The Future of North America

Replacing a Bad Neighbor Policy

Robert A. Pastor

ON JANUARY 20, 2009, if not before, a new national security adviser will tell the incoming president of the United States that the first two international visitors should be the prime minister of Canada and the president of Mexico. Almost every new president since World War II has followed this ritual, because no two countries in the world have a greater impact economically, socially, and politically on the United States than its neighbors. The importance of Canada and Mexico may, however, come as a surprise to most Americans, as well as to the new president. In the presidential campaign, instead of discussing a positive agenda for North America's future, the candidates have focused critically on two parts of that agenda, the 14-year-old North American Free Trade Agreement (NAFTA) and immigration. And overall, one could conclude from listening to the campaign that Iraq is key to U.S. national security, China is the United States' most important trading partner, and Saudi Arabia and Venezuela supply most of the United States' energy.

None of these propositions is true. For most of the past decade, Canada and Mexico have been the United States' most important trading partners and largest sources of energy imports. U.S. national security depends more on cooperative neighbors and secure borders than it does on defeating militias in Basra.

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The new president will take office at a low moment in U.S. relations with its neighbors. The percentage of Canadians and Mexicans who have a favorable view of U.S. policy has declined by nearly half in the Bush years. The immigration debate in Congress and the exchange between the two leading Democratic presidential candidates on who dislikes NAFTA more has left a bitter taste in the mouths of Canadians and Mexicans. The ultimatum issued by Senators Hillary Clinton (D-N.Y.) and Barack Obama (D-Ill.) to Canada and Mexico—renegotiate NAFTA on U.S. terms, or else—hardly displayed the kind of sensitivity to the United States' friends that they have promised. On the other side, Senator John McCain (R-Ariz.) has offered such an unvarnished defense of NAFTA that it would appear he feels nothing more is needed. Moreover, although an author of legislation on immigration reform, McCain retreated from such reform after being harshly criticized. CNN's Lou Dobbs' reports on the disastrous effects of illegal immigration and trade seem to have had a more profound effect on the national debate than many people have thought. Indeed, the candidates seem to have accepted Dobbs' variation on Hobson's choice—either reject NAFTA or suffer decline as a candidate and as a nation.

Sadly, the United States' leaders are looking backward at NAFTA rather than forward by articulating a new vision of shared continental interests. NAFTA has become a diversion, a piñata for pandering pundits and politicians—even though it succeeded in what it was designed to do. It dismantled trade and investment barriers, and as a result, U.S. trade in goods and services with Canada and Mexico tripled—from $341 billion in 1993 to more than $1 trillion in 2007—and inward foreign direct investment quintupled among the three countries and increased tenfold in Mexico between 1990 and 2005. North America, not Europe, is now the largest free-trade area in the world in terms of gross product.

The new U.S. administration needs to replace a bad neighbor policy with a genuine dialogue with Canada and Mexico aimed at creating a sense of community and a common approach to continental problems. The new president must address the full gamut of North American issues not covered by NAFTA, as well as the governance issues arising from the successful enlargement of the market. North

America's leaders should deepen economic integration by negotiating a customs union. They should establish a North American investment fund to narrow the income gap between Mexico and its northern neighbors. This would have a greater effect on undocumented immigration to the United States than so-called comprehensive immigration reform. And they should create a lean, independent advisory commission to prepare North American plans for transportation, infrastructure, energy, the environment, and labor standards.

For the last eight years, North America's experiment in integration has stalled. The new president needs to restart the engine.

THE NORTH AMERICAN DISADVANTAGE

No president has met with his counterparts in Canada and Mexico more and yet accomplished less than George W. Bush. Between February 2001 and April 2008, President Bush met the Mexican president 18 times and the Canadian prime minister 21 times. All three huddled together 12 times.

What have they accomplished? They have devised a North American game of Scrabble with intergovernmental committees meeting periodically to spell new acronyms that purport to be initiatives. NAFTA set the precedent with 29 working groups. President Bush brought the Scrabble game to a higher level, inventing and discarding new acronyms with great abandon. In his first visit to Mexico in February 2001, he announced the goal of building an NAEC (North American economic community). Seven months later, during a visit by the Mexican president to the White House, Bush abandoned the community in favor of the P4P (Partnership for Prosperity). To deal with security fears arising from 9/11 and economic fears that a more formidable border would reduce trade, the United States signed separate "smart border" agreements with Canada and Mexico. These gave birth to still more working groups and initiatives, including FAST (Free and Secure Trade), PIP (Partners in Protection), C-TPAT (Customs-Trade Partnership Against Terrorism), WHTI (Western Hemisphere Travel Initiative), IBETs (Integrated Border Enforcement Teams), ACE (Automated Commercial Environment). SENTRI provided a fast-lane approach to the U.S.-Mexican border, and

NEXUS did the same for the U.S.-Canadian border. No one explained why they could not do this with one, rather than two, acronyms—or rather one agency and procedure rather than two.

In March 2005, the SPP, the Security and Prosperity Partnership of North America, replaced the P4P. This was another bureaucratic exercise aimed at delivering "measurable results" to make North America more competitive and secure. It initially listed 300 goals, almost all technical—for example, to harmonize regulations on jelly beans or eliminate "rules of origin" regulations, which tax the part of each product that is not made in North America. After three years, officials still have not harmonized jelly-bean labels, but they have removed "rules of origin" provisions on $30 billion of goods. That may sound like a lot, but it represents less than the growth of annual trade in North America. A year later, in 2006, the three North American leaders invited a group of CEOs from some of the largest corporations in North America to establish the NACC (North American Competitiveness Council). They focused on 51 recommendations, which included eliminating pesky regulations, and agreed on the need to work "under the radar screen" of public attention.

> Assaults from both ends of the political spectrum have transformed the debate on North America.

If you measure progress by examining the growth in trade, the reduction in wait times at the borders, and the public's support for integration, all of these initiatives have failed miserably. The growth in trade in the Bush years has been less than one-third of what it was in the previous seven years—three percent versus 9.8 percent. The wait times have lengthened, and public opinion toward the rest of North America in all three countries has deteriorated, in part because the United States failed to comply with NAFTA on issues (for example, trucking and softwood lumber) of great importance to Canada and Mexico.

North American integration has stalled in the Bush years for several reasons, beginning with 9/11, which led to intense security inspections on the two borders, creating giant speed bumps for commerce. A study of the U.S.-Canadian border found a 20 percent increase in border delays crossing southbound and a 12 percent increase in delays northbound since 9/11.

Second, although North American trade has tripled, and 80 percent of the goods from that trade is transported on roads, there has been little investment in infrastructure on the borders and almost none for roads connecting the three countries. Thus, the delays are longer and more costly than before NAFTA. The steel industry recently estimated that wait times for their shipments, which are generally 5–6 hours, result in annual losses of $300–$600 million. Another study estimated that delays added a cost of 2.7 percent to the goods.

Third, trucks are still impeded from crossing the U.S.-Mexican border. Despite NAFTA's mandate that Mexican trucks be allowed to enter the United States starting in 1995, the first trucks—beginning with 55—crossed in March 2008, on a pilot project that Congress has tried to stop. (As a point of reference, about 4.2 million Mexican trucks bring their products to the border each year.) Each year, more than four billion pounds of fruits and vegetables are placed on trucks in the Mexican state of Sonora. When the trucks reach the border crossing at Mariposa, the produce is unloaded in a warehouse, then retrieved by another truck that takes it several miles into Arizona, where it is unloaded again into another warehouse and then retrieved by an American carrier. With 280,000 trucks coming to the Arizona border each year, think of the inefficiency and cost of transferring fresh produce three times to cross one border.

Fourth, complying with the "rules of origin" provisions takes so long that many firms simply use the standard tariff that NAFTA was intended to eliminate. Finally, North American integration stalled because China joined the World Trade Organization in 2001, and its exports to all three North American countries grew so fast that in 2007 it overtook Mexico as the United States' second-largest trading partner. In 2001, the United States imported more textiles and garments from Mexico than from China, but by 2006 it imported almost four times as much from China as from Mexico. (The United States still exports 60 percent more to Mexico than to China.)

Intraregional exports among the three North American countries as a percent of their global exports increased from 43 percent in 1990 to 57 percent in 2000—a level of integration almost matching that of the European Union after five decades of integration. Since then, intraregional integration in North America has not changed. Auto parts for one car cross the borders eight times in the course of being assembled. With added security, inadequate infrastructure, and the interruption of trucking from Mexico, the transaction costs now not only exceed the tariff that was eliminated but also are much higher than the tariffs imposed on foreign cars that need to enter the United States only once, as a completed product. In short, the North American advantage has turned into the North American disadvantage.

The immigration debate has added insult to injury by antagonizing Mexico without accomplishing anything. Only Senator John Cornyn (R-Tex.) dared to propose a North American investment fund to help close the income gap (and thus slow immigration), but he withdrew his proposal after being criticized by conservatives. That would have helped Mexican workers much more than the eight core labor conventions proposed for inclusion in the NAFTA agreement.

A TWO-FRONT STORM

ASSAULTS FROM both ends of the political spectrum have transformed the debate on North America in recent years. From the right have come attacks based on cultural anxieties of being overrun by Mexican immigrants and fears that greater cooperation with Canada and Mexico could lead down a slippery slope toward a North American Union. Dobbs, among others, viewed a report by a 2005 Council on Foreign Relations task force (which I cochaired), *Building a North American Community*, as the manifesto of a conspiracy to subvert American sovereignty. Dobbs claimed that the CFR study proposed a North American Union, although it did not. From the left came attacks based on economic fears of job losses due to unfair trading practices. These two sets of fears came together in a perfect storm that was pushed forward by a surplus of hot air from talk-show hosts on radio and television. In the face of this criticism, the Bush administration was silent, and the Democratic candidates competed for votes in the rust-belt states, where unions and many working people have come to see NAFTA and globalization much as Dobbs does.

The debate in the United States became so insular that Americans essentially reversed roles with their neighbors. For nearly two centuries, many in Canada and Mexico built walls to limit U.S. influence. Within two decades of their decision to dismantle the walls, the United States is being pressed by anti–North American Union populists to rebuild the barriers to keep out its neighbors. The idea that the United States should fear being taken over by its weaker neighbors is bizarre, but it is becoming a staple of the populist critique.

During the NAFTA debate, people in all three countries had anxieties and reservations. Canada and Mexico feared U.S. investors would take over their industries, and Americans feared that Canadians and Mexicans would take their jobs. None of this happened. Canadians invested at a more rapid pace in the United States than U.S. firms invested in Canada, and although foreign investment in Mexico soared—from $33 billion in 1993 to $210 billion in 2005—the percentage coming from the United States declined by ten percent.

Meanwhile, all three economies became more connected. Many national firms became North American, producing and marketing their products in all three countries. The international sector of all three economies grew (and export-oriented firms pay wages 13–16 percent higher than the national average). Needless to say, as the market expanded and the competition grew more intense, there were more winners and losers, but as consumers, all North Americans benefited from more choices, lower prices, and higher-quality products.

In an econometric analysis of the effects of NAFTA, the World Bank estimated that by 2002 Mexico's GDP per capita was 4–5 percent higher, its exports 50 percent higher, and its foreign direct investment 40 percent higher than they would have been without NAFTA. NAFTA's effects on the United States, given the much larger size of its economy, are much smaller and harder to measure. Still, the first seven years of NAFTA, from 1994 to 2001, were a period of great trade expansion and job creation in the United States. NAFTA does not deserve the credit for all or even much of this job growth, but

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it surely cannot be blamed for serious job losses. If one focuses only on jobs, U.S. employment grew from 110 million jobs in 1993 to 137 million in 2006 (and in Canada, from 13 million to 16 million). And U.S. manufacturing output increased by 63 percent between 1993 and 2006.

These benefits have not yielded a positive consensus in part because they have not been equitably shared with those who paid a price. On