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# **NAFTA Economic Corridor Development**

Andy Sze  
Logistics & Corridor Development Consultant

[andyszeadb@gmail.com](mailto:andyszeadb@gmail.com)

1-630-910-6777

# Presentation Outline

1. The NAFTA Agreement
2. Development from NAFTA transport corridors to economic corridors
3. Roles of major actors in NAFTA Corridor development
4. Formation of NAFTA Corridors
5. Resolving development issues and challenges
6. Benefits of NAFTA corridor development
7. Lessons learned

# **The NAFTA Agreement**



# NAFTA

## North American Free Trade Agreement

- NAFTA is a comprehensive trade agreement that established a free-trade area encompassing Canada, Mexico, and the United States.
- NAFTA became effective on January 1, 1994, with all duties and quotas eliminated on January 1, 2008
- It consists of three separate bilateral agreements (Canada - United States, Mexico -United States, and Canada- Mexico).
- NAFTA created the world's largest free trade area, linking 450 million people producing \$17 trillion worth of goods and services.

# NAFTA Institutions

## ■ The Free Trade Commission

- Consists of cabinet-level representatives from US, Canada & Mexico.
- Convenes annually and chaired successively by each country.
- Supervises the implementation of the NAFTA.
- Resolves disputes arising from NAFTA interpretation.
- Oversees NAFTA Committees, Working Groups and other subsidiary bodies.

# NAFTA Institutions

## ■ NAFTA Committees/Working Groups

- Facilitate trade & investment, smooth out NAFTA implementation & administration
- Agricultural trade and subsidies, rules of origin, standards, investment & alternative dispute resolution are key focuses

## ■ NAFTA Secretariat

- Administration of the dispute settlement provisions of NAFTA
- Consists of US Section (Washington, DC), Canada Section (Ottawa) and Mexico Section (Mexico City)

# **Development from NAFTA Transport Corridors to Economic Corridors**

# Stages of Transformation from Transport Corridors to Economic Corridors

## ■ Transport Corridors

- Efficient & reliable flow of cargo & people

## ■ Trade Logistics Corridors

- Efficient & reliable flow of cargo & people
- Efficient & reliable flow of information & knowledge
- Efficient & reliable flow of funds

## ■ Economic Corridors

- Development of nodes, urban centers & towns along corridor to form regional value chains and to connect to supra-regional & global value chains
- Government work with private sector to attract investment & to create high value added, sustainable industries



# Stages of Development for NAFTA Corridors

- Stage One – Transport Corridor Development
  - US/Canadian transportation systems are well developed, focus is on Mexico (e.g. privatization of Mexican rail system)
- Stage Two – Trade & Logistics Corridor Development
  - Remove tariff/quota barriers, ease travel for business people and improve climate for foreign direct investment
  - Increase throughput capacity of border crossing points (e.g. Otay Mesa commercial BCP between Tijuana & San Diego)
  - Develop logistics centers at key nodal points (e.g. Kansas City, Chicago, Mexico City) and large border towns (e.g. El Paso, Nuevo Laredo)
- Stage Three – Economic Corridor Development
  - All levels of government work with private sector to promote investment
  - Exploit each country's strengths – US/Canadian design, Mexican assembly

# **Roles of Major Actors in NAFTA Corridor Development**

# Major Actors in Corridor Development

- National governments – create NAFTA, lower tariffs & quota, settle trade disputes, facilitate travel for business people & ensure non-discriminatory treatment in investment
- Provincial/state government – partner with national government in transport network & logistics infrastructure development, provide investment incentives
- Urban/rural government - provide incentives, help secure land parcels & adequate supply of utilities, grant entitlements
- Private enterprises – supply capital, knowledge and connection to global value chains & global markets
- Regional development associations, corridor development coalitions – help coordinate private/public efforts in promoting economic development

# NAFTA Economic Corridor Development

- NAFTA Corridors are de facto corridors shaped by market forces – developed through myriads of enterprises using the most efficient/effective transport routes, border crossing points, logistics infrastructure and taking advantage of the most appealing business environment.
- Major NAFTA corridors include:
  - Montreal-Toronto – Detroit – Chicago - Kansas City - Oklahoma City - Dallas/Ft. Worth - San Antonio – Laredo -Monterrey - Mexico City
  - Vancouver B.C. – Seattle – Portland – San Francisco – Los Angeles – San Diego - Tijuana

# Formation of NAFTA Corridors

# NAFTA Corridor Development

- All 3 governments focus strongly on transport & trade facilitation
  - In May, 2011 U.S. and Mexico launched a program to increase the number of truck lanes from eight to 15 at the World Trade Bridge from Nuevo Laredo, Mexico to Laredo, Texas
  - Canada, U.S. and Mexico formulated simplified cross border inspection procedures
- All 3 governments also simplify visa regimes for business travelers & institute non-discriminatory investment treatment
- Provincial and state governments, cities and rural communities work with private enterprises in forming corridor development coalitions to promote economic development

# NAFTA Corridor Development

- Since there is NO official corridor designation under NAFTA, much of the development is done through grass root efforts
- Various routes & nodes were promoted by different coalitions. Examples of corridor development coalitions:
  - NASCO - an organization with members representing cities, counties, states, provinces and private sector in US, Canada & Mexico to advance economic development & sustainable transport through the North American heartland.
  - CANAMEX - an organization consists of transport & tourism agencies of Canadian province, US & Mexican states.
  - Kansas City Smartport - an economic development organization supported by both the public and private sectors to promote the Kansas City region as a leading North American logistics hub

# NAFTA Corridor Propositions





# Closer Look of a NAFTA Corridor (NASCO Corridor)



**Inland Ports**

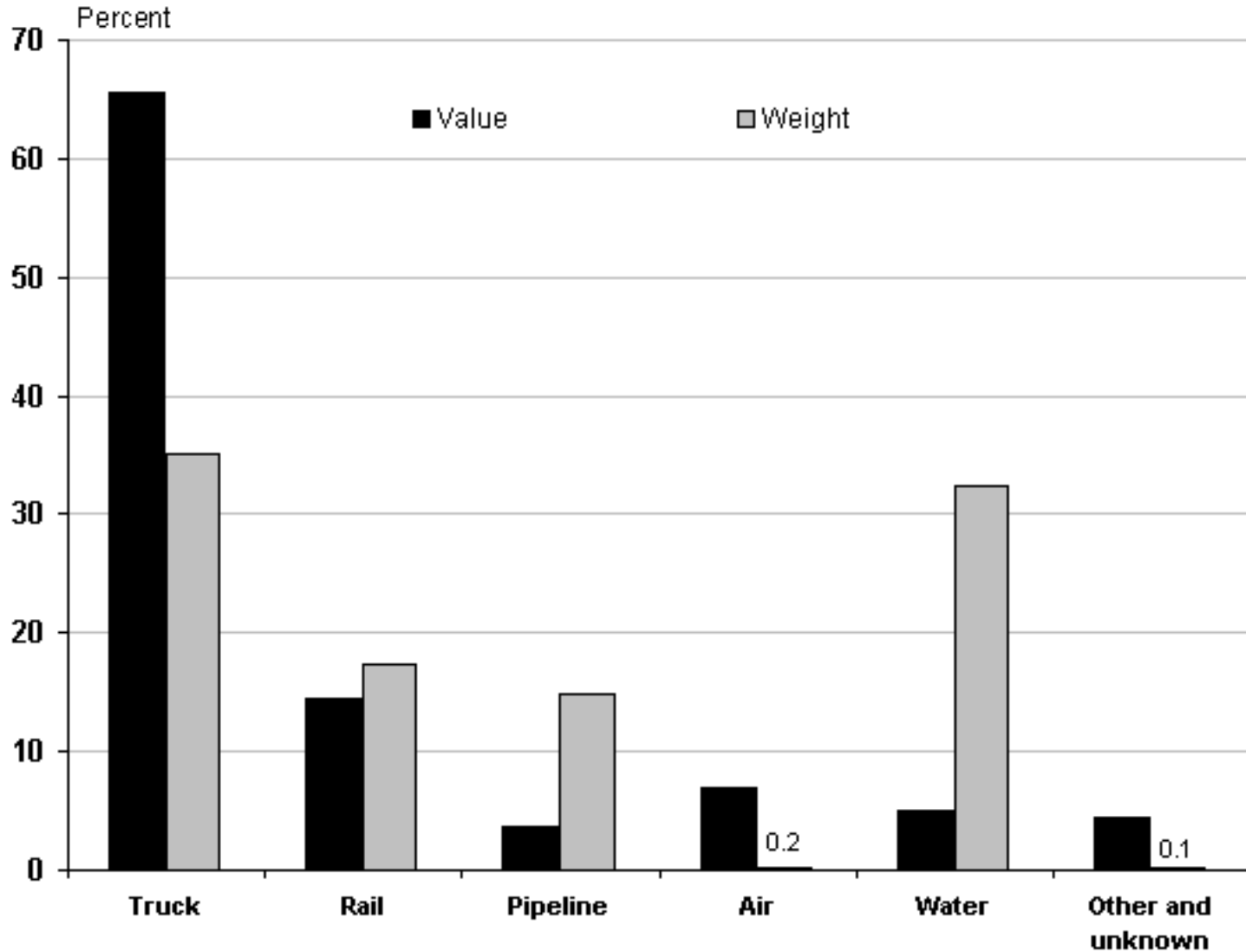


# Transportation on NAFTA Corridors

- NAFTA stimulates multimodal transportation that makes the best use of US, Canada and Mexico's road, rail, air, sea networks to support trade
- Movements deep into interior Mexico are mostly by rail. Capability to provide "run through" multimodal service between US and Mexico led to substantial growth for Kansas City Southern de Mexico, FerroMex and Pacer.
- Cargo movements to and from maquiladoras situated along the US/Mexico border are by truck
- Unlike US/Canada truck movements, US/Mexico truck traffic generally involves a change of carriers at the border due to language, safety and security reasons

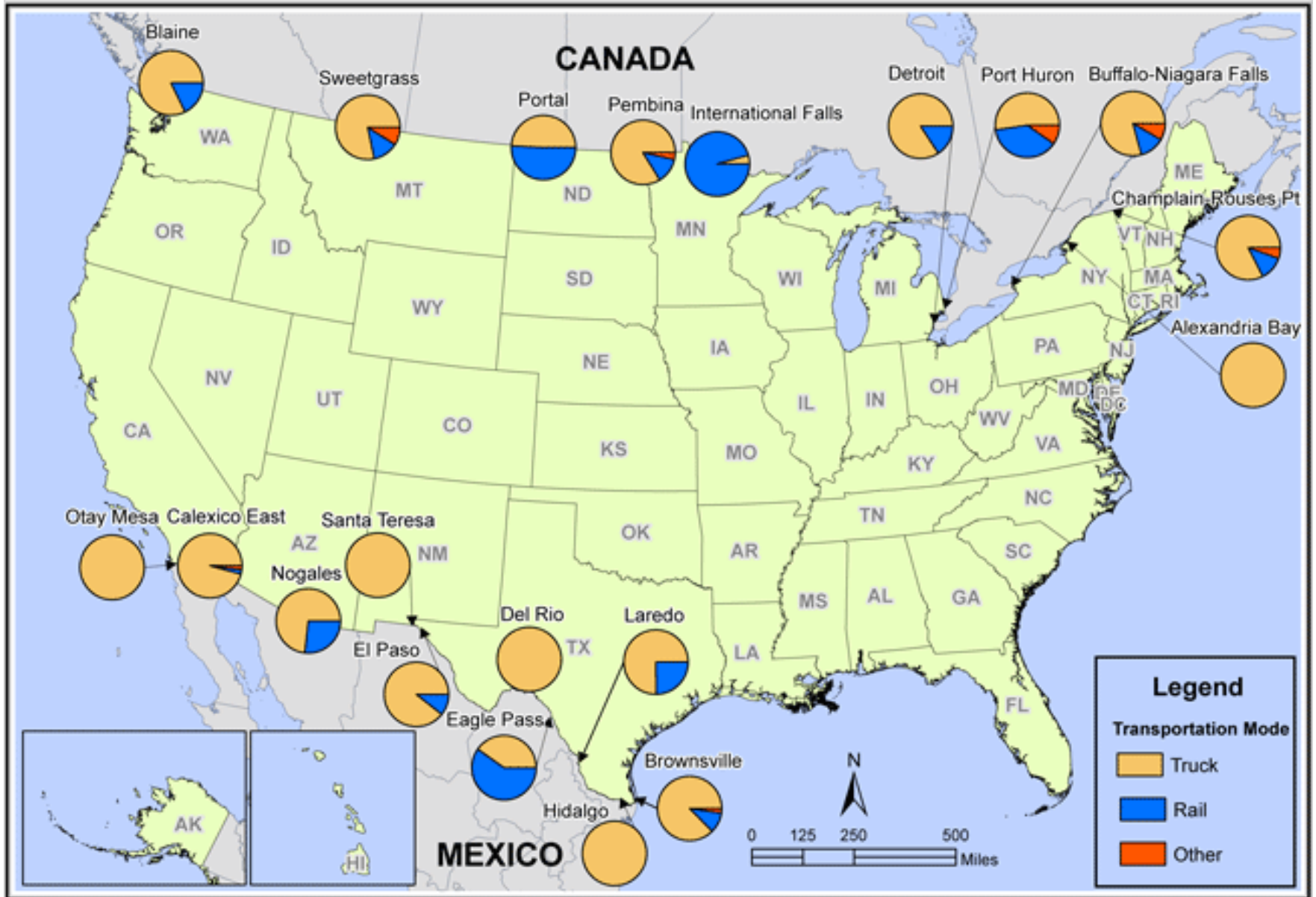
# Modal Share of NAFTA Traffic

(SOURCE: U.S. Department of Transportation, Bureau of Transportation Statistics, all trades)



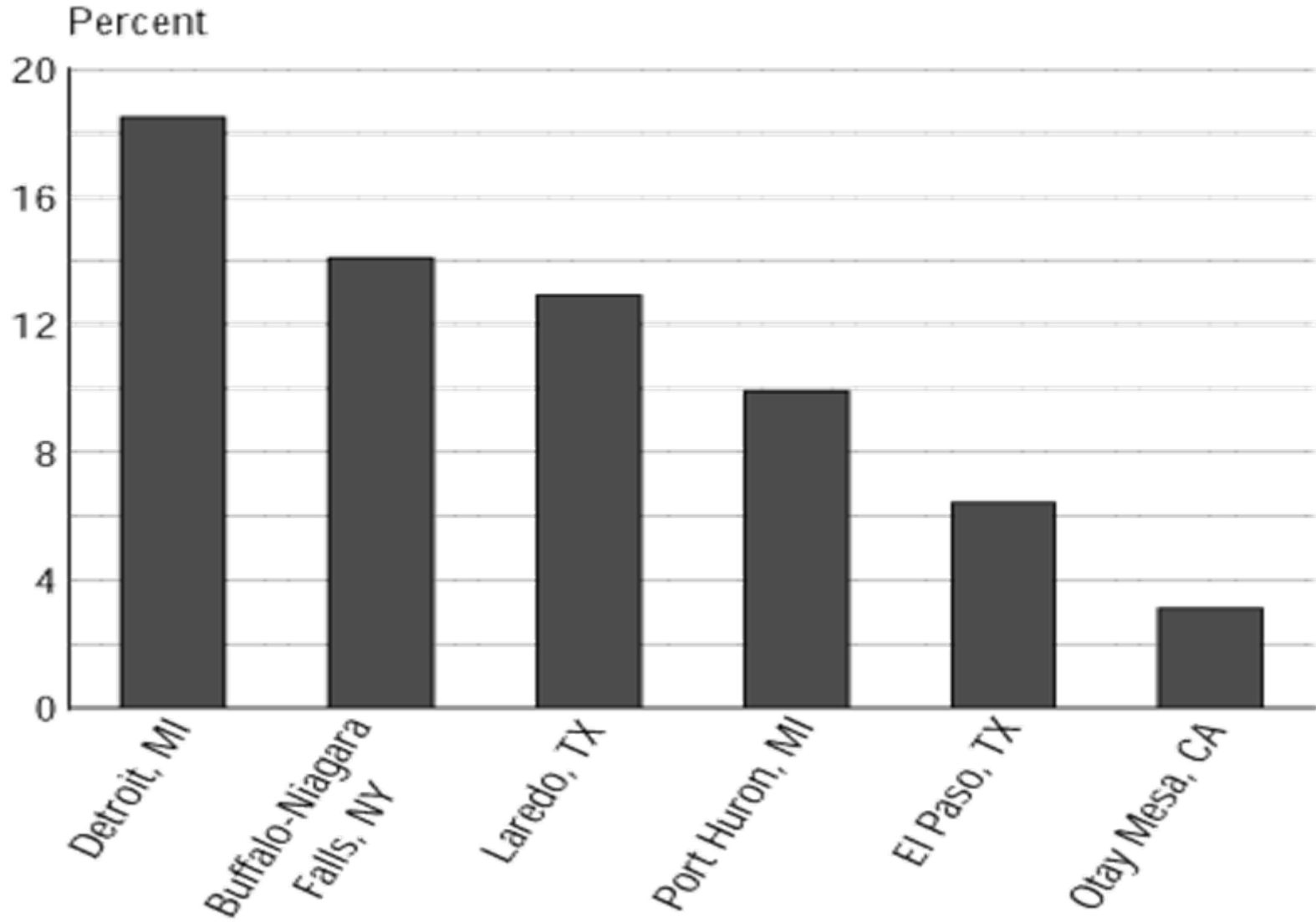
# Modal Share of U.S. - NAFTA Traffic by Gateway

(Source: U.S. Department of Transportation, Research and Innovative Technology Administration, Bureau of Transportation Statistics)



# Share of NAFTA Land Traffic by Border Crossing Point

(SOURCE: U.S. Department of Transportation (USDOT), Bureau of Transportation Statistics (BTS), special tabulation)



# **Resolving Corridor Development Issues and Challenges**

# Issues & Challenges of NAFTA Corridors

- Massive amount of investment required for transport & logistics infrastructure development
- Perceived loss of jobs to Mexico & suppression of US/Canadian wages
- Environmental degradation
- Language barrier between US/Canada & Mexico
- Safety and Security
  - Cross-border traffic raises exposure to weapon, drug & human trafficking
  - High incidence of cargo theft, hijacking & robbery in Mexico. Drivers are concerned about personal safety in Mexico
  - Mexican truck lines operate on lower safety standards

# Steps Taken to Resolve Issues & Challenges

- Corridor projects that require huge funding (e.g. Trans-Texas Corridor) have been abandoned or suspended
- Labor union resistance remains unresolved.
- Systemic threat to the North American environment addressed by supplemental agreements
- Hiring of bi-lingual staff reduces language barrier between US/Canada & Mexico
- Safety & Security
  - Extensive use of railroads for through cargo movements
  - US & Canadian trucking firms interchange traffic with Mexican firms at US/Mexico border
  - US government pays for safety devices to be installed in qualified Mexican trucks to help meet US/Canadian standards



# Steps Taken to Resolve Issues & Challenges

- Safety & Security (continued)
  - ❖ Customs forge close partnership with trade (especially carriers) in reducing weapon, drug & human trafficking.
    - Institute trusted partners program
    - Increase number of customs & border patrol agents
    - Canine units
    - Aerial patrol units
    - Remote sensing devices
    - High tech surveillance
    - 24 x 7 monitoring of security data & trends
  - ❖ Use Gamma ray & X-ray machines at ports of entry to detect contraband

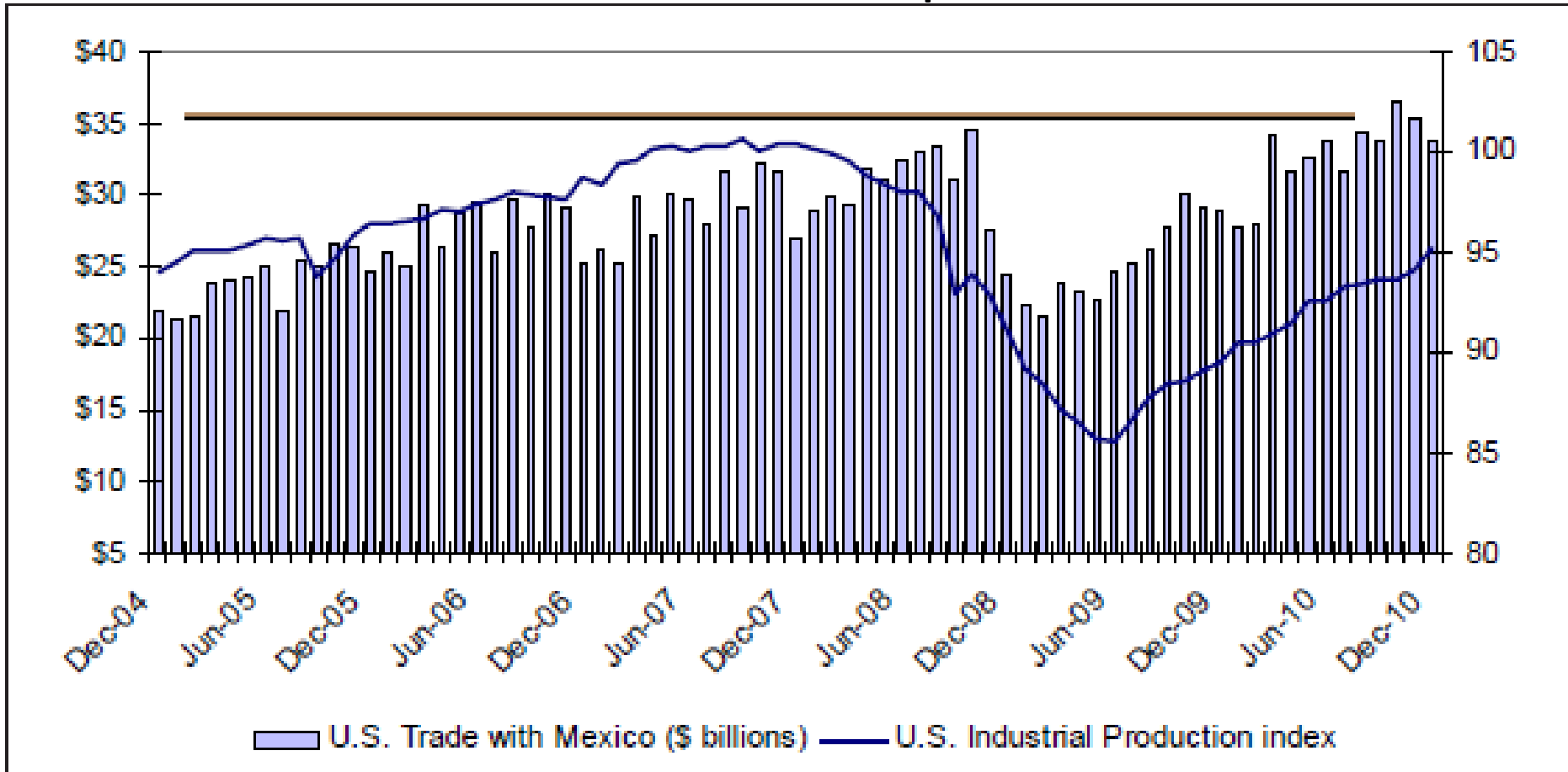
# **Benefits of NAFTA Corridor Development**

# Success of NAFTA

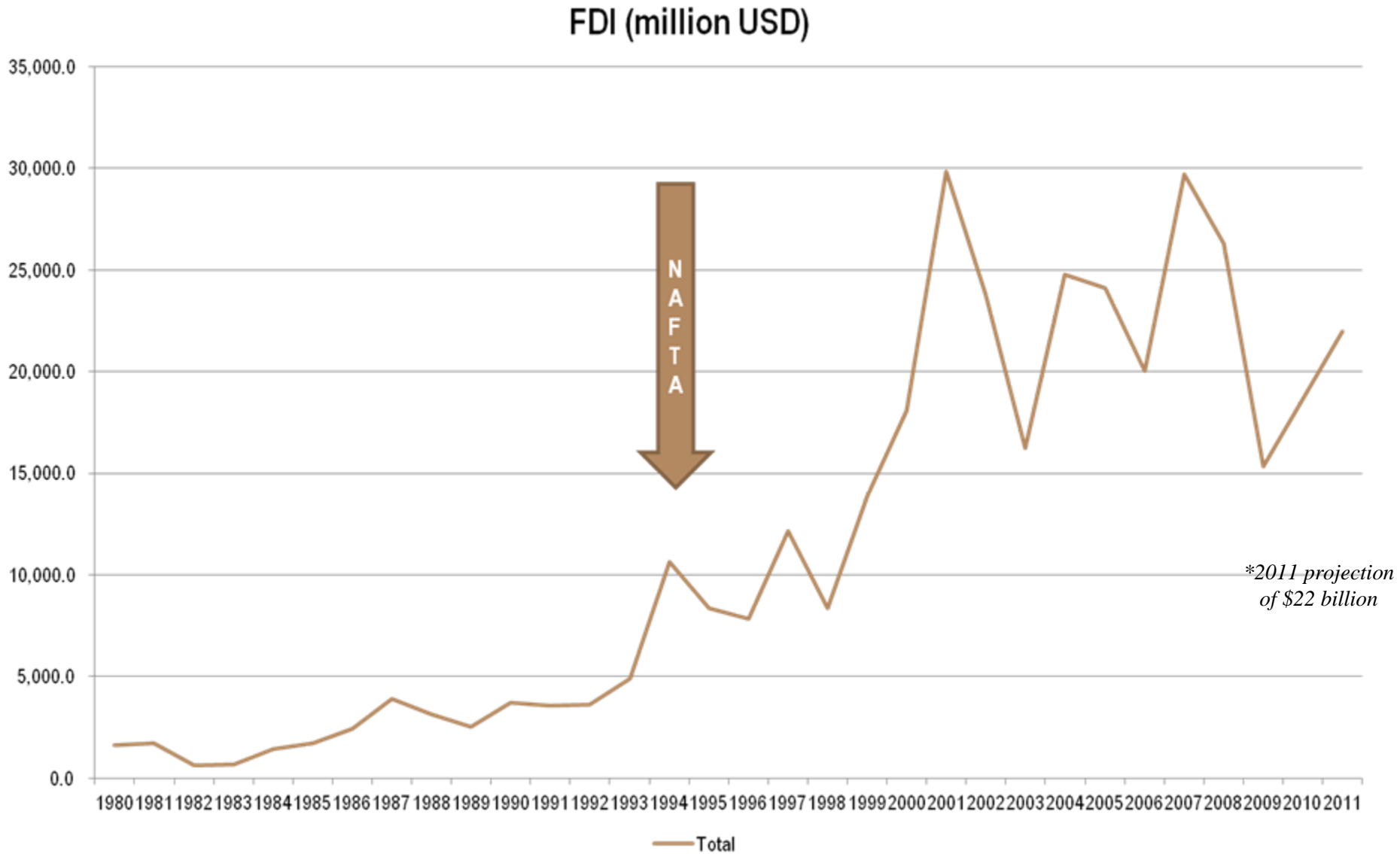
- From \$288 billion in 1993, NAFTA trade has surged to \$918 billion in 2010.
- More than just promoting trade, NAFTA spurred FDI even during economic downturn.
  - NAFTA Countries FDI in U.S. reached \$237.2 billion in 2009, up 16.5% from 2008.
  - U.S. FDI in NAFTA Countries reached \$357.7 billion in 2009, up 8.8% from 2008.

# Cross Border Trade Volume

U.S. – Mexico trade has returned to pre-recession levels



# Trend of Foreign Direct Investment in Mexico



# 2010-2011 Confirmed Investments (\$150M+ only)

Company	Country	Investment
Goldcorp	Canada	\$1.5 billion
Ford	U.S.A	\$1 billion
Wal-Mart	U.S.A	\$958 million
Tenaris Tamsa	Italy	\$850 million
Nissan	Japan	\$600 million
Acciona Energía	Spain	\$600 million
Chrysler	U.S.A	\$570 million
Eurocopter	France	\$550 million
Volkswagen	Germany	\$550 million
General Motors	U.S.A	\$540 million, \$500 million, \$300 million
OHL	Spain	\$513 million
Dupont	U.S.A	\$500 million
Mitsui	Japan	\$480 million
Holsim Apasco	Switzerland	\$400 million
Nestle	U.S.A	\$390 million
Iberdrola & Siemens	Span, Germany	\$354 million
Bombardier	Canada	\$250 million
Pirelli	Italy	\$210 million
Intel	U.S.A	\$182 million
Zafran	France	\$150 million
Praxair	U.S.A	\$150 million

SOURCE: ProMexico

# Foreign Direct Investment (FDI) in Mexico

## 2010-2011 Multiyear Investments over \$150 million

- 2010 FDI multiyear projects reached \$18.6 billion:
  - *New Investments: \$12B*
  - *Reinvestments: \$2.6B*
  - *Intra-company: \$4B*
- 2011 Q1 FDI reached \$4.8 billion
  - *Full year projected at \$22B*
- 75 FDI projects will be developed from 2010 – 2015
- Investments focus on:  
**Aerospace, Automotive, Mining, Appliances & Wind Energy**



# Benefits of NAFTA

- Rise in trade contributes to economic growth of all three countries
- Help Mexico get closer to the levels of development of its NAFTA partners
- Broader array of competitively priced goods - high labor content goods and agricultural products become much cheaper
- Shorter and simpler supply chain versus manufacturing in Asia & Europe, leading to lower & more predictable logistics cost.
- Faster & cheaper travel for business people. Location in same time zones makes it easier for US, Canada & Mexico to communicate with one another



# Benefits of NAFTA

- Mexico offers good hedge against surging manufacturing cost in China & a stronger Yuan
- Access to highly skilled Mexican work force and to fertile, low cost Mexican agricultural land
- Revival of the Mexican rail network (KCSM, FerroMex)
- Access to more choice of ports reduces transport cost (e.g. US containers now handled in Mexican & Canadian ports)



# Mexican Ports Enable Shorter Land Bridge to US Cities

*The Lazaro Cardenas – Houston route is 335 rail miles shorter than the LA – Houston Route.*

Oakland to Houston on UP:  
2,050 miles

LA to Houston on BNSF:  
1,755 miles

LA to Houston on UP:  
1,633 miles

Lazaro Cárdenas to Houston:  
1,298 miles



# Lessons Learned

# Potential Application of NAFTA Experience

- Create a CAREC Free Trade Agreement, with stable trade policy & effective mechanisms to resolve disputes
- Reduce tariff, quotas and cross border impediments
- Ease controls on movement of capital
- Simplify visa regimes
- Encourage private sector investment in areas where CAREC member country has competitive edge
- Seek FDI with knowledge transfer
- Series of bi-lateral trade agreements can be a good prelude to regional trade agreements
- Link CAREC regional development to national development

# Potential Application of NAFTA Experience

- Stimulate cluster development along value chain lines
- Stress synergistic development of urban centers and rural towns along CAREC corridors
- Promote corridor building initiatives by local government and private sector
- Support multimodal transportation and logistics infrastructure development
- Facilitate transport, logistics and economic development capacity building
- Ensure safety & security along CAREC corridors
- Emphasize capacity building



Спасибо! Thank you! 谢谢 !

Andy Sze, Logistics & Corridor Development Consultant

Contact: [andyszeadb@gmail.com](mailto:andyszeadb@gmail.com), 1 (630) 910-6777