

MAKE THE DEAL WORK: RETHINKING USMCA FOR A COMPETITIVE FUTURE

Announcer 03:57

Welcome to the session. Please take your seats. The session is about to begin.

Announcer 05:11

Please welcome the panel on "Make the Deal Work: Rethinking USMCA for a Competitive Future," moderated by Julio Vaqueiro, principal anchor, Noticiero Telemundo.

Julio Vaqueiro 06:03

Alright. Thank you. Thank you very much. *Buenos días a todos. Mucho gusto estar aquí.* Thank you so much. Let me introduce you to the panel. Kimberly Breier, she's senior advisor for Covington & Burling, former United States Assistant Secretary of State for the Western Hemisphere Affairs. Cameron MacKay, Canadian ambassador to Mexico, and Esteban Moctezuma, Mexican ambassador to the US. So thank you, all three of you, for being here. So let me kick off with this—next year there will be a revision of the United States–Mexico–Canada Agreement (USMCA), or T-MEC, as we call it here in Mexico. I want to know what your expectations are? What—do you think this will be like a routine review of the USMCA or a full blown out renegotiation of the whole treaty? Ambassador Moctezuma?

Esteban Moctezuma 06:55

Well, good morning to all of you. Thank you for coming. Hi to my friends. I think that we are going to face a very interesting review, not a renovation, but a review of the treaty, because there are many things that have changed seen since **inaudible** started. USMCA was in a moment of the world that didn't have as now so much input in the future of our economies, of things like artificial intelligence (AI), everything related to a technology and very big changes. Also, I think we have agreed during all these years about the importance of labor and of making—leveling the field in labor issues. The Mexican government has increased the minimum salary, has increased the benefits for workers, and that is matched with the idea of the US and Canada in order to have a labor field much more common in energy. One thing about the future is

that AI needs energy, and so we also need to match many of our different approaches to energy. So I believe it's going to be a very important review, because it's going to be something that will boost the North American region into the future.

Julio Vaqueiro 08:39

Okay? Ambassador MacKay a routine review or a full-blown renegotiation?

Cameron MacKay 08:46

Well, certainly what Canada would like it to be is what it's supposed to be, which is just a review, but it is the case, and I agree with Ambassador Moctezuma, a lot has changed, of course, since we negotiated this agreement six years ago. I mean, three big things. One is, of course, we've been through the pandemic, and everybody understands even more now how important it is to have stable and secure and resilient supply chains. So should we be looking at how the agreement can better support that? I think the rise of China, China has become an even more fierce competitor globally over the last six years. And so do we need to sort of take a look at the, you know, at China's role in North America through the through the review? So there's at least a couple of big things that have changed. Maybe I would add to that, AI. I mean, AI was really nascent when we negotiated this agreement six years ago, so do we need to look at that? But we would like the review to be just a review, and as narrow and as targeted as possible. I think, you know, we've had—we've all three countries have benefited tremendously for from more than 31 years of free trade in North America. We've made kind of a beautiful omelet together. You know, we like to say we don't just trade with one another anymore. We make things together. That's autos, that's aircraft. It would be deeply unwise to try to unscramble that omelet. So if we can make it a little better, a little spicier, a little tastier than great, but let's not undo it.

Julio Vaqueiro 10:19

Yeah, so you can't scramble scrambled eggs—unscrambled scrambled eggs right? Now, of course, the reason I ask is that there are some voices in the US questioning if the US should negotiate a USMCA in a trilateral basis, or if it should just negotiate individual treaties with each country. Do you see that, Kimberly, as a possibility?

Kimberly Breier 10:44

Yeah, thank you. First of all, thank you for having me, and thanks to the Milken Institute. This is an amazing event, so I really congratulate the organizers. So I am a former US government official, and maybe somewhat freer than my colleagues to express opinions. But I guess I will say this: It is very clear that President Trump has said this is a renegotiation, and I think whatever we want to call it, the review is going to have, I think, fairly significant changes to the agreement. And I want to express an opinion that I think is probably a minority view, but I think it's important. You know, I always remind people that the first president to campaign against North American trade and to win an election become president of the United States was Barack Obama, who campaigned against NAFTA. And so the concerns about our North American arrangement—and I am an unapologetic North America person, North America is essential—we've got to keep the agreement in whatever form we end up with. But I think there had been a concern that was growing in the US for many years before President Trump came onto the scene. So, for me, having the opportunity and a process for the three countries to sit down and review the agreement, I think is a very positive thing, and I actually think that it probably is going to increase our odds of keeping the agreement, whereas if there were no review process, and we wanted to talk about all the various issues that the ambassadors have mentioned, there wouldn't be a defined process for that. So I actually think the review is a good idea, and I think we're in a high-risk moment. We are in the review, or whatever we want to call it,

already. It's on. We're already in discussion, so it's supposed to terminate by next June, it's already underway, so I think we're in the middle of that process now, and I think it's a positive thing. In the first term—I was in the Trump administration in the first term, and to answer your question—the negotiations were largely what we call dual bilateral in the first term. Anyway, there was a very intense negotiation with Mexico, and then there was an intense negotiation with Canada, so I'm not so concerned about the logistics of the negotiation at the end of the day, because of the supply chains, because of the integration, because things that we make together go across all these borders, I think we're going to end up with a trilateral agreement, even if the negotiation ends up Being dual bilateral in process.

Julio Vaqueiro 13:00

So three optimists here. Ambassador Moctezuma, what—how would you describe Mexico's approach to this review of the of the deal?

Esteban Moctezuma 13:12

Well, first of all, I would say that where this optimism comes from? [JV: Okay.] Okay, and it comes from reality, and reality is very stubborn. We have seen President Trump speaking about being more flexible, let's say, in agricultural workers visas, in construction workers visas, in hospitality workers visas. One thing that he spoke about before eight months ago, because he has seen how important they are for the US economy. So I believe that a US economy has a huge leverage in its relationship with Canada and Mexico and so a that is the base of the USMCA, and that's where optimistic optimism comes from. [JV: Okay.] Because this is a very objective issues, like when entrepreneurs look at their companies and they say, the basics are strong. So the basics of the three lateral agreement are strong. That's one thing. The other thing is that to face the negotiation—and this is something that is in the hands of the Ministry of Economy—but what they have done, and what President Sheinbaum has asked them to do is really to see what the US needs and what the President Trump wants; to understand, first what they want, and then how to approach that negotiation. And I think that when President Trump is started to, let's say, mix trade with security and with [JV: Immigration.] Immigration, what you have seen is that in those other two areas, there has been a huge advance, not recognized by Mexico only, but by the US government officials themselves. So I think that that negotiation is going on very healthy, because we're not just considering Mexico's needs, but also what's the needs of the US.

Julio Vaqueiro 15:39

Ambassador MacKay, would you say Canada is having the same approach to the negotiation? Just see what Trump wants to see how to approach the deal.

Cameron MacKay 15:47

Well, I think again, I would say we want the review to be narrow, targeted. Let's not undo the things that you know, that we've done before. We're consulting. Actually, for the second time, the Canadian government is consulting Canadian business, civil society, labor unions, etc, as is the US and Mexico now. So we'll have a better sense, I think, in, you know, in the coming couple of months, of exactly what it is that we would want as an outcome. But the big opportunity, I think, here is, is to achieve some stability. I mean, frankly, the North America, North American supply chains and North American trade has been unstable. It's been disrupted. It's been unpredictable. You know, over the last year or so, that continues now. You know, there are still some outside of the USMCA tariffs now on steel, aluminum, autos, lumber for Canada, there's more 232, investigations coming on, pharmaceuticals, semiconductors. So this creates unpredictability in the system which is not

good for business and not good for employment. We have an opportunity, therefore, between now and the review, to to kind of provide some stability, and that's what we would, we would want, is to take all of this uncertainty and stabilize it so that business can get on doing business. What about you,

Julio Vaquero 17:12

What about you, Kimberly, what are you seeing in the US government in terms of its approach to the negotiations?

Kimberly Breier 17:18

Yeah, I think, I mean, first of all, I mean, I do take it, it's going to be and I think we're already in, you know, a very intense period of dialog between the governments about a very long list of issues that have come up in the, you know, six or seven years since the agreement entered into force. And so, you know, I think we're already seeing that there is a whole list of things. Some of the things that are on that list include some of the changes that Mexico has made domestically over the past few years. You know, I think there are questions on the US side about what the implications of those policies are for judicial reform, energy reform, even maybe the Amparo reform that we're seeing now. And I think there may be some questions on the US side about making sure there's a level playing field for foreign investors. And you know, how are these domestic policies, which are a sovereign right for Mexico, obviously, to enact, but what do they mean for the deal? So I mean, I definitely see a very intense period between now and June of discussion, and also with our with our Canadian friends, about the various issues on that bilateral agenda. But I think we have to keep our eye sort of on the ball here, which is this is an opportunity to consolidate a North America as a as a as a bastion of competition against the Chinese, and to into play, into sort of the geopolitics that have been mentioned. And I think it's an enormous opportunity for the three countries to use the agreement for that purpose. And in the end, we may end up with a stronger, more integrated, more resilient North America. And I think that that would certainly be the goal. It's going to be tough. I mean, it's we're in difficult discussions, but I think at the end of the day, you know, you try to get to a better place with the three countries, and I think we can. There

Julio Vaquero 18:56

There is an element that I believe makes it even more complicated. And you correct me if I'm wrong, but Ambassador Mackay actually talked about it China, which will be looming in the negotiations. Just recently. Robert Lighthizer, a former Trump official, described China as the elephant in the room, specifically because of the Mexico China relationship. So I wonder, Ambassador Moctezuma, what your reaction to that description the elephant of the room is?

Esteban Moctezuma 19:26

Well, I think that the most important thing for the US, particularly regarding to Asia and China, is precisely that in order to prevail in the economic competition, North America has to be a strengthened region. So I believe that if you take China as a measure of the decisions that the US will make, we will be highly benefited because it's in North America. Region together, how we can continue to be the most important region and the most competitive region in the world now regarding the relationship between Mexico and China, our relationship with China is less important than the relationship now between China and the US, the foreign investment of China last year was about 0.8 percent of all our foreign investment. So if you see the facts around that issue, there is a lot that we can do, but is not as big as the narrative. And you see all the measures that this Ministry of Economy of Mexico has done, regarding tariffs, regarding certain products, minimis, and many other things that are aligning precisely with the trend of the North American view.

Julio Vaqueiro 21:00

Ambassador MacKay, do you agree? Is the narrative bigger than the facts? China is a player in this negotiations?

Cameron MacKay 21:08

I would say, just speaking about Canada's relationship with China, for example, which is big and it's complex, and it has not always been happy, but frankly, the government now is trying to find sort of a new way forward with the Chinese we, we, you know, where we can. We want to be able to cooperate with China. Let's say climate change. Let's say trade in commodities, agricultural commodities. We'd like to have a cooperative relationship. There are other areas where we need to compete with China, and we want to be able to compete head to head. And there we absolutely want to do it with, with our friends, you know, from a North America point of view. And there will be some areas where we need to confront China, and where we need to confront China, we will do that. And again, we'd like to do it in, you know, in good company. And I think that all speaks to needing to have as much as we can have within North America an aligned approach on China. I think we would like to see everyone sort of take the attitude that I just described, the Canadian attitude. If the three of us work together, then we think that we can absolutely manage China in a very constructive way over the long run, if we can cooperate and align among North American parties.

Julio Vaqueiro 22:21

What about you Kimberly, because President Trump has been big on reducing trade deficits, specifically with China, but it's easier said than done, right? So what should be the approach of North America towards China?

Kimberly Breier 22:35

Yeah, again, I think you know, echoing some of the things that were said this morning, I was noticing when Mike Milken mentioned COVID, and sort of the realization we had, particularly in North America, among our three governments, that we didn't have some of the basic inputs we needed. We didn't have the PPE. There's a wonderful story in Jared Kushner's book about how the United States didn't have, didn't have Q-tips, and you needed Q tips for the test kits, you know, during covid. So I think, you know, I take this as an opportunity for us to say, Okay, we're—as North America, we're going to start import substitution, which, God, I mean, I feel like I'm back in the 1970s economics, but here we are, you know. And I think this is an opportunity. I've heard it from Mexican officials as well. If you want to decrease poverty in Mexico, and you want to have things made in Mexico truly, and not imported from China and passing through Mexico. I think it's an enormous opportunity in the bilateral relationship, and I hope that, I think the Mexican government sees that, and I'm hopeful that they will take that opportunity. And I think it's, I think it is the elephant in the room, and I think the geopolitics of this are going to drive us closer together, ultimately, in North America.

Julio Vaqueiro 23:40

Okay. So recently, the leaders of Canada and Mexico got together in Mexico City, and I wonder why that visit was important for the relationship between Canada and Mexico. Will they have both countries have more leverage if they go together to the negotiation table? Ambassador MacKay?

Cameron MacKay 24:00

Well, I think it would be naive to think that Canada and Mexico can kind of get together and then gang up on the United States. I mean, that's not what this is about at all. But North America is a lot of what's happening in North America is trilateral. We have the trilateral trade treaty. We have other trilateral mechanisms where we talk about security and defense, et cetera. But we also need strong bilateral partnerships. And so obviously, Mexico is quite focused on its relationship with the United States. Canada's focused on its relationship with the US. But to make North America work, Canada needs a really strong relationship with Mexico as well. And I think that's where Prime Minister Carney, coming to Mexico about a month ago now, had great, solid meetings with President Sheinbaum. They're very well aligned on what more we can do together. So we will continue to work trilaterally with our American friends in all the spaces that we always have, but we can also do more work intensively bilaterally. We have our own bilateral security issues to pursue. I'll give you an example. There are deep ties between Canadian organized crime and Mexican organized crime and the governments would like to confront that we could be doing more bilaterally on health more on environmental protection, but particularly on the trade and the prosperity side of things, we should be doing more to create, to help build trade, facilitating infrastructure, and we should be trading more with one another than we are. So after 31 years of free trade, Mexico is Canada's second oldest free trade partner. We now have a commercial relationship of more than \$100 billion so that's about 56 billion in bilateral goods trade. It's \$46 billion in investment, plus many billions more in services trade, tourism, education, etc. But for two economies, the size of Mexico's and Canada, Mexico is just under \$2 trillion GDP, Canada's \$2.4 trillion to be doing just over \$100 billion billion dollars in commerce together is, I think, an underperforming economic relationship. So we should be trading more intensively than we are, and we're looking at ways to do that. The Canadian trade minister will lead, for example, a big team Canada trade mission to Mexico in February to try to open up new opportunities for bilateral trade.

Julio Vaquero 26:21

Do you see the same way Ambassador Moctezuma, or is there a change in the relationship between Canada and Mexico that maybe we didn't see that closeness before?

Esteban Moctezuma 26:32

Well, if you see the disputes within the USMCA, sometimes the US has won disputes against Canada. Sometimes Mexico has won disputes against the US. Sometimes Mexico has won disputes against Canada. So what you see is that we are in level ring in the USMCA. Now, every time we speak about the USMCA, Mexico always wants Canada to be with us, because that's the deal. The deal is that the three of us are North America, and North America as a region is very important now plant Mexico has a very important approach of import substitution that is related with all the Asian imports, and the substitution will be to produce in Mexico, to buy more from the US, to reduce the deficit and to buy more from Canada. So what a prime minister, Carney and President Shannon agreed on the plan, Mexico can a Canada Action Plan was precisely to increase our relationship. Now, the relationship between Mexico and Canada is very important, 56 billion. Now, when you compare that with the US, which is 840 billion, is not as much. But if you compare that amount of exchange between any countries. 56 billion is really a very important economic partner with Mexico. So we have our own interests in keeping that growing.

Julio Vaquero 28:13

Okay. And then another important factor here is that this negotiations will take place in an election year in the US, what effect do you think this might have in the in the conversations? Kimberly?

Kimberly Breier 28:29

That's a really—that's a great question. My theory of the case has been for a while that the US administration's approach on on tariffs was a first year approach on tariffs. And actually, if you look back at Trump 1.0 there were similar. We had steel and aluminum. We had various things, and those things began to sunset as we negotiated the USMCA the first time. So that's my own personal theory of the case that get that inflation is going to be a very significant issue for American voters in the midterms, and that there'll be a real, a real focus on that. And that's another sort of element that that makes me think that, you know, we are going to reach an agreement, whether it's by June or, you know, later than that, between the between the three parties, it's not, I will tell you, it's not ideal to have a have a negotiation going on during, you know, during election season. But would you say that here we are very

Julio Vaqueiro 29:18

Very quickly—would you say there are chances that there will be protected talks that this will like, stop or—take longer?

Kimberly Breier 29:28

I think it depends on where we are, you know, and we have a pretty long list of things to discuss. And then there's, I mean, there's a list of things that we need to discuss that already exist, right, sort of things that we know that we need to talk about as two or three countries. But then there's the opportunity part of it. And the opportunity part of it is something the ambassadors mentioned, AI, you know, I think we should be, we should be looking at that. We should be looking at Tech. We should be looking, if it were me, I'd be doing a chapter on critical minerals, right? There's the whole opportunities piece of it that is separate from sort of the problem solving piece of it. And so how long that? Takes it's, you know, impossible for me to know, but there's a lot to discuss. And so I think, I hope that we are not just problem solving, that we also were thinking creatively about other things that should be in the agreement.

Julio Vaqueiro 30:11

Very quickly. How would a good USMCA look to you, Ambassador Moctezuma?

Esteban Moctezuma 30:18

Well, I think that the first thing is certainty. As soon as the agreement is signed in the review, it will bring the certainty everybody wants. Okay, so I think that's the most important thing. Second thing is that there is a will to construct the most competitive and also humanistic region in the world, and I think that has to be within the review and and that will put us in very important path, which would be to guarantee another 16 years and to and to Really take the review as 16 year period of certainty,

Julio Vaqueiro 31:04

What would make a good USMCA to you, Ambassador MacKay?

Cameron MacKay 31:08

I couldn't agree more with Ambassador Moctezuma, that certainty, stability—you know, business needs that predictability. So maybe in a word, I would say tweet, if we need to make minor changes, if we need to make some adjustments to make North America even more resilient, even more competitive, even more dynamic, then let's do that. But let's keep it very narrow, narrow, very, very targeted, very focused. Agree on it, provide the stability and then get on with business.

Julio Vaqueiro 31:41

What about you, Kimberly?

Kimberly Breier 31:42

I think to your earlier question, I think having a revised USMCA that has broad-based political buy in among the American electorate is probably the sort of the holy grail of this negotiation. And I think that the three—Mexico, Canada, US—got there the first time, and I think they had, you know, broad bipartisan support. So I think maintaining that and even growing it, I think, to me, would be a good agreement, and hopefully an agreement that meets the moment that you know, that is able to modernize and really position North America to be better off despite this sort of period of discussions that we're going to go through in the next year or so.

Julio Vaqueiro 32:25

Perfect. Well, thank you very much. Ambassador Moctezuma, Ambassador MacKay, thank you. Kimberly Brier, thank you so much for your time. Thank you.

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