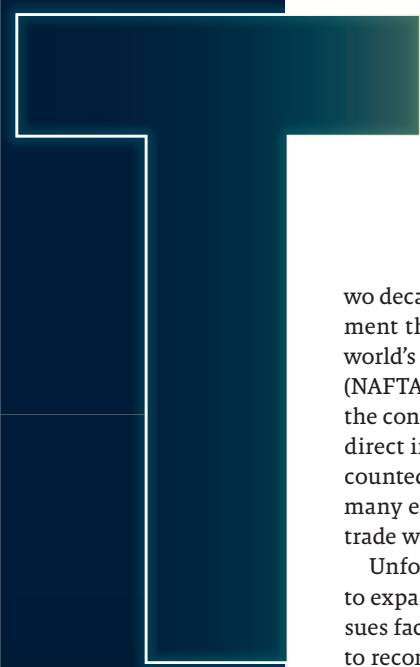


WHAT HAPPENED TO THE NORTH AMERICAN IDEA

In 1994, NAFTA laid the foundation
for a North American economy
for Canada, Mexico and the
United States.
But that's pretty much
where it ended.

ROBERT A. PASTOR



Two decades ago, the leaders of Canada, Mexico and the United States forged an agreement that transformed North America from just a geographical expression to the world's most formidable economic entity. The North American Free Trade Agreement (NAFTA) eliminated most of the trade and investment barriers that had segmented the continent. Within a decade, trade among the three countries tripled and foreign direct investment (FDI) quintupled. By 2001, the three nations of North America accounted for 36 percent of the world product—up from 30 percent in 1994. And while many economists have waxed enthusiastic about the growing power of Brazil, U.S. trade with Mexico today is more than six times larger than its trade with Brazil.

Unfortunately, since 2001 regional cooperation has stagnated. NAFTA, designed to expand trade and investment, has proven too limited in addressing the current issues facing the three countries. The time has come for the leaders of North America to recommit to regional integration if they want to effectively address the policy issues facing the region.

For example, in the wake of the 2008 financial crisis, NAFTA can play a major role in job creation. A revamped agreement can potentially double exports and allow North America to once again compete with integrated markets in Asia and Europe.

Beyond jobs, enhanced coordination and information sharing among NAFTA partners will allow for better control of immigration and the flow of illicit drugs across our borders. Finally, strengthening ties will begin to close the development gap between Mexico and its two neighbors, fortifying the economic and political bloc.

THE RISE AND FALL OF NORTH AMERICA

Though NAFTA has long faded from the headlines, the agreement's first years showed much promise. When the North American market was created in 1992, the impact was almost immediate.

Contrary to the claim by U.S. presidential candidate Ross Perot that American jobs would be "sucked" into Mexico, the dramatic increase in North American trade coincided with the largest wave of job creation in U.S. history. Between 1992 and 2000, roughly 22 million jobs were added in the U.S., while trade with and FDI in Canada and Mexico grew more than 17 percent each year.

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The combination of expanded trade and investment meant that the three countries were actually making products together rather than just trading them. By combining U.S. capital and technology with Mexico's cheaper labor and Canada's abundant resources, the enlarged North American market experienced rapid growth, while Europe stagnated. From the onset of the U.S.-Canadian Free Trade Agreement in 1988 to 2001, trade among Mexico, Canada and the U.S., as a percentage of their trade with the world, leapt from 36 percent to 46 percent.

The decline of the integration idea could be dated to the spring of 2001, when Presidents Vicente Fox of Mexico and George W. Bush of the U.S. met Canadian Prime Minister Jean Chrétien in Québec. Fox and his Foreign Minister Jorge Castañeda arrived with a suitcase filled with proposals, such as a North American Commission, a "cohesion" fund to reduce the development gap, a customs union and an immigration agreement.

But Chrétien was not interested in including Mexico in Canada's talks with the U.S., and Bush rejected any

new multilateral institution or fund. The opportunity for progress was lost.

The share of trade among the three countries as a percentage of their trade with the rest of the world dropped from 46 percent in 2001 to 40 percent in 2009—almost to pre-NAFTA levels. The average annual growth of trade among the three countries declined by two-thirds, while growth of foreign direct investment decreased by one-half.

WHY NAFTA FAILED TO LAUNCH

The decline of North American integration over the past decade has shown that the agreement failed to adapt to a changing regional and international context. Without sustained commitment from national leaders, active cooperation inevitably lost out to stagnation.

Due in part to the rise of China and Europe as commercial powerhouses, North America's share of the world gross product declined from 36 percent in the

REINVIGORATING NORTH AMERICA— A VISION AND A BLUEPRINT

The way to revive North America is to begin with the North American Idea: the idea that our countries can only advance their shared interests—whether it be global competitiveness or border security—within a new cooperative framework.

Together with the President of Mexico and the Prime Minister of Canada, President Obama should mobilize the public on behalf of a grand vision of a continental future. That won't be easy, and it cannot be done one reform and one country at a time.

Pursue comprehensive immigration reform.

We must negotiate comprehensive immigration reform that would diminish undocumented migration, open new channels of labor-based migration, and create realistic paths to citizenship for those who have been abroad for many years. To deter undocumented labor in the short-term, major employers would be

required to use biometric identification of their employees in the work place. In the long term, Canada and the U.S. must work with Mexico to make targeted investments that create jobs and fortify Mexico's economy, thereby lowering the incentives of northward migration.

Close the development gap.

The development gap between Mexico and its wealthier neighbors

goes beyond migration. The potential for genuine political and economic partnership remains limited while the economic imbalance among NAFTA members persists. Substantial funds are needed to construct the highways and communication infrastructure that would connect the south of Mexico to its northern markets, increasing the country's competitiveness. But the U.S. and Canada are unlikely to contribute funding unless Mexico undertakes fiscal, energy and labor reforms. The three governments must decide how to go about narrowing Mexico's development gap in a way that benefits all interested parties.

Improve border regulations.

The three departments that administer homeland security must develop a single "North American pass" to replace numerous, costly forms of ID. Doing so would enhance border security, facilitate

peak year of 2001, to 27 percent by the end of 2008. At the same time, by 2008 Europe's share rose to 30 percent and Asia's and the rest of the world's to 43 percent.

Instead of exploring new competitive advantages, North America allowed itself to be crowded out of international markets.

In the aftermath of the 9/11 attacks, border restrictions were imposed on trade and travel to prevent terrorism. The tougher security and border regulations also hurt NAFTA's chances. Paradoxically, as a result of increased integration, these restrictions had a disproportionately negative effect on our two neighbors.

Every car built in North America contains parts made in all three countries, requiring costly transit across borders. By comparison, Korean cars or Chinese-built computers contend with only one national border. The cost of transportation and insurance increased by 12.4 percent, reducing output by \$13.5 billion in Canada and by about half that in Mexico.

Moreover, legal land entries across both borders de-

clined by about one-third from 2000 to 2008, while illegal migration doubled. In other words, post-9/11 commerce was harmed, but security was not enhanced.

A third factor that contributed to North America's decline was the failure of the three governments to invest in infrastructure. About 75 percent of the trade among the three countries went by truck, and yet the U.S. prohibited Mexican trucks crossing its border, in violation of NAFTA—though in March 2011 President Obama and President Calderón announced that trucks would be permitted to cross after meeting safety and environmental standards. Nevertheless, while trade still tripled under NAFTA, no new roads were built, and the thin infrastructure connecting the three countries deteriorated.

Since 1992, the U.S., Canada and Mexico have each negotiated several more free-trade agreements with other countries, thereby diluting the economic benefits of NAFTA. North American trade should have remained a priority, instead of being left outdated and inefficient as times changed.

commercial travel, and permit safe truckers and frequent travelers to move more expeditiously across the borders.

Promote educational exchange.

Educational exchange is central to the task of developing a North American consciousness and cultural and political understanding between nations. The U.S. funds 88 university-based research centers, sending its citizens to every region in the world except North America. Each NAFTA country should invest \$5 million per year in North American Research Centers and another \$10 million for scholarships that send their students to neighboring countries for one year of study.

Develop infrastructure.

Leaders must prepare a 10-year North American plan to connect the continent with a modern web of transportation, infrastructure and communications—the foundation on

which to flatten the market and promote greater competitiveness. Other steps to improve competitiveness should include a common external tariff, consultative mechanisms to coordinate economic policies, and a North American Regulatory Commission to harmonize production standards.

Create new regional institutions.

We must create a North American Advisory Commission to propose trilateral initiatives and monitor their implementation. The U.S.–Canadian and the U.S.–Mexican Inter-Parliamentary Groups should be combined into a North American Parliamentary Group of legislators, that would work with their counterparts in the executive branches of the three countries to ensure public support and input.

Refine the role of the U.S.

As the largest and richest of the three countries, the U.S. needs to take a

leadership role by creating a White House Office of North American Affairs. The office will support the president's regional cooperation for and market the benefits of regional integration to the public.

Coordinate transnational policies.

NAFTA countries must coordinate policies that affect the region, such as the development of alternative energy and improving labor and environmental standards.

To forge a North American Community, we need to start with an idea that inspires the public to undertake the reforms and initiatives that would improve competitiveness and security. For genuine cooperation to be possible, North America's leaders must step up to the plate with the support of their constituents and commit to a level of integration that allows the region to compete with China, Europe and Latin America.

ISSUES OF SOVEREIGNTY

Even during its decline, NAFTA was the constant target of dissenting voices and pundits, making cooperation politically difficult. The key concern was that regional integration would lead to a loss of sovereignty among participating nations. Ironically, the loudest anxieties were expressed in the United States: the NAFTA partner with the largest economy and population.

The argument about sovereignty is weak. The purpose of deeper collaboration is to strengthen North America by using comparative advantage, not to dissolve or undermine individual governments. A larger North American market means an expansion of choice, not an erosion of the state.

Anti-NAFTA sentiment gets a bigger platform in the U.S., but surveys from Pew and the Canadian polling firm Ekos suggest that those who fear a loss of sovereignty are no more than 20 percent of the population of the three countries. In contrast, more than twice as many would prefer that their governments negotiate a common market like Europe's.

In a series of polls conducted by Ekos over the last decade, a majority of the public in all three countries said they preferred coordinated North American policies rather than separate national ones on the environment, border security, transportation, defense, and the economy. The survey also showed that they would like their leaders to be bolder.

THE FAILURE OF INCREMENTALISM AND DUAL-BILATERALISM

North America's leaders, sadly, are not leading. Indeed, they are not even listening to their constituents or each other. President Barack Obama, Prime Minister Stephen Harper and President Felipe Calderón met in Mexico in August 2009 and pledged to meet in Canada in 2010 to finalize decisions aimed at deeper cooperation. Harper never bothered to invite his colleagues—and the 2010 Summit was never held.

Instead, Obama met separately with Calderón in May 2010 and March 2011, and with Harper in February 2011. Since there had been no progress, the two agendas were

duplicative and stale.

They pledged cooperation on both borders, and after the meeting with Harper, Canada and the U.S. even alluded to the idea of a security perimeter. But for five years before that meeting, the U.S. and Canada failed to agree on building preclearance facilities several miles away from the border in order to expedite traffic. How they would surmount that failure to forge a much more complex security perimeter is not clear.


The leaders also promised to harmonize regulations, but for six years prior to their meeting, their governments failed to agree on standards for producing Cheerios, a favorite of Bush's Commerce Secretary and former head of Kellogg's, or jelly beans, Harper's candy of choice. How could they tackle thousands of regulations on health, the environment or food when they couldn't even harmonize a couple of simple products?

Small steps have proven almost as difficult as bold initiatives, and dual bilateralism has repeatedly ended in stalemate. Usually the major power—in this case the U.S.—pursues a “divide-and-rule” strategy. So far, Canada has dominated this role, fearing that association with Mexico would harm

its image and its influence in Washington.

But Canada does not realize that rapprochement with Mexico would be beneficial, given that the latter is receiving increasing attention and funding from Washington. If Canada and Mexico were to encourage the U.S. Congress to replace “Buy American” provisions with “Buy North American,” it is likely to be more effective than each country going it alone. Canada would also benefit from working with the Congressional Hispanic Caucus. Canada must embrace trilateralism for a renewed effort of North American integration to be feasible.

Devoid of strong leadership, North America's leaders are once again taking small steps toward cooperation. During a meeting in March 2011, Obama and Calderón made progress in reviving the controversial commercial trucking program that would allow Mexican trucks to enter the U.S. and lift tariffs that Mexico had imposed on 99 U.S. products.

These efforts hint at future cooperation, but all three countries must recognize the benefits and urgency of an integrated region before progress can be made. 

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