican auto-parts sector—which is now the world’s fifth-largest, with triple the production value of its Canadian equivalent—is now based in Nuevo León. Aurora, Ontario-based Magna International alone has three plants in the state. Amid a boom that has made Mexico one the world’s largest carmakers, Villarreal explains with a broadening grin, Mexican carmaker Kia last year began work on a $1-billion (U.S.) plant not far from the Monterrey airport. “Kia’s decision brought us into the big leagues,” Villarreal says. “We’re competing very successfully for investment with the rest of Mexico, and with the rest of the world. And that includes the developed world.”

From Villarreal’s perspective, the automotive boom is part of a much broader rising tide pushing the state’s economy up the development ladder. Some 80% of Mexican exports to the United States pass through Nuevo León, which is routinely ranked among Mexico’s most economically competitive states. Its schools produce 11,000 technicians and 7,500 engineers every year. Wages in the state are the highest in the country. But even so, at $50 a week on average, they hardly deter investment. “We used to be thought of as a sweatshop zone with a history of heavy industry,” says Villarreal, whose office in a postmodern skyscraper overlooks a theme park in which a long-ago decommissioned steel plant has been turned into a tourist attraction. “But now we’re quickly becoming a...
knowledge-based economy.” To prove it, she’s got yet another figure: “Foreign companies and governments have now built 97 research and development centres here.”

Neuvo León’s development model, Villarreal explains, centres on a set of sectoral “clusters” including auto, building products, domestic appliances, life sciences and nanotechnology. “We follow the triple-helix model of industrial development, where industry, academia and government all pull together,” she adds, “just like in Canada.” Her familiarity with Canada, perhaps inspired from placements in Saskatchewan and Manitoba during her student years. In her current job, she’s travelled repeatedly to Canada, seeking to drum up investment. To help persuade Magna to invest in Nuevo León, she visited the company’s offices in Graz, Austria. But regarding her success rate, Villarreal is circumspect, citing data that just 1% of foreign investment in the state has come from Canada. (The Grohe move, made at the behest of its Japanese parent, would not fall under that tally.) “I used to travel to Canada frequently, but not lately,” she explains. “Many of the companies I met with were not thinking globally. They were comfortable with their markets and didn’t want to bet on Mexico for growth. They’re more conservative than, say, the Koreans.”

Duncan Wood, who monitors Canada-Mexico relations from Mexico City as director of the Washington, D.C.-based Woodrow Wilson International Center’s Mexico Institute, agrees that, with the exception of a handful of companies including Bombardier, Magna, ScotiaBank, Linamar, New Gold and Celestica, Canadians have been slow to appreciate Mexico’s heavy investments in skilled labour, its focus on attracting research and development, its proximity to massive North and South American markets, and its huge advantage as one of the few low-wage destinations in the US and Canada. “It’s all coming together here,” says Wood, who holds a PhD from Queen’s University in Kingston. “The next thing that’s going to happen is that Mexico will overtake Canada as the United States’ largest trading partner. And that will be a blow to the Canadian psyche.”

For evidence the traditional power balance has shifted southward, Wood points to Mexico City-based Grupo Bimbo’s outlay of $1.8 billion (U.S.) last year to buy both Maple Leaf’s Canada Bread unit and Saputo’s bakery unit—the maker of the Los Louis, one of Canada’s most iconic food products. He also cites Ford Motor Co.'s decision last year to build an engine plant in Mexico rather than in Windsor, despite numerous Canadian entreaties and offers of incentives. As the terrain shifts, says Wood, Ottawa’s imposition of a visa requirement on Mexicans in 2009—a move that has been sharply opposed by Mexican officials while justified by their Canadian counterparts as a necessity for immigration control—is viewed with growing skepticism by business leaders in both countries. “There’s a sense among business elites both here and in Canada that Ottawa has been slow to deepen relations,” he says. “People increasingly worry that rather than promoting complementary economic growth along the lines pioneered by Bombardier, which operates interdependent plants in Canada, the U.S. and Mexico, Ottawa simply sees Mexico as a competitive threat.”

A comprehensive study released by the Canadian Council of Chief Executives (CCCE) echoes these worries, describing a pattern of “federal policy ambivalence” and “business apathy” toward Mexican economic threats and opportunities. The study highlights Canada’s failure to capitalize on the 1994 North American Free Trade Agreement (NAFTA). Mexico has harnessed NAFTA to restructure and grow its economy by using low wages, training programs and market proximity to lure investments that are now creating growing numbers of increasingly high-tech, high-skilled jobs in sectors such as aerospace. Meanwhile, Canada held back, the CCCE study asserts. “A Canadian firm's decision to move an assembly job to Mexico is not a net loss for Canada if Mexican assembly activity supports high-value engineering jobs in Canada and creates higher returns for Canadian investors,” the study argues. But more firms need to appreciate this fact, the study concludes.

Misunderstanding Mexico is creating serious opportunity losses for Canadians, argues study author Laura Dawson, an Ottawa consultant. She stresses that, with a population of 122 million, Mexico has a market that is more than three times the size of Canada’s; its middle class alone is bigger than the Canadian population. By 2050, Mexico will be one of the world’s five largest economies, adds Dawson, citing research by Goldman Sachs.

A failure of political will is hobbling commercial relations with Mexico, Dawson says. “The NAFTA institutions are weak and do not provide a viable space for continuing engagement. And many in Canada have made a habit of either underestimating Mexico’s prospects or holding onto the outdated idea that closer relations with Mexico would undermine the putative ‘special relationship’ between Canada and the United States.”

The problem is not just that Canada is fumbling the huge Mexican trade opportunities offered within NAFTA. Time has also revealed the weakness of the commitments Canada’s partners made under the agreement—especially to provisions aimed at ensuring labour rights and environmental protections would not become competitive handicaps for Canadian manufacturers. NAFTA has failed to “establish strong institutions for managing and strengthening the economic integration of the three countries,” and most of the NAFTA working groups “have fallen into disuse,” Dawson’s CCCE study laments. “Meetings among leaders and ministers to take stock of the relationship and plan future co-operation are rare.”

If Vancouver seems like an unlikely base for the president and general secretary of Mexico’s largest industrial union, Napoleón Gómez would be the first to agree. But Vancouver has been home for Gómez, who heads Mexico’s 250,000-strong National Union of Mining, Metallurgical, Steel and Allied Workers (Los Mineros), since 2006, when he was forced to flee to Canada in the face of death threats. A series of federal investigations that year led the Mexican government to freeze the union’s bank accounts and press charges against Gómez for embezzlement. But shortly after being re-elected for another six-year term as leader last year, Gómez saw his name cleared by Mexico’s Supreme Court. Apart from the death threats, he’s reluctant to return home without a guarantee that he will not be arrested. And that has not been granted. Not only has the Mexican government reopened Los Mineros’s accounts, “There is no presumption of innocence under Mexican law,” Gómez explains. “I could be imprisoned more or less at whim without a government commitment otherwise.”

The impasse that keeps him in Vancouver, Gómez argues, stems from Los Mineros’s successes in delivering wage gains averaging more than 10% annually for its members. In a country where democratic unions have long been repressed and controlled by national and state governments, Gómez says, Los Mineros’s massive bargaining power—and its muscular efforts to promote Canadian-style labour rights throughout Mexico—has generated hostility in business and government circles alike. “We’ve been successful in representing our members in a way no other Mexican union has,” he says. “But in Mexico, we have a state-enforced environment of low wages and labour repression. NAFTA has done nothing to change that. If it had, I’d be in Mexico City right now.”

Laura Macdonald, an expert in Mexico-Canada relations at
democratic unions. Company-controlled unions pass muster in Nueva León, he says, but “it’s extremely rare for the state government to register an independent union. In fact, there is only one such union registered here.” The head of that union, which represents sales representatives, declined to be interviewed on the record for fear of being fired. Six members of that union who spoke to local reporters in February were immediately fired, Barrios said.

Economic Development Secretary Villarreal vehemently rejects any suggestion that independent unions are suppressed in Nuevo León. “We have a completely free environment for organized labour,” she insists. Among the state’s many selling points for foreign investors, she notes, is its record for labour harmony, which has kept it completely strike-free for the past 16 years.

On a recent morning in the Monterrey suburb of Pesquería, Mario Sanchez, a 36-year-old father of three, joined a lineup of dozens of migrant workers hoping to sign on for temporary work at the new Kia plant that so excites Villarreal. For Sanchez, home is more than 1,000 kilometres away, in the agrarian, impoverished state of Tabasco. “I’ve been a migrant worker all over northern Mexico for 12 years,” Sanchez explained. “There’s not much work at home. But I go see my family whenever I can.”

As the queue inching toward a labour contractor conducting interviews, Sanchez said he hoped to sign on as a carpenter at $20 a week, plus overtime. It was Benito Juárez Day, a national holiday dedicated to celebrating the reforming politician who forged a democratic republic ruled by law (including labour laws that nominally guarantee workers’ holidays); otherwise, Sanchez knew, there would be even more competitors ahead of him in the queue.

On the road leading from the site back toward Monterrey, the scale of the competition petition Sanchez faced became apparent. Holiday or not, hundreds of migrant labourers, many of them carrying their petitions, tried, while also channelling development money toward supply for Canadian mining corporations in those countries. “It’s clear. The challenge for highly developed countries like Canada, accustomed to generations atop the global economic league tables, is clear.”

R&D CUTS WORSEN CANADA’S JOB DRain

After NAFTA was negotiated in 1992, Mexico’s then-president, Carlos Salinas, said it would allow Mexico to “create more and better-paid jobs.” He was right. Mexican manufacturing has rapidly evolved from its low-paid textile and fabrication roots into higher-value venues. Mexico, says Jayson Myers of Canadian Manufacturers and Exporters, is a popular destination for Canadian manufacturing jobs of all types. As jobs drain southward, salvation lies in innovation—“the ultimate source of the long-term competitiveness of businesses and the quality of life of Canadians,” in the words of a federal panel in 2011. It warned that nations like Mexico “are using education, research and development, and the commitment of their governments to innovate and rapidly ascend the value chain. The challenge for highly developed countries like Canada, accustomed to generations atop the global economic league tables, is clear.”

Resources devoted to R&D in selected developed countries, 2012

15% | 10% | 5% | 0.5 |
--- | --- | --- | ---
| Researchers per 1,000 employed | | | |
| US | Canada | Japan | Korea | UK | France | Germany | R&D spending (given values of R&D) in millions of USD (2009)

Canadian R&D spending has significantly deteriorated since NAFTA was signed. The names on the factory billboards were Mexican masters. According to the report, the security of collective bargaining has been a migrant worker all over northern Mexico for 12 years,” Sanchez explained. “There’s not much work at home. But I go see my family whenever I can.”

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