"location" of many economic activities[12] will reflect firms' efforts to maximize opportunities as they confront changing price structures, both within and outside of the NAFTA area.

In the years since the Canada–U.S. Free Trade Agreement went into effect, the easing of trade and investment barriers have allowed firms in the two countries to make location decisions without regard to borders. Some U.S. and Canadian firms have reorganized their operations, sometimes consolidating two plants, one in each country, into one plant in one or the other country. In other cases, firms expanded their operations into the other country. Their motivation was clearly profit maximization, mainly based on the economies realized through large-scale production (in the case of consolidation) or "economies of scope," in the case of expansion into another country.

Another factor that will trigger changes in the spatial location of economic activity is the increased competition that exists in a borderless environment. As inefficient producers in one country are outmatched by more efficient producers elsewhere, some firms, perhaps entire industries, will simply disappear as local markets begin to be supplied totally through imports.

The net effect of these changes is that, over time, economic activity will tend to move from regions that offer less to those that offer more in terms of attractive costs, labor skills, infrastructure, innovativeness, and quality of life. Border regions present some special characteristics in this regard. Traditionally border regions have tended to be relegated to the periphery of economic activity, primarily because access to their geographical markets—their natural hinterlands—was constrained by an international boundary. As economic borders recede and eventually disappear due to regional and/or global economic integration, new opportunities present themselves. Local trade and commerce becomes more "transborder," and firms on opposite sides of the border may find new bases for working together based on complementarities such as now exist on the U.S.–Mexican border (where low-wage Mexican workers are employed in research and development facilities in U.S. border cities, for example). Such opportunities may attract new firms and new industries and/or stimulate the expansion of existing ones, potentially driving new forms of economic development in border regions. Of course, these new

---

[12] Under the NAFTA, incentives to firms locating in Mexico's border regions will be phased out over time so that there will be a "level playing field" for firms on both sides of the international boundary.