

JUNE 2, 2023

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fundamentals. Also, no party will be able to adopt or maintain measures placing limitations on: the number of financial institutions; cross-border financial service suppliers; financial service operations or number of natural persons employed; or, the total value of financial service transactions or assets.

Overall, the USMCA has created new provisions that affect the region's financial industry in relation to macroeconomic policies, exchange rate matters, access to payment and clearing systems, transfer of information and data, and the establishment of financial institutions from other member countries and the types of services these can offer. These policies are set to add a higher level of transparency to financial organizations, liberalize cross-border financial services, and aim toward policies that add stability to the financial industry of the region.

- 4 Supply Chains: Structure, Organization, and Operation.** The signing and ratification of NAFTA and its new version, USMCA, has made North America one of the largest trading blocs. However, moving goods across

partnerships. Dialogue between governments, educational institutions, the private sector, and other stakeholders can help explore best practices for workforce development.

- 6 Linkages between Large and Small Firms.** As the global business environment becomes increasingly competitive, firms of all sizes are faced with new challenges and opportunities to increase profitability, growth, and market share. One way to achieve this is through linkages between large and small firms.

Backward linkages, in which small and mid-size enterprises (SMEs) act as subcontractors to large firms, traditionally have been of great interest to policymakers. In North America, this kind of linkage has become popular as many firms from Canada and the United States have outsourced part of their value chain to low-cost locations like Mexico, especially in the manufacturing sector. During the last decade or so we have also seen a significant increase in the establishment of investment funds and other programs aimed at start-ups by big corporations.

Evidence has shown the importance, and potential benefits, of linkages between large and small firms, as a way to foster investment, economic growth, technological advancements, product development, and spillovers of know-how. Thus, overcoming the obstacles to these linkages and implementing policies conducive to such linkages is essential to ensure more of these mutually beneficial partnerships are established and carried out successfully in North America.

- 7 Entrepreneurial Environment in North America.** Entrepreneurship has become synonymous with start-ups. The term encompasses a broader range of business models and enterprises including many, many non-tech firms.

When it comes to the number of start-ups, North America has two of the world's leading countries—the U.S. and Canada. The United States ranks as the country with the highest number of start-ups, with approximately 71,000, while Canada ranks fourth, with around 3,300 start-ups, surpassed only by India and the United Kingdom.¹

Mexico, on the other hand, ranks a distant third in North America with around 565 start-ups. Despite this, Mexico has some very successful start-ups, including Bitso, a platform to buy and sell cryptocurrencies.

Overall, the entire region has seen an important increase in venture capital and other essential resources necessary for a thriving entrepreneurial ecosystem. However, it faces some challenges, as do other entrepreneurial ecosystems, such as actually growing its consumer base, finding the best talent, and adapting to the new world of work so that employees – and therefore productivity – can thrive.

The future of North American competitiveness will depend on deeper regional integration. In that regard, the USMCA, irrespective of any shortcomings, provides a sound trilateral framework, building on NAFTA, that will strengthen the competitiveness of the region and pave the way for a North America that can achieve success for its public and private sectors and citizens at large.

¹ Artem Minaev, "Startup Statistics (2023): 35 Facts and Trends You Must Know," FirstSiteGuide, March 22, 2023, <https://firstsiteguide.com/startup-stats/>.

As for co-production and Canada, the Canadian and U.S. steel and aluminum industries are deeply integrated and underpin continental supply chains that strengthen the global competitiveness of the North American economy. In aluminum, Canada and the U.S. share a highly integrated market with combined trade of \$12.3 billion in 2020.²

In terms of *consumer markets*, the North American consumer market is a lucrative yet challenging one for companies, with free consumer review websites and social media available to shoppers. This includes “aspirational consumers” — who are at lower income levels.

Looking at Mexico, the largest consumer age groups are the young and the elderly (those 60 or older). These consumers are largely brand loyal, and the biggest factors in their purchasing decisions are quality, practicality, and price. As for Canadian consumers, while affordability and quality are the most important features of their consumption decisions, what distinguishes that nation is the population's championing of a customer-centric strategy.³ Many Canadians generally place an emphasis on companies that show empathy to their customers and employees as well as other stakeholders.

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of Chinese exports. This is exacerbated by the fact that as opposed to other developing countries who mainly

Competing against China will require a coordinated effort on the part of the USMCA. As in the past, the United States, Mexico, and Canada need to devise economic, social, and political cooperation mechanisms that can help them better compete in the global arena. The experience of NAFTA, with its achievements and opportunities for improvement, is a great starting point to consider what needs to be done.

The pandemic revealed the need to rethink the economic relationship between the United States, Mexico, Canada, and China. The lack of supplies of these critical elements – like pharmaceuticals and medical devices that came from China (among other countries) – put patients and medical personnel at risk. Additionally, the shortage of transistors or computer chips, which are critical components found in everything from cars to house appliances, has created obstacles for economic growth in North America. This has resulted in many countries trying to relocate production from China. Such a relocation might not occur at the level and speed that many countries want, but it will most likely occur in one way or another. The USMCA block has the chance to establish itself as a key player in this reorganization of supply chains.

Conclusion

Remaining competitive in the face of the economic challenges posed by China requires significant effort from the North American region. Strengthening trade and investment flows among the three countries can help them emerge stronger and increase their future competitiveness. To do so, Canada, Mexico, and the United States must strive to create, develop, and integrate their commercial networks and bolster the quality of their workforce to achieve higher productivity levels. These kinds of strategies are necessary to ensure the region remains competitive in the global arena vis-à-vis the economic power of China.

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II. Innovation in North America

In 2018, the United States, Canada, and Mexico signed a new free-trade agreement, with intellectual property (IP) reforms designed to encourage economic growth and innovation. The USMCA offers an opportunity to modernize many components of NAFTA, including IP laws and their enforcement across North America. This is necessary because the agreement must reflect the current technological landscape, which has completely transformed the global economy and society. IP standards of the original NAFTA, signed in 1994, were revolutionary for their time, but must now be strengthened in order to foster innovation, job creation, and competitiveness of creative industries of the region. Some of these revisions include: creating a 10-year term of regulatory data protection for biologics, establishing border enforcement against all suspected counterfeit goods including goods-in-transit, strengthening civil and criminal penalties for theft of corporate trade secrets, introducing a longer copyright protection term, and strengthening digital rights management and technological protection measures.

These revisions of the IP standard by the USMCA have the potential to foster innovation among North America's tech hubs and industries, such as the pharmaceutical industry. Through these modernized IP measures, the partnership can foster the growth of numerous industries and millions of jobs that rely on patents, copyrights, and trademarks across the region.

It is important to note that the new agreement promotes the publication of open government data and the protection of cross-border data flows. The USMCA explicitly establishes that "facilitating public access to and use of government information fosters economic and social development, competitiveness, and innovation." The purpose of these revisions is to foster data-driven innovation in the region.

In addition to these new IP and data standards, innovation and growth of tech hubs in the region will also depend on other aspects. For example, Deloitte's Technology Fast 500 finds that the growth of emerging tech hubs in the North American continent is fueled by access to talent, resources, and expertise via accelerators and incubators, government support in the form of R&D funding, and the redesign of university curriculum to mirror tech innovation and startup culture. Several tech hubs around the continent include Silicon Valley (California, United

faster rate than ever before and more innovation is expected in the next decade, the United States' innovation ecosystem is expected to slow down and lose its leadership to China.

This slowdown in innovation has occurred despite the country's steady increase in investment in scientific research since the 1970s as measured in terms of dollars spent, the number of PhDs trained, and articles published. This can be explained by the separation of academic and corporate science. Large firms have withdrawn from science, with corporations cutting back investments and now specializing in development, while universities now specialize in research. This specialization has made it more difficult for research to be translated into useful applications because university science and research is different from corporate science, with the latter embodying the usefulness of their invention. While venture capital (VC) has helped to connect university research with commercial applications, this has only been the case for sectors like digital innovation. Therefore,

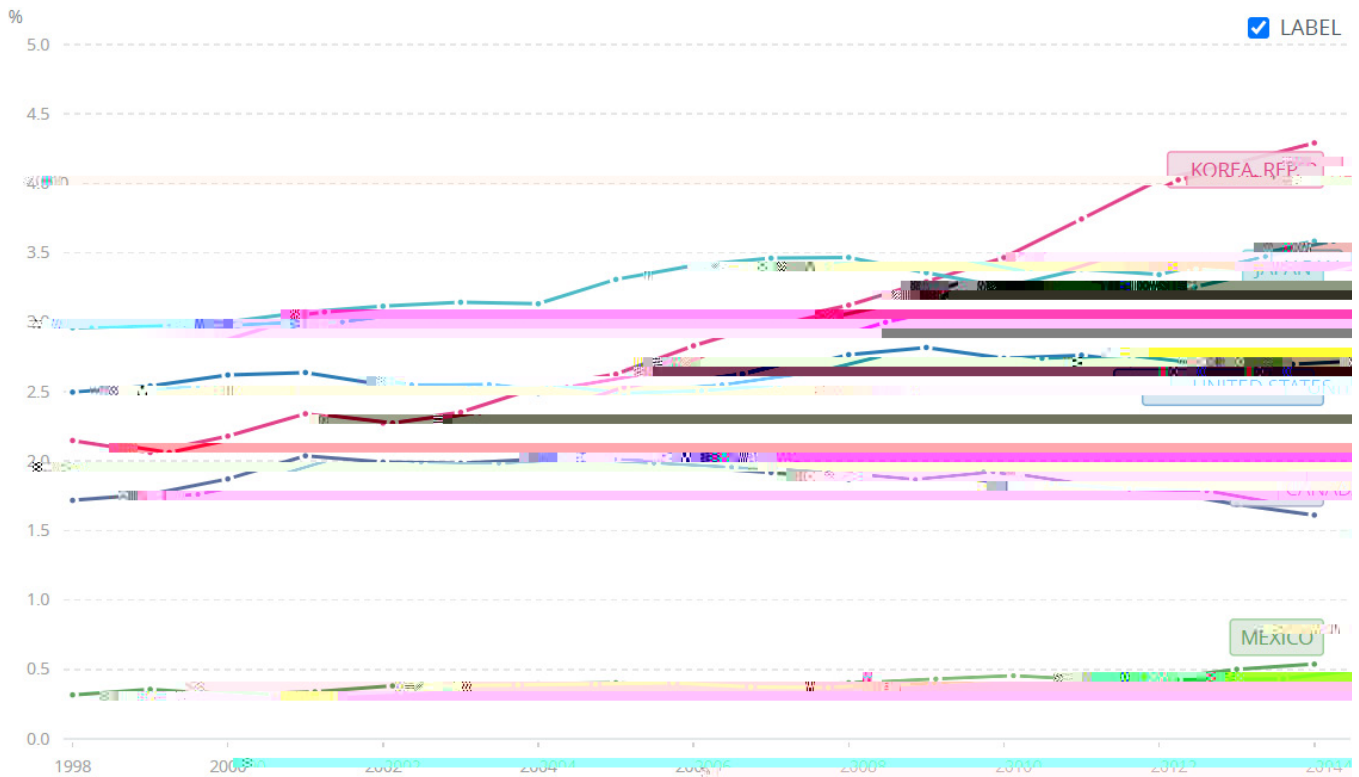
competitiveness and innovativeness of countries, ranked Canada 17th among all developed countries in 2018 for innovation performance. Much of this has been attributed to the failure of Canadian start-ups to develop

the country's unemployment and stagnant economic growth. Part of this plan consists of providing significant

wide disparities between states in the country with large regional differences in education rates and productivity of

of North American parts in their cars. These changes require a higher amount of North American parts and will increase production costs. To avoid the absorption of these costs by consumers or car makers, manufacturers are incentivized to innovate and streamline their manufacturing processes. For example, American automaker Ford argues that USMCA supports an integrated and globally competitive automotive business in North America.¹² The USMCA's new provisions are designed to incentivize investments in the automotive sector, promote additional purchase of auto parts from the region, support higher-paying jobs, encourage automakers and suppliers to integrate and coordinate their production in the region, and advance automotive R&D. Foreign car manufacturers such as Ford, Toyota, Nissan, Fiat, and Honda tend to operate in border states and central states in Mexico.¹³

CHART 3: RESEARCH AND DEVELOPMENT EXPENDITURE (% OF GDP) - UNITED STATES, MEXICO, CANADA, SOUTH KOREA, JAPAN¹⁵



Another important outstanding challenge is the adequate training and education of the region’s workforce. Policies must be set in place to stimulate world-class innovators in STEM (science, technology, engineering, and mathematics) areas and to provide access to a wider and more diverse population in these areas. While the United States is the leader in North America with regards to the total share of graduates specifically from STEM areas, it remains behind several countries in Europe and Asia as seen in chart 4. The region has room for improvement in the skills and capabilities of its workforce and should focus on ensuring the development of capabilities and expertise that are necessary for innovation and strengthening these skills across organizations in the region.

15 The World Bank, “Research and Development Expenditure (% of GDP) - United States, Mexico, Canada, Korea, Rep., Japan,” 2022, https://data.worldbank.org/indicator/GB.XPD.RSDV.GD.ZS?end=2014&locations=US-MX-CA-KR-JP&name_desc=false&start=1998

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IV. Financial Systems in North America

Over the past few years, North American corporate and commercial banks have experienced significant growth and have benefitted tremendously from economic tailwinds. According to McKinsey, within the region's banking system commercial and corporate have been the largest growth segment from 2015 through 2018, with a compound annual growth rate (CAGR) of about 10 percent. In regard to volume, deposits and balances grew approximately 5 percent CAGR, and in terms of loans and deposits, net-interest margins saw 10 to 20 percent increases over these past years. That said, there is still significant variance between the largest banks and the rest of these, in terms of revenue and growth. For example, within the industry, the leading banks have posted 15 or 20 percent CAGR while the others are below 2 percent CAGR.¹⁷

However, the outlook for the banking sector in the region after the global pandemic remains uncertain. The industry's response to the pandemic has been notable thus far, with most banking operations transitioning relatively smoothly to a virtual model in a matter of weeks and achieving effective customer service, employee productivity, agility and resilience, while deploying the necessary technology and reassuring regulators. The role of the banking system in stabilizing the economy was a crucial one, especially in the United States and Canada, where relief programs and government stimulus were transmitted through banks. Additionally, banks' healthy levels of capital before the pandemic were paramount in helping to mitigate the negative effects of the health crisis and providing hope for the possibility of the global economy to recover in the near future.

Despite this, the adverse effects of the pandemic will still be notable for the global banking industry, forcing the competitive landscape of the sector to change and slowing growth in traditional product areas, while fostering innovation in other areas—especially in the digitalization of mostly every sphere of banking and capital markets.

Banking System in the United States

The banking system of the United States has been characterized as a more crowded and highly competitive space, with over 7,000 domestic banks. As a result of this competition, U.S. banks have become more avid risk-takers; creating a less-stable financial system and resulting in notable events like the Savings and Loans crises of the 80's and 90's as well as the Great Recession of 2008.

Despite this large number of domestic banks, the biggest four banks in the country (JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo) hold approximately 45 percent of assets held by U.S. banks.

In terms of regulation, lawmakers in the United States have mandated that the majority of the population must have access to banking services and products, resulting in a "retail banking model" where these services are accessible to all as opposed to only offering banking to the wealthy. U.S. banking regulations have also focused on topics like privacy, consumer protection, and anti-money laundering. Additionally, while most countries have one bank regulator, the U.S. banking system is subject to regulation at both the federal and state level, at times causing banking organizations to be subject to numerous federal and state regulations.

The future of the United States' banking system will likely face multiple challenges. The U.S. income gap seems

17 Szilard Buksa et al., "Firing on All Cylinders in North American Commercial Banking," *McKinsey & Company*, February 18th 2020, <https://www.mckinsey.com/industries/financial-services/our-insights/firing-on-all-cylinders-in-north-american-commercial-banking>

to be widening, which in combination with decreasing loan demand, decreasing payment transaction volumes, low rates, and the general contraction of the global economy, will force U.S. banks to increase their reliance on other sources of income like trading revenues and wealth management fees.

Banking System in Canada

The banking system in Canada has a reputation for efficiency and effectiveness and has been recognized as one of the safest in the world due to its regulatory laws and overall concentration. The industry is dominated by the “Big Five” which can be described as Canadian multinational financial conglomerates, accounting for approximately 90 percent of the industry’s revenue. These banks are Bank of Montreal, Scotiabank, CIBC- Canadian Imperial Bank of Commerce, Royal Bank of Canada, and Toronto Dominion Bank. Thus, the banking system in Canada is highly concentrated and banks are generally more diversified in terms of the services they provide, with many of them expanding into wealth management, insurance, deposits, loans, and brokerage services.

Additionally, having fewer banks has allowed regulators to be more involved in everything banks do and to have closer relationships with banks, resulting in a level of scrutiny that causes Canadian banks to be more risk averse. Despite policies that have kept interest rates low, the commercial banking industry in Canada experienced steady growth from 2015 through 2020. The effect of the financial crisis of 2008 on the industry was weaker than that on the United States banking industry.

However, Canada’s banking system is expected to experience moderate growth in the upcoming years as the economy starts to normalize after the global pandemic. As consumers significantly reduce their spending and aim towards reducing their level of debt amid rising interest rates, banks in Canada must find new sources of revenue. The banking industry in Canada has begun to respond to this by expanding its digital and online capabilities and upgrading its technological infrastructure, to enter the fintech bandwagon and improve their productivity.

Banking System in Mexico

Mexico’s commercial banks offer a variety of services including deposit accounts, lending, trusts and mutual funds. The industry has begun to diversify into wealth management services, particularly in the case of the major banks.

Recently, the slowing of economic growth due to the global pandemic has led to asset decline, high inflation, and increased interest rates, which will create important challenges for the banking sector. Given a decrease in consumer income, the industry expects to see a decline in borrowers' ability to repay credit. However, the big banks in Mexico are expected to continue business in the foreseeable future.

Opportunities for the Financial Sector

After the global pandemic, the financial sector in North America continues to face wariness regarding profit generation due to increasing bad debt, continuing spikes in interest rates, and decreased loan growth. However, the pandemic also allowed the financial sector to learn valuable lessons, and going forward it would be worthwhile to institutionalize some of these learnings to create a more resilient and agile workforce that can help boost productivity and collaboration. These are some of the unique opportunities that the banking sector has in the upcoming years:

Sustainable Finance: through their multitude of roles as engines of economic growth, banks have an opportunity to engage in sustainable finance and to help reallocate capital toward activities that are net positive to societies, as well as fostering new behaviors among clients and counterparties. With heightened scrutiny, stakeholders' focus has shifted to transparency on topics such as climate change, diversity, and inclusion. Banks are now strengthening environmental, social, and governance (ESG) commitments in meaningful ways. For example, Goldman Sachs will deploy US\$750 billion across investing, financing, and advisory activities by 2030 on themes such as climate transition and inclusive growth.

Digitizing Process to Improve Customer Engagement: Financial sector customers are becoming more and more focused on attributes such as transparency, effortless processes, paperless interactions, and support throughout the processes. Additionally, the pandemic accelerated digital adoption across product and demographic segments. For example, Bank of America's business banking app witnessed a significant growth in mobile check deposits.¹⁸ This represents an opportunity to increase the adoption of contactless technologies and digital experiences. While Mexico has been slower to adopt fintech, the country is not far behind, with a growth of 23.4 percent in the Mexican fintech industry in 2018, and over 400 fintech start-ups, making it the second largest fintech market in Latin America.¹⁹ When adding a new banking relationship in North America, quick resolution of problems, competitive pricing on loans, and simple online interfaces were ranked as very important by business owners.²⁰

Additionally, the financial sector should pay close attention to "Banking-as-a-Service (BaaS)" platforms. These platforms have surfaced as the main component of open banking, in which banks offer more financial transparency options for customers by opening their application programming interfaces (APIs) for third parties to develop new services. For example, BBVA is one of the retail banks that have launched their own BaaS platforms, allowing them not only to get ahead of the competition but to also unlock a new stream of revenue by monetizing their platform.

18 PYMNTS, "Bank of America: Almost 48M checks deposited digitally in Q2" PYMNTS.com, August 5, 2021 <https://www.pymnts.com/news/digital-banking/2021/bank-of-america-almost-48m-checks-deposited-digitally-in-q2/>

19 Privacy Shield Framework, "Mexico - Banking Systems." <https://www.privacyshield.gov/article?id=Mexico-Banking-Systems>.

20 Buksa et al., "Firing on All Cylinders in North American Commercial Banking"

USMCA and the Financial Industry in North America

While the USMCA is not entirely dissimilar in many aspects to NAFTA, it introduced some changes that will affect the financial sector of North America:

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However, moving goods across borders remains a complex task in terms of freight transportation, logistics, and overall supply chain effectiveness. Particularly, cross-border transportation remains difficult across the US-Mexico border. Some of the obstacles include cabotage restrictions and compliance with technical standards.

on China for critical goods, which is increasingly viewed as a rival. However, for many companies, this might mean losing access to the large Chinese market.

Another factor that adds to the challenges of the North American supply chains is Mexico's political situation, which businesses see as unfavorable. According to the Economist Intelligence Unit (EIU), the country's 'political effectiveness' metric scored a low reading, fueling concerns with the country's growing protectionist stance.²⁵ Lastly, it is worth mentioning that Mexico also obtained a low score in terms of "private enterprise policy," which can be interpreted as a challenge for businesses. However, despite these aspects, Mexico's low costs, especially in relation to the U.S., Canada, and even some Asian countries such as Vietnam, Thailand, and Malaysia, remain a potential advantage for the region.²⁶

Canada has been experiencing a gradual reopening as a result of its vaccination program. Yet, there are still many procurement and supply difficulties. Supply chains across all industries have been disrupted. Particularly worth mentioning are the lumber and microchip shortages, which have respectively affected the construction as well as the automotive and consumer electronics industries. A report by the Canadian Federation of Independent Businesses (CFIB) found that 41 percent of business owners are worried about logistics, whereas in April 2020 the number was 29 percent.²⁷

In sum, in the short term, all these different factors will most likely deter investors from considering North America as a viable alternative to the current configuration of global supply chains.

Fear of Supply Chain Management (SCM) in the U.S., Canada, and Mexico

With the U.S. recovering to pre-pandemic levels, North American integration and cooperation have become more important than ever. Many supply chains have been struggling as a result of the disruptions induced by the pandemic. In particular, the shortage of microchips has been a major factor affecting all major U.S. industries. President Biden has presented a plan to address SCM issues, especially those involving U.S. reliance on adversaries, particularly China. The administration has discussed the importance of increasing resilience through technological change and safeguarding against cyber-attacks, a strategy that will require

How the Current and Post-COVID Environment Can Impact North American Competitiveness

Many companies saw how Asian countries, particularly China, managed the COVID-19 pandemic somewhat

170 million in the Intel Design Center located in Zapopan, Jalisco, whose workforce is made up of approximately 1,000 people, many of which are specialized engineering students.³⁴ Mexican companies like Grupo Modelo, one of the biggest beer producers in the world with a presence in more than 150 countries, is another example of companies hiring data scientists.³⁵ Additionally, new employment opportunities have increased for individuals with outstanding social and communication skills and critical thinking, as these are deemed necessary skills to adapt to the changing technologies and work with automation, artificial intelligence, and robots.

These changes are expected to create greater opportunities for the workforce by contributing to more higher-paying jobs in the years to come. The increased use of robotics and other technological advances to assist workers will improve the quality of certain jobs in manufacturing. This will ultimately reduce the number of physically demanding or routine jobs. For example, physically demanding automotive assembly-line positions could be replaced by robotics. Other advancements may help increase the productivity of machine operators by using automated systems that facilitate monitoring machine performance and product quality. However, this shift will also create challenges for these countries to make these changes in the workforce a reality. This is an imp(ngoL1omssu0 (e.dimp(brt)sar)-4duc037cial in4 [.cDC ontrieukOo521, (-libs in manuf)20 (act)25 (urain joukOcehis)

suggests that 29 percent of jobs in Canada will see significant changes in task content, and another 14 percent of jobs could be completely automated in the next 15 to 20 years.⁴⁷ Additionally, Canada's workforce has been

The demand for skills has also been changing in Mexico, with highly skilled and well-experienced individuals

necessary education and training, in order to develop a workforce that meets the demands of their company and the labor market in general. This partnership has been successful in placing the state of Querétaro as an aerospace hub and fostering its GDP growth.

Many of the challenges for North America's workforce, such as the skills gap, combined with changes in the way people work brought forth by the pandemic, create an urgent call to action for the three countries. The North American economies should focus on modernizing their workforces' skills which requires investing in the development of their current and future workers. Without active dialogue and coordinated efforts to address some of the existing challenges, opportunities for job creation and job reallocation may be missed. As new technologies emerge, and the mode of working continues to change, the need for a better, more skilled workforce will remain necessary for the region's competitiveness and productivity.

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VII. Linkages between Large and Small Firms

As the global business environment becomes increasingly competitive, firms of all sizes are faced with new challenges and opportunities to increase profitability, growth, and market share. One way to achieve this is through linkages between small and large firms. While large firms and SMEs play distinct roles in the economy and the business ecosystem, they depend on each other in several ways. For example, large multinationals like Walmart and Microsoft depend on small and medium businesses across their supply chain to act as suppliers of inputs, distributors, and to outsource multiple activities of their value chain.⁶⁰ Large businesses are also dependent on small businesses for their customer base, as larger firms like Xerox or Bank of America have developed specialized services and products to cater to small companies' needs, which constitute an important market in terms of their profitability.⁶¹ Other large firms turn to smaller companies to outsource retailing of their products to consumers.

Innovation is another aspect in which large firms can benefit from smaller companies. Many new and great ideas come from small businesses and innovative start-ups which are then commercialized and marketed by big corporations. This has been the case for firms in the pharmaceutical and medical device industry, which are increasingly outsourcing research and development operations to smaller organizations. For example, Johnson & Johnson and GlaxoSmithKline have each invested approximately USD \$50 million into a venture capital fund to support start-up firms in the biotech sector.⁶² Johnson & Johnson has also created innovation centers in cities such as Boston and Shanghai with the purpose of funding life-science research and market products in this industry at a faster pace.⁶³ Large businesses can also tap into small businesses for their workforce, as many young workers get their start in small businesses, and once they have acquired experience and training, they can move to the larger corporate world where the benefits and opportunities for growth are enticing for professionals.

From the perspective of the small business, there are also many benefits from partnering and developing linkages with larger firms, as these are important sources of capital, early customers, and market access. Small businesses are often confronted with numerous challenges, especially in the early stages of their creation; therefore, they need to partner with larger firms if they want to increase their chances of survival. Large firms and multinationals can support smaller firms and especially start-ups with the resources needed to operate and grow. The difference between the mean annual R&D spending of large and small companies grew from less than USD \$20 million in the 1980s to almost USD \$120 million in 2017.⁶⁴

Thus, for many small businesses, working with large companies represents a cornerstone of their development and growth of their business as they increase their access to financing, their visibility and brand image, networks of experts, and access to a larger customer base. One example of these kinds of partnership is Samsung's

60 Beth Winston, "Why Is the Presence of Small Businesses Important for Large Businesses?" *Chron*, <https://smallbusiness.chron.com/presence-small-businesses-important-large-businesses-61120.html>

61 Ibid.

62 Craig Peterson, "Why do large corporations invest in startups?" *Growth Capital Ventures*, February 8, 2019, <https://www.growthcapital-ventures.co.uk/insights/blog/why-do-large-corporations-invest-in-startups>

63 Ibid.

64 Vijay Govindarajan, et al., "The Gap Between Large and Small Companies Is Growing – Why?" *Harvard Business Review*, August 9th, 2019, <https://hbr.org/2019/08/the-gap-between-large-and-small-companies-is-growing-why>.

Linkage between Small and Large Firm in North America

promote stability and take advantage of the long-term opportunities brought forth by a vibrant local economy. Corporate giant Microsoft established a partnership to stimulate SME growth in Africa, with the help of the United Nations Industrial Development Organization (UNIDO).⁷³ The initiative has three purposes: promoting foreign direct investment in sub-Saharan Africa through the creation of an online portal for foreign investors, creating rural business information centers to provide a range of training programs to improve SME productivity and competitiveness, and enabling UNIDO's entrepreneurship educational curriculum by providing information and communication technology components.

Other large companies, like the Coca-Cola Company, have recognized the importance of small business linkages as part of its organizational culture and as an essential way to capture value at all points along its value chain. The company has found that these linkages allow it to maintain its competitive edge by building relationships with its local retail partners, working with them to accelerate profitable growth, and improve their efficiency and effectiveness. In Latin America, the company has created formal customer development training centers that provide basic business training for more than 20,000 independent retailers at little to no cost.⁷⁴ In East Africa, the local bottler--Coca-Cola Sabco--has trained local entrepreneurs on finance and business topics to establish themselves as distributors.⁷⁵

Linkage in Canada

Small businesses account for an important percentage of the Canadian economy. According to statistics from the Government of Canada, in 2019 over 97.9 percent of the employers in the country were small businesses employing over 8 million individuals in the country or over 68 percent of the total private labor force.⁷⁶ Additionally, in 2019, SMEs contributed to 40.6 percent of the total value of exported goods and over 50 percent of the country's GDP.⁷⁷

In Canada, companies like Shopify, the e-commerce firm that specializes in platforms for online stores and retail point-of-sale systems, helped up to 3,000 small businesses in Toronto to get their online store set up and launch Shopify at no-cost, as part of the city of Toronto's "ShopHere" program.⁷⁸ The company's vice president asserted that the main goal was for business owners to have an omni-channel experience and seamlessly connect offline and online selling capabilities.⁷⁹ Shopify also provided training for business owners in building their online stores. Additionally, Shopify has partnered with the Government of Canada in their "Go Digital Canada" initiative to bring thousands of small businesses online and help them adapt to a digital economy, fast.⁸⁰ Through this partnership,

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Shopify will provide Canadian entrepreneurs the opportunity to develop their online presence, grow their business, and access a variety of resources and tools to build their store online, including step-by-step guidance. Another important partnership has been developed by Rogers Communications, the Canadian communications and media company operating primarily in the fields of wireless communications, cable television, telephone and Internet.⁸¹ The company has teamed up with the Toronto Region Board of Trade to help SMEs in Ontario, through the Recovery Activation Program (RAP), which provides support to SMEs as they evolve and develop a digital transformation strategy.⁸² As part of RAP, Rogers will host a one-hour webcast and three-hour digital certification where SMEs will have access to industry experts to learn more about how they can take their business to the next level, digitally.⁸³ The program has helped over 1,000 Ontario businesses and hosted over 4,000 virtual events free to businesses of all sizes across Ontario.⁸⁴

Linkage in Mexico

There are 4 million SMEs in Mexico that represent 12.4 percent of the gross domestic product and employ 47.2 percent of the workforce.⁸⁵ Given their importance for the national economy, the Mexican government has developed a series of initiatives to support SMEs by strengthening their access to finance, developing programs to assist young entrepreneurs and female entrepreneurs, and establishing programs to strengthen alternative financial instruments such as venture capital for SMEs.

CEMEX, the Mexican multinational building materials company, together with 11 companies including Telefónica, BCG, and Microsoft, launched Restarting Together, a global challenge to encourage startups and small and medium-sized businesses to find innovative projects that will expedite economic recovery and a return to normality after the COVID-19 pandemic. According to the company's website, "*[t]his initiative also looks to identify projects to boost economic recovery in a sustainable way, aimed specially at improving employment, revitalizing the ecosystem.*"⁸⁶ Furthermore, CEMEX Ventures, which is the company's corporate venture capital division, focuses on identifying the startups that are working on solving the challenges of the construction industry, whether they benefit the firms' end of the value chain or others.⁸⁷ They have already invested in 12 startups, which focus on finding new ways of building with modular construction, offer a solution to optimize waste management, provide groundbreaking materials and technologies that are conscious of our environment, promote the safety of the workforce, optimize the supply chain management of their industry, and enhance productivity in the sector.⁸⁸

81 "Rogers for Business teams up with the Toronto Region Board of Trade to support small businesses in Ontario," *Rogers*, May 6th, 2021 <https://about.rogers.com/news-ideas/rogers-for-business-teams-up-with-the-toronto-region-board-of-trade-to-support-small-businesses-in-ontario/>

82 Ibid.

83 Ibid.

84 Ibid.

85 OECD, "Mexico SME Financing," 2020, <https://www.oecd-ilibrary.org/sites/c2314a63-en/index.html?itemId=/content/component/c2314a63-en>.

86 CEMEX, "CEMEX 2020 Integrated Report," 2020, <https://liferayprod-cdn.cemex.com/documents/20143/52528892/IntegratedReport2020.pdf/d7d4abda-2ddd-0809-8902-b09af5114bba?t=1616705081446>

87 Gonzalez Galindo, "Innovation Construction, 12 innovations for the future," *CEMEX Ventures*, July 13th 2021,

88 Ibid.

Another multinational company, Grupo Bimbo, the world's leading baking company, has joined in the efforts of supporting small businesses. The company has developed Red Qiubo— a digital transaction platform that allows small business owners to accept electronic payments using credit cards, debit cards, and food vouchers, as well as offer bill payments and purchases of mobile phone minutes, giving SMEs the technological tools that allow them to increase productivity in their everyday operations.⁸⁹ Through Red Qiubo, Bimbo announced its membership to the “Better than Cash Alliance”, a UN-hosted alliance of governments, companies, and organizations aimed at accelerating the transition to digital payments as a way to drive growth, reduce poverty, and increase efficiency and financial inclusion.⁹⁰ This initiative demonstrates Bimbo's commitment to helping develop small businesses and helping these companies earn greater profits, create jobs, and have an overall positive impact on the Mexican economy. Additionally, by enabling the use of digital payments in small businesses, the company helps improve operational efficiency while also expanding access to financial services for consumers in “mom-and-pop” stores.

S cce f I Linkage be een Large and Small Firm

During the last decade or so we have seen a significant increase in the establishment of investment funds and other programs aimed at start-ups by big corporations. In fact, between 2011 and 2016, the number of active corporate investors tripled in growth from a little more than 300 to 965, with 75 percent of Fortune 100 firms having their own venture capital arm.⁹¹ Mondelez International, formerly Kraft, is among a number of corporations, including Nike, Microsoft, American Express, and PepsiCo, that have invested in start-ups as a key element of their corporate strategy.⁹² To cite another example, Microsoft Ventures (M12) has invested in more than 50 start-ups in 2020, focusing on startups in the artificial intelligence sector.⁹³

These examples have shown the importance and potential benefits of linkab 0 0B4mnt to he32 BDC 10 0 0 10 166.4122 395.

VIII. Entrepreneurial Environment in North America

A start-up, although hard to define, is considered an entrepreneurial endeavor that consists of a company undergoing the initial stages of its operations. A characteristic of many start-ups is that they are often funded by venture capital thanks to their potential to grow. Many start-ups seek to achieve Unicorn status, which means having a valuation of USD \$1 billion or more.⁹⁴ Under this metric, the North American region has some of the world's most valued unicorns.

When it comes to the number of start-ups, North America has two of the world's leading countries—the U.S. and Canada. The United States ranks as the country with the highest number of start-ups, with approximately 71,000, while Canada ranks fourth with around 3,300 start-ups, surpassed only by India and the United Kingdom.⁹⁵ The United States is home to well-known and not so well-known start-ups. The list includes start-ups that differ considerably in their industry like HackerRank, a skill-based tech hiring platform, Instacart, a grocery delivery company, and Segment, a customer data platform, to mention a few. Meanwhile, Canada is the birthplace of companies such as Windscribe, an online privacy company, Wealthsimple, an investment management platform,

Despite this, and although there are many different types of start-ups, these companies in the United States tend to contribute greatly to job creation and innovation processes, the creation and constant evolution of a dynamic business environment, and the possibility of economic mobility across society.

An important aspect to consider when talking about start-ups is opportunity share, which is a new business activity that is the product of opportunity rather than necessity: when it comes to entrepreneurship, motivation, or the reasons for starting a business, matters. Under this lens, it is important to mention that the opportunity share of new entrepreneurs had a sharp decline throughout 2020, mostly explained as a result of the pandemic and the reshuffling of entrepreneurs' needs.⁹⁷ However, when seen from the big picture of entrepreneurship, the story is different.

Over the course of 12 months in 2021, investors put \$329.5 billion into startup investments across all stages, per Crunchbase data. That's a record-setting increase of 92 percent from 2020 levels.⁹⁸

In terms of demographics, there are important aspects to consider when looking at these numbers. Overall, men tend to start more businesses than women.⁹⁹ This trend has been consistent for over two decades and persisted throughout the pandemic. Additionally, it is also important to mention the significant decreases in terms of opportunity shares for racial and ethnic groups, Asians being the group with the largest drop.¹⁰⁰

No matter what the case for demographics is, entrepreneurs will have to deal with some of the common challenges of start-ups all over the world, including sales requirements, like finding more buyers, to managing limited resources adequately to avoid affecting processes and organizational culture.

En reprene rial En\ironmen in Canada

Even before the pandemic, Canada was already seen on behalf of start-ups as an attractive place to do business. As of 2019, the availability of VC funds and the prospect of being acquired had made the country an interesting place for start-up entrepreneurs.¹⁰¹ Since then, the Canadian VC market has hit an all-time high according to the Canadian Venture Capital and Private Equity Association (CVCA). This has taken many by surprise, especially after the global events of the COVID-19 pandemic. Much of the increase in VC investment has focused on later-stage and growth equity investments.

Throughout 2021, 14 Canadian tech companies achieved unicorn status.¹⁰² Most of these are located in the software sector. Some of them include 1Password, a password manager; Blockstream, a blockchain technology

97 Kauffman Foundation, "National Report on Early-Stage Entrepreneurship in The United States: 2020," *Kauffman Indicators of Entrepreneurship*, March 2021, https://indicators.kauffman.org/wp-content/uploads/sites/2/2021/03/2020_Early-Stage-Entrepreneurship-National-Report.pdf.

98 Joanna Glasner, "North American Startup Funding Scaled Unprecedented Heights In 2021," Crunchbase, January 2022, <https://news.crunchbase.com/startups/na-vc-startup-funding-2021-recap/#:~:text=An%20astounding%20%24208%20billion%20went,we've%20seen%20to%20date>.

99 Ana de la Rosa, "Breaking Down Barriers: Female Entrepreneurs in Mexico Fight for Gender Equity," *Latina Republic*, November 16th 2021, <https://latinarepublic.com/2021/11/16/breaking-down-barriers-female-entrepreneurs-in-mexico-fight-for-gender-equity/>.

100 Kauffman Foundation, "National Report on Early-Stage Entrepreneurship in The United States: 2020," https://indicators.kauffman.org/wp-content/uploads/sites/2/2021/03/2020_Early-Stage-Entrepreneurship-National-Report.pdf

101 Silicon Valley Bank, "Canada Startup Outlook 2019," *SVB Financial Group*, 2019, https://www.svb.com/globalassets/library/uploadedfiles/content/trends_and_insights/reports/startup_outlook_report/canada/svb-suo-canada-report-2019.pdf.

102 Josh Scott, "SVB REPORTS CANADIAN TECH STARTUPS DREW RECORD \$16 BILLION IN INVESTMENT IN 2021," BetaKit, February 9th, 2022 <https://betakit.com/svb-reports-canadian-tech-startups-drew-record-16-billion-in-investment-in-2021/>

company; Clio, a legal tech company; and Visier, a workforce analytics software provider.¹⁰³ A major trend in the Canadian entrepreneurial ecosystem is the fact that capital investment priorities are changing. In 2019, VC activity was focused on early-stage companies.¹⁰⁴ Meanwhile, in 2020, VC activity was focused on late-stage investments.¹⁰⁵ Additionally, Canadian companies are preparing more for initial public offerings. In the short term, one of the main challenges consists of bringing more funding to the seed stage of start-ups.¹⁰⁶ Nonetheless, it is worth highlighting that foreign players have been investing in the country.

In terms of promising sectors, a survey of Canadian entrepreneurs for the Canadian Start-up Outlook 2019 found that the most attractive areas include Artificial Intelligence (AI), big data, life sciences, and digital health, to mention some of the most important ones.¹⁰⁷

In terms of growth, Canadian start-ups are expected to continue their increasing trend and not slow down any time soon. The growing proportion of young adults as well as immigrants helps explain Canada's rise in new entrepreneurial activity as calculated by the Business Development Bank of Canada.¹⁰⁸ Additionally, it is worth mentioning that as of 2019, its pool of entrepreneurs is seeing an increased number of women pursuing entrepreneurship, along with a more diverse population.¹⁰⁹

Entrepreneurial Environment in Mexico

Mexico has been undergoing a sharp increase in its entrepreneurial activity for some time now, with young adults becoming more and more involved in the entrepreneurial ecosystem. This can be explained in part as a result of the 2008 financial crisis, which hit the country hard and impacted the mindset of young adults. However, despite the positive growth, the country still lags behind when compared to the United States and Canada in terms of the National Entrepreneurship Context Index.¹¹⁰ Nonetheless, it has been positioning itself as an attractive place for different agents of the entrepreneurial ecosystem.

In general, Mexican entrepreneurs can take advantage of their geographical proximity to the United States and Canada, including facilities provided by USMCA. To do so, Mexican entrepreneurs need to step up and not only convince investors of their businesses, but also about the underlying risks associated with their country, especially in terms of security.

There are an important number of Mexican start-ups dedicated to financial technology such as [briq.mx](#), a crowdfunding financial platform; Kubo.financiero, a loan and investment company; and Play Business, a collective investment web ecosystem. Mexico's financial sector has only provided credit cards to 15 percent of the population,

103 Ibid.

104 Meagan Simpson, "Canadian VC Funding Hits All-Time High as Seed Inv/Lang (el)Tjp6nueto 1

making this an area of interest for entrepreneurs.¹¹¹ Other sectors that lag behind include the transportation sector and the service industry. Aside from the start-ups already mentioned, some of Mexico's most prominent start-ups include Jüsto, an online supermarket, and Credijusto, a FinTech company that provides financial solutions and credit to companies. Other important areas of entrepreneurship also include real estate, automobiles, and logistics.

When it comes to gender issues, Mexico sees a strong male-dominated entrepreneurial ecosystem.¹¹² In general, women have a harder time finding the same amount of funding as their male counterparts.¹¹³

Obstacle and Challenge for Start-up and Entrepreneur in North America

For the last decade, North America, like other regions of the world, has witnessed a continuous stream of challenges and opportunities for new venture creation and the expansion of later-stage companies. This disruption creates opportunities but also demands adequate resources for start-ups to succeed. Canadian start-ups need to keep the momentum going. With VC funds at an all-time high, companies strive more than ever to prove their valuation to the market. To do this, they will have to keep growing and creating an adequate entrepreneurial ecosystem where start-ups can thrive. In the case of Mexico, companies will need to convince VC investors of their business models and that

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IX. Conclusion

A truly, competitive North America will heavily depend on all three nations' ability to harness, revitalize and sustain progress in research and development and innovation; financial and regulatory reforms; significant improvement in the structure, organization and operation of supply chains at present and in the post-pandemic environment; a dependable and continuous supply of workers with both hard and soft skills and higher levels of productivity; better linkages between large and small enterprises, to the benefit of both; and actions by the public, private and non-profit sectors to further build and sustain an entrepreneurial environment for both individuals and firms of all sizes.

Finally, as Mexican economist and former trade negotiator Luis de la Calle asserts: "The future success of North America will depend on deeper regional integration."¹¹⁵ In that regard the USMCA, irrespective of any shortcomings, provides a sound trilateral framework, building on NAFTA, that will strengthen the competitiveness of the region and pave the way for a North America that can achieve success for its public and private sectors and citizens at large.

115 Luis de la Calle, "A truly competitive North America," *The Brookings Institute*, February 2022, <https://www.brookings.edu/essay/usm-ca-forward-building-a-more-competitive-inclusive-and-sustainable-north-american-economy-competition/>

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