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The North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States is facing great uncertainty. Political change, protectionist agendas, and a growing row over the agreement’s imbalance of benefits endanger its continued existence. At the same time, disruptive technologies, new digital business models, and changing social values also question the validity of the existing trade agreement.

While the US administration contemplates the agreement’s modification, Canada and Mexico will probably strive to enhance NAFTA and tie renegotiations to complementary topics such as immigration and regional security. Thus, the questions that need to be answered are: what will the trade relationships between North American countries look like in 2030, and what will the impact on their respective economies be?

Clearly, NAFTA renegotiations are likely to have far-reaching consequences for the economic and political landscape in North America, as well as for the current trade partners. Threats to cross-border value chains arise from potential legal divergences and trade barriers. Closed borders could lead to economic recession, political instability, and social unrest. However, intensified economic integration or new trade ties could also open up new opportunities.

In order to navigate the changing environments and respond to opportunities and threats at an early stage, an understanding of possible North American trade models is required.

The challenge is to capture the complex ways in which North America’s economic and political set-up may evolve. This will help to identify each country’s risk exposure and develop suitable strategic options on the basis of robust needs for action.

Scenario design provides the basis for decision-making in the context of great uncertainty by analyzing and structuring drivers into critical uncertainties that could impact the future. Scenarios are narratives of alternative futures that provide a sound basis for developing future-proof strategies for anybody with ties to North American trade.

We have developed four scenarios to illustrate what trade could look like in North America in 2030.

In the **Beyond Success** scenario, digital entrepreneurship in North America is booming. A modernized NAFTA provides the ideal framework conditions for digital businesses to take off. Universal internet access, e-governments, and a fully open-source approach make the movement of goods, services, and capital much easier, along with creating new businesses. Labor and migration reforms have enabled NAFTA to realign toward highly skilled employment.

In the **Digital Crusaders** scenario, the isolation of the US following the abolishment of NAFTA allowed Mexico to catch up to US competitiveness by absorbing foreign talent and know-how. While Canada established deep trade integration with Europe, Mexico fostered its ties with China and South America, thanks to their interest in its new capabilities.

All of these scenarios demonstrate how differently a new set of North American trade rules could play out. Let’s explore each scenario in more detail to better understand the implications.

Enjoy the ride,
Your
At the outset of our exercise, we developed a holistic list of drivers that have the potential to affect North American trade relations in future. This was done with the help of expert interviews and AI-based natural language processing algorithms. The drivers identified were then clustered into social, technological, economic, environmental, and political factors and rated in view of their degree of uncertainty and their impact on North American trade relationships. The resulting list of prioritized drivers formed the basis of our scenario analysis, since it enabled the determination of the most critical uncertainties in the context of NAFTA renegotiations.

According to our experts’ ranking, the first critical uncertainty that will determine the future of North American trade is the degree of future cross-border collaboration between Canada, Mexico, and the United States. Collaboration can either increase in terms of deeper economic and political integration or decrease as countries take more nationalist and protectionist positions, such as a return to WTO rules. The diverging views on the desired trade model also reflect the heterogeneous agendas that each country pursues.

The drivers underlying this critical uncertainty include the degree of cross-border interrelations, the ideological divide, and corruption, and also the development of global trade blocs and power structures. In addition, employee mobility and regional security represent two of the underlying drivers that have received particular attention in the context of NAFTA renegotiations.

On the other hand, the future of North American trade is highly dependent on the impact of digital diffusion. Advances in technology and digitalization have led to the rise of new business models that disrupt incumbent industries. For instance, automation and artificial intelligence continue to replace an increasing number of jobs, while e-commerce makes conventional retail business models obsolete.

Nevertheless, the success of digitalization is not guaranteed. Regulations must establish the framework conditions to enable digital data flows and cross-border trade, while new skills are required to accommodate the continued development and implementation of technological innovations. Cyber security must also ensure the safety of data, systems, and applications.

In addition, the evenness of technological diffusion across multiple nations determines the magnitude of digitalization’s impact on competitiveness. An asymmetrical distribution would provide significant competitive edge over less developed nations or industries, while a more uniform distribution would balance and dissolve competitive benefits.

As a result, the second critical uncertainty of our scenario framework is represented by the impact of digitalization on competitiveness which can either be decisive or insignificant.

The combination of both critical uncertainties results in four plausible but highly distinct visions of the future which are illustrated in figure 1.
Fig. 1 – Scenario matrix to describe the future of North American trade

The Future of North American Trade | A Scenario Approach

- Stronger cross-border collaboration
- North American Union
  - Digitalization is limited
  - Impact of digitalization
  - Degree of cross-border collaboration
- Beyond Success
  - Everything is digital
  - Impact of digitalization
- Breakdown
  - Weaker cross-border collaboration
  - Impact of digitalization
- Digital Crusaders
  - Digitalization is unlimited
  - Degree of cross-border collaboration
In this world, digital entrepreneurship in North America is booming. The modernization of NAFTA, e-governments, and universal internet access have made the movement of goods, services, capital, and people much easier, along with creating new businesses. A fully open-source approach means that what used to be proprietary knowledge becomes freely available to the public within the NAFTA region and benefits mutual improvement and country-based specialization. Mexico has become a strong low-cost manufacturer of robots and car parts, while Canada and the US focus on developing technology and new IP. As automation replaced more and more jobs, North America had to realign toward highly skilled employment. Labor and migration reforms have enabled the movement of people to meet regional labor demands. However, the imbalance of employment has led to disparity and social unrest, while the digitalized economies also experienced a rise in cyber-attacks from hostile nations and terrorist groups.

Four Possible Scenarios for the Future

North American Trade in 2030

Beyond Success

Stronger cross-border collaboration and everything is digital
In this scenario, Mexico has caught up with the US in terms of competitiveness. After the abolishment of NAFTA and a decade of isolation in the US, economic growth and technological advancement came to a halt. Immigration restrictions deterred highly qualified specialists from entering the country. Seizing the opportunity, Mexico absorbed foreign talent to increase the competitiveness of its national tech hubs. Moreover, the lack of international cooperation led to a rise in regional piracy and black markets. Know-how from the US and Canada has been transferred to Mexico, resulting in significant advances in its technological capabilities – although inequality has increased as well. However, Mexico’s attempts to diversify its exports have not been as successful as Canada’s, which established deep trade integration with Europe after CETA was signed in 2018. However, growing interest from China and South America in Mexico’s new capabilities could bring some long-awaited opportunities such as new trade markets or Foreign Direct Investments.
North American Trade in 2030

Breakdown

Weaker cross-border collaboration and limited digitalization

In this world, Mexico has intensified its political alliances with Latin America to emerge from recession. Following the breakdown of NAFTA, Mexico’s politics, economy, and people were paralyzed by growing uncertainty. While Canada worked on intensifying its ties to the EU, the US isolated itself both politically and economically. Increasing trade barriers and the return to local manufacturing have increased costs across all major sectors. Its innovative power is in decline as technology has failed to demonstrate its significance. As its northern neighbors are struggling as well, Mexico is taking the lead in creating a new bloc to the south to take advantage of economies of scale and revolutionize the Latin American Integration Association. With Mexico specializing in highly skilled services and Latin America focusing on labor-intensive jobs, the goal is to balance and foster the socio-economic development of the southern region in a joint effort. Mexico is set to become Latin America’s economic powerhouse.
North American Union

Stronger cross-border collaboration and limited digitalization

In this scenario, political, economic, and social integration has united Canada, Mexico, and the United States into the North American Union (NAU) which collaborates closely on key political issues. Joint institutions such as the North American Immigration Agency illustrate this perfectly. The elimination of tariff and non-tariff trade barriers has greatly benefited the region’s highly entangled value chains, resulting in smoother operations, increased trade volumes, and higher returns on the bottom line. Since automation did not advance as much as expected, each country specializes in its comparative advantages to support its neighbors and balance the region’s overall development. For instance, the growth of labor-intensive industries in Mexico has led to increases in its productivity and GDP.

While the three economies thrive as part of the NAU, they have become highly interdependent. As new regional blocs emerge and shift global power structures, the NAU’s continued economic superiority is put under pressure.
Fig. 2 – GDP – Average annual percent change, 2017-2030

<table>
<thead>
<tr>
<th></th>
<th>Canada GDP</th>
<th>Mexico GDP</th>
<th>United States GDP</th>
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<tr>
<td>Recent history (2010-2016)</td>
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<td>3.1</td>
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<td>2.9</td>
<td>2.2</td>
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<tr>
<td>Beyond Success</td>
<td>1.4</td>
<td>3.2</td>
<td>2.7</td>
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<tr>
<td>Breakdown</td>
<td>1</td>
<td>2.5</td>
<td>1.7</td>
</tr>
<tr>
<td>Digital Crusaders</td>
<td>1</td>
<td>3</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Average annual percent change, 2017-2030

Fig. 3 – CPI – Average annual percent change, 2017-2030

<table>
<thead>
<tr>
<th></th>
<th>Canada CPI</th>
<th>Mexico CPI</th>
<th>United States CPI</th>
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</thead>
<tbody>
<tr>
<td>Recent history (2010-2016)</td>
<td>1.7</td>
<td>3.6</td>
<td>1.6</td>
</tr>
<tr>
<td>North American Union</td>
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<td>3.2</td>
<td>2</td>
</tr>
<tr>
<td>Beyond Success</td>
<td>2</td>
<td>3.4</td>
<td>2</td>
</tr>
<tr>
<td>Breakdown</td>
<td>1.7</td>
<td>3</td>
<td>2.5</td>
</tr>
<tr>
<td>Digital Crusaders</td>
<td>1.8</td>
<td>3.5</td>
<td>3</td>
</tr>
</tbody>
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Average annual percent change, 2017-2030

Fig. 4 – Trade deficit – Percent of GDP, 2017-2030

<table>
<thead>
<tr>
<th></th>
<th>Canada trade deficit</th>
<th>Mexico trade deficit</th>
<th>United States trade deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Recent history (2010-2016)</td>
<td>-0.2</td>
<td>0.2</td>
<td>-4.3</td>
</tr>
<tr>
<td>North American Union</td>
<td>1.2</td>
<td>-0.4</td>
<td>-4</td>
</tr>
<tr>
<td>Beyond Success</td>
<td>2.6</td>
<td>-0.1</td>
<td>-3.7</td>
</tr>
<tr>
<td>Breakdown</td>
<td>0.5</td>
<td>3.8</td>
<td>-4.1</td>
</tr>
<tr>
<td>Digital Crusaders</td>
<td>0.8</td>
<td>3.5</td>
<td>3.5</td>
</tr>
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Average annual percent change, 2017-2030
Economic Impact

Estimating the Implications for North America

Our scenarios provide a glimpse into four possible future economic worlds. NAFTA is important to all three economies in different ways, so their futures would likely see very different levels of economic growth, inflation (consumer price index, CPI), and trade. To determine just how large the impact might be, we asked a panel of Deloitte economists from the three countries to estimate the size of the impact. The diagrams show the recent history and our panel’s judgement about what these measures would look like in each of the alternative futures.

The figures in each diagram represent the informed opinion of Deloitte economists who have been observing the North American economies for many years. They are not the result of a comprehensive modeling exercise examining the interindustry and financial impacts of these scenarios.

The growth of the potential labor force will slow in all three countries, so their growth acceleration will be hampered in all scenarios. In addition, productivity growth has also been unusually slow across North America in the recent past. A key distinguishing factor in these scenarios is whether the promise of technology results in faster productivity growth, which is reflected in the GDP projections.

GDP growth

In the US, GDP growth accelerates in three of the scenarios, although not by a great deal in the North American Union scenario, which assumes that the impact of technology remains modest. Canada’s GDP growth is set to decelerate substantially because of very low labor force growth in all four scenarios. Additionally, the trade impact on Canada is large enough to offset the positive impact of technology in the Digital Crusaders scenario, where Canadian GDP grows just 1% per year. Mexico’s growth remains relatively strong, although the Breakdown scenario sees growth falling to just 2.5% on average.

Consumer price index

The Canadian and Mexican teams assumed that the Bank of Canada and the Bank of Mexico would be able to keep long-term inflation close to current targets. This may entail a cost in GDP growth in both countries, although much depends on other macroeconomic drivers, such as currency movements. By contrast, the US team thought that the Federal Reserve would be more accommodating, possibly with a lower cost to GDP – but perhaps therefore allowing some acceleration in inflation.

Trade deficit

An effective improvement in technology results in faster global growth and more demand for Canadian raw materials and manufactured products. Mexico’s trade balance remains close to zero in three of the four scenarios, but the country would experience a large trade deficit (of 3.8%) in the Breakdown scenario. The growth in exports to NAFTA countries would be halved in that scenario, with fewer overall opportunities for Mexican companies.

In summary, these numbers paint a general picture of possible economic futures under each of the four scenarios. There are many additional factors that our panel was not able to consider in this brief exercise, and actual outcomes could vary depending on any number of assumptions. In their overall range, however, the scenarios tell a story in which inflation is relatively unchanged, GDP growth is higher when technological advances are successful and trade is freer, and in which trade balances may not be a good guide to success or failure. This reflects our panel’s long experience in observing and forecasting the North American economy.
Conclusions and Outlook

The Future of North American Trade Will Have Manifold Implications

Looking at the final set of scenarios, what may strike the reader first is how divergently the futures of Canada, Mexico, and the US may play out as a result of NAFTA renegotiations.

The various ways in which economies and societies will re-align result in a wide range of trade models that may be adopted in future. The willingness to compromise between the three parties will determine the nature of future relations and thus the ultimate degree of impact of NAFTA renegotiations.

Nevertheless, it is important to highlight three distinct conclusions that can be drawn from our scenario exercise.

First, the degree of cross-border collaboration will have a particularly strong impact on the highly entangled cross-border value chains of North America. Specifically, the consumer goods and automotive industries will be significantly affected in the event of tariff or non-tariff trade barriers being reintroduced between Canada, Mexico, and the United States. On the one hand, limited market access could lead to decreasing trade volumes and reduced FDI inflows in view of lower location attractiveness. On the other hand, major costs would result from the reversal of cross-border investments, the disaggregation of previously integrated value chains, as well as the identification of alternative sourcing locations.

The second conclusion that can be drawn from our scenarios is the special role of digitalization, or rather the trade in intangibles. The implications are twofold.

First, knowledge, data, and information can be traded across borders even in the case of trade barriers. To avoid the risk of black markets or regional piracy, regulations for...
Intangibles must be developed and introduced separately from tangible goods as they have the potential to be traded via digital channels. In this context, cybersecurity plays an increasingly important role in securing national borders from cyber-attacks, data theft, and espionage.

Second, the impact of digitalization on competitiveness is largely dependent on the population’s access to technology and its ability to adopt digital skills. In this context, demographics may play a prominent role in the race to achieve a competitive edge. If true, this would give an advantage to Mexico, due to its relatively young population.

The last conclusion is represented by cross-border labor mobility as a lever for NAFTA renegotiations. The degree of free movement will have a direct effect on a nation’s talent pool, innovation power, and economic force. At the same time, free movement of persons fosters the cultural and socio-economic exchange, resulting in a reduced potential for conflict and more balanced regional development. Restrictions on movement and border controls could significantly affect all three countries, as each draws on foreign labor.

In summary, our scenarios share a common theme: foresight and strategic vision will be required to navigate changing business environments. The risk potential for each industry, business sector, and function must be analyzed separately in order to develop appropriate strategic options.
Introduction to scenario design and methodology

This study on the future of North American trade relationships is based on the seven-step scenario design methodology of the Center for the Long View (CLV) which applies the guiding scientific principles of objectivity, reliability, and validity, as illustrated in figure 5. This study is the outcome of a series of workshops involving selected economic, political, and industry experts from the global Deloitte network as well as experienced scenario practitioners from the CLV.

Our scenario design methodology starts with the formulation of a focal question in order to determine the project’s scope and strategic direction. The focal question for this study was the following: what will the trade relationships of the countries in North America look like in 2030, and what will be the impact on their respective economies? Our study thus aimed to analyze two distinct issues: first, potential trade models between Canada, Mexico, and the United States in 2030, and second, the resulting impact on each nation’s economy.

As scenarios are a way of understanding the dynamics that shape the future, the second step of our methodological approach represents the identification of driving forces that have the potential to impact the outcome of the focal question. These drivers can be grouped into five categories, known as STEEP forces, consisting of social, technological, economic, environmental, and political factors.

In order to determine this study’s long list of drivers, we primarily made use of interviews with selected Deloitte experts and also our AI-based research tool, CLV Deep View. Deep View uses proprietary natural language processing algorithms to read through millions of data sets with the aim of identifying patterns between key words, phrases, people, companies, or institutions. This allows us to get a holistic understanding of highly complex issues and interrelationships as well as to identify global trends. It also helps to avoid the bias of traditional approaches that often have a built-in tendency based on the character, mood, or preference of the scenarists.

In a third step, we prioritize and cluster the identified drivers into critical uncertainties. This is necessary as not all driving forces are uncertain. Some may be predictable and unlikely to vary significantly in any of the scenarios. Thus, critical uncertainties must fulfill two criteria: first, they must have a high impact on the outcome of the focal question, and second they must be highly uncertain or volatile. Initially, all uncertainties appear unique, however, by analyzing the comprehensiveness and correlation of each critical uncertainty we can establish the building blocks for our scenario framework.

The scenario framework is developed in the fourth step of our scenario design approach. The critical uncertainties determined serve as axes that are combined into a matrix, resulting in four highly divergent but plausible scenarios.

Methodology

In our study, the two critical uncertainties are reflected by the degree of cross-border collaboration between North American countries as well as the impact of digitalization on competitiveness.

Having established the scenario matrix, we develop scenario narratives in a fifth step. Scenario narratives define the framework conditions and atmosphere of each scenario within the context of a story. By using the previously identified drivers to reverse-engineer the milestones that would lead to each future, we can determine the key elements for each scenario.

Then, in a sixth step, we make use of these scenario narratives to derive resulting implications for the stakeholders involved. In our study, we analyzed the four scenarios with regard to their implications for each nation’s social, political, and economic environment and also its industries.

In a seventh and final step, we define key indicators for each of the four scenarios to enable the monitoring of trend developments. The aim of this step is to observe which scenario is most likely to materialize.
Fig. 5 – Seven step scenario development approach
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