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

Monterrey's new-found prosperity is reflected in apartment buildings and office towers that have sprouted up over the last 15 years

Crime-ridden zones in Monterrey, like Cerro de la Campana (top left), contrast with newly prosperous areas. Canadian Richard Tsou followed Grohe to Mexico after it guaranteed his safety—including “a car and driver to ferry me to work”

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 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.

As Tsou pondered his future, he got a short-term reprieve: In the fall, Grohe, which employs 10,000 people worldwide, asked him and a handful of other former Canadian employees to help start up the new plant in Mexico. So, in late February, he caught a plane and headed south. “And that’s why I’m here today,” said Tsou in March while reaching for a beer in the bar at the Camino Real, a luxury hotel in Monterrey.

For Tsou, Grohe’s Canadian exit has been an eye-opener. With a population of four million, Monterrey, he quickly discovered, is a city of stark, often unsettling dualities. Ranked among the world’s most dangerous cities after a toll of 1,459 homicides in 2012, it’s also one of the world’s fastest-growing industrial hubs—the centrepoint for a stampede of international investment that has seen hundreds of factories spring up alongside the highway to Texas, which is two hours’ drive northward. A gleaming new business district has blossomed, separated from Monterrey’s impoverished, crime-ridden core by a spiny mountain ridge. “I said I’d come, but only if Grohe would guarantee my security,” says Tsou. “So they sent a car and driver to ferry me to work.”

The Grohe plant was once occupied by American Standard, another faucet maker. That is no accident, since American Standard (former operator of five now-shuttered Canadian factories), like Grohe, was purchased in 2013 by Lixil, a Japanese group bent on becoming the world’s top player in sanitary fittings.

Tsou’s mission is to familiarize a team of freshly recruited Mexican technicians with the machines he oversaw in Mississauga. Predictably, there have been quality-control glitches. But while he misses the long-established workplace culture of the Mississauga plant, Tsou acknowledges that Grohe’s Mexican recruits will soon master their jobs. “There’s nothing we do in Canada that can’t be done far more cheaply here.”

Grohe’s Canadian departure, says Tsou, is part of a pattern of deindustrialization that has shaped his career, beginning with a student placement in 1970 at Honeywell Canada’s thermostat factory in the Toronto suburb of Scarborough. In 2008, after 28 years at Honeywell—including a stint in China, where he helped set up a factory—Tsou learned the company was closing its Scarborough plant. Until 1997, when much of Honeywell’s operations were relocated to Mexico, the plant was a fully integrated showcase that manufactured almost all of its own component parts and contained a research and development centre. At Grohe, Tsou got a new start, albeit in a more modest assembly setting where parts were imported, not locally manufactured; products were developed in Germany, not Canada. He hadn’t built up much of a tenure at Grohe when the rumours about Mexico started circulating.

For Tsou, who grew up in Hong Kong, this trajectory of diminishing work calibre, plant closures and offshore relocations serves as a personal parable for the dismantling of the Central Canadian industrial heartland, where more than 600,000 manufacturing jobs have been lost over the last dozen years. Like more than a few industrial analysts, Tsou believes Canada’s manufacturing sector risks becoming a relic: Battered by a decade of high-dollar federal monetary policies and sidelined by Ottawa’s preoccupation with oil and gas, the manufacturing sector, says Tsou, has suffered from Canada’s dismal record of under-investment in research and development for new products, jobs and industries. “I’ve seen it before,” 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.”

As economic development secretary for the state of Nuevo León, Celina 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, Korean 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 $150 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

Economic Development Secretary for the state of Nuevo León, Celina Villarreal

Monterrey's congestion was eased by a re-engineering of the junction of two highways (top left). Monterrey Technical School (below) draws students from across Latin America. Opposite, Rufino Tamayo Park neighbours new corporate buildings

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 autos, 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 now dated, stems 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 world's lowest-wage jurisdictions. "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 Jos. 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 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 forthcoming. Nor 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

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 arenas. Mexico, says Jayson Myers of Canadian Manufacturers and Exporters, is a popular destination for Canadian manufacturing jobs of all types.

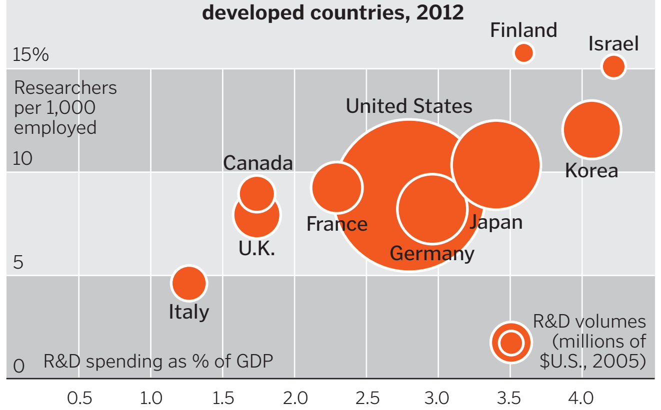
As jobs drain southward, salvation lies in innovation—"the ultimate source of the long-term competitiveness of businesses and the quality of life of Canadians," in the words of a federal panel in 2011. It warned that nations like Mexico "are using education, research and development, and the commitment 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."

Data show Canada is failing to meet this challenge. "Canada's business innovation activity is by any aggregate measure lacklustre," a 2012 OECD report said, pointing out that Canadian R&D as a percentage of GDP badly trails that of many industrialized countries. "While Canada is at the forefront of a number of industries, notably those that are natural resource-based, it appears to be rather far from the R&D-intensive high-tech manufacturing frontier."

Between 2006 and 2011—the depths of the recession—investment in manufacturing R&D by Canadian companies dropped 26% to $5.3 billion (in constant U.S. dollars). In Mexico, it fell just 15% to $1.4 billion. American investment climbed 8% to $179 billion; Korean, almost 54% to $37 billion.

In some key innovation sectors, even Mexico outpaces Canada. In pharmaceuticals, Canadian R&D spending plummeted from $871 million in 2006 to $370 million in 2011. Mexico's spending tripled to $421 million between 2006 and 2011.

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



SOURCE OECD

Unionist Higinio Barrios says the state government impedes organizing by refusing to certify unions; workers are fired for transgressions such as talking to reporters. Far left, workers wait at Monterrey's new Kia plant to see if they'll be taken on

Carleton University in Ottawa, agrees that NAFTA has failed to improve protections for Mexican labour. It's bad enough, she argues, that Canada failed to ensure that NAFTA's labour provisions were implemented, which would have helped Canadian workers compete. As well, over the past decade, Ottawa has quietly defunded programs designed to help Canadian unions bolster labour conditions in Mexico and other countries, while also channelling development money toward support for Canadian mining corporations in those countries. "It would have been in our best interests to promote labour rights in Mexico," Macdonald says, noting that Mexico's repressive labour regime amounts to a highly lucrative government-backed subsidy for employers there. "It would have helped prevent the race to the bottom we're now seeing, where wages are even lower than in China, and labour leaders who take militant positions risk being murdered."

Data published by the Vancouver-based Fraser Institute, no friend of unions, reinforces Gómez and Macdonald's characterization of the Mexican labour climate. In its 2014 Economic Freedom of the World report, the institute ranks Mexico 115th among nations for the integrity of labour-market regulation (Canada and the U.S. are both in the top 10). According to the report, the security of collective bargaining has significantly deteriorated since NAFTA was signed.

Higinio Barrios testifies to the barriers unions face as head of the Monterrey chapter of the Authentic Labour Front, a national organization dedicated to promoting independent, 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 inched toward a labour contractor conducting interviews, Sanchez said he hoped to sign on as a carpenter at $250 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 Sanchez faced became apparent. Holiday or not, hundreds of migrant labourers, many of them carrying their tools with them, were on the march, seeking temporary employment in a vast arc of industrial parks, interspersed with police and military bases, that stretches from Pesquería northward towards Ciénega de Flores, the suburb where Richard Tsou is connecting Grohe Canada's Mississauga machinery with its new Mexican masters.

The names on the factory billboards along the road to Ciénega de Flores include many global brands: Lenovo (computers), Villacero (steel), Smurfit Kappa (packaging), Freightliner (trucks), Masonite (doors), Hussmann (refrigeration), Walmart Logistics. Almost every plant has a "Se Solicita Personal" (we're hiring) sign out front. At the American Standard plant where Grohe is now setting up shop, the parking lot was full. Banks and governments were closed for the holiday, but at Grohe, scores of workers could be seen in the cafeteria adjacent to the parking lot.

At Grohe's security gate, a squad of guards was on duty. They reinforced the decision by Dr. Ulrike Heuser-Greipl, senior vice-president, public and investor relations, at Grohe's head office in Germany, to neither provide a reporter with a tour of the plant, nor with an interview, nor even with the factory's address. Grohe's security team refused to allow pictures to be taken outside the factory's gate.

In an e-mail explaining that press inquiries could not be fielded during the plant's "transition," Heuser-Greipl said the plant in Mississauga was closed "because of its limited productivity compared with our other production facilities. It was not in a position to attain the level of efficacy of its sister facilities within the Grohe Group, meaning that it unfortunately didn't meet our growth strategy requirements."