

cooperation opportunities that will facilitate trade.

Recommendation 31

The Government of Canada should consider undertaking a two-track approach to North American economic integration. Identified barriers to more efficient conduct of cross-border business should be removed in an incremental manner in conjunction with Canada's NAFTA partners. While the Committee has taken no position on the merits of a North American customs union, we believe it would be useful for the Government concurrently to initiate a detailed review of the advantages and disadvantages of the concept in the North American context. The review could include an assessment of the use of the integrated North American steel industry, among others, as a prototype for a broader customs union of some kind.

The framework under which the economies of Canada, the US and Mexico are becoming increasingly integrated was established by the NAFTA. Market forces continue to propel integration, facilitated by the certainty and transparency brought by NAFTA's legal framework. Accordingly, exporters and investors are better able to realize their full potential by operating in a larger, integrated market.

Furthermore, the NAFTA is a useful tool to promote a more efficient and integrated North American economy. NAFTA's institutional framework, consisting of more than 30 committees and working groups overseen by the Free Trade Commission, was designed to assist in the implementation of the agreement and to pursue a number of improvements with a view to keeping the Agreement responsive to changing needs.

The working groups and committees actively seek to remove existing impediments to trade and investment. Canada's priorities within this context are those activities that can have an important positive effect on business. At the May 28, 2002, NAFTA Commission meeting held in Puerto Vallarta, Mexico, Ministers directed officials to review the prospects of additional trilateral work that could stimulate trade and investment. Canadian officials, in conjunction with their Mexican and US counterparts, will continue to identify existing impediments to trade and investment and conduct the necessary work to eliminate them through the NAFTA.

Deeper/more formal integration in North America through the formation of a customs union would represent costs and benefits for each of the three NAFTA members. The balance of such an economic integration scheme is not at this time self-evident for any of them. The advantages and disadvantages of a North American customs union must be reviewed carefully and weighted against alternative approaches, such as the establishment of bilateral arrangements dealing with specific issues.

