

Center for North American Studies CNAS), American University  
United Nation Economic Commission for Latin America and the Caribbean (ECLAC)

## **Building a North American Community: Economic Integration and Regulatory Cooperation in North America**

American University, November 16-17, 2007

### **EXECUTIVE SUMMARY**

The conference's purpose was to explore the challenges which remain to a more effective integration of and cooperation among the three NAFTA partners and the measures which might be taken to improve performance in several specific sectors.

ECLAC and CNAS commissioned three papers for the conference and constructed the discussions around the themes addressed by those papers:

1. Juan Carlos Villa, Associate Research Professor, Texas Transportation Institute, Texas A&M University. **“Transaction Costs in the Transportation Sector and Infrastructure in North America: Exploring Harmonization of Standards.”**
2. Michael Hart, Simon Reisman Professor of Trade Policy, Carleton University: **“Trading Up: The Promise of North American Regulatory Convergence”**
3. Ronald D. Knutson, Professor Emeritus of Agricultural Economics, Texas A&M University, and Rene F. Ochoa, Director General of Agribusiness, Mexican Ministry of Agriculture (SAGARPA): **“Status of Agrifood Regulatory Coordination Under NAFTA.”**

In addition, a fourth paper was presented by Dr. Robert Pastor, Director, Center for North American Studies, American University: **“The Solution to North America's Triple Problem: The Case for a North American Investment Fund.”** Dr. Pastor's paper was discussed in a final panel on “Stakeholders and the Research Agenda.”

Alejandro Chacón, Chief of Staff to the Mexican Secretary of Transportation and Communications, gave the keynote address on Mexico's infrastructure plans.

In his introduction to the Conference, Dr. Robert Pastor, the Director of the Center for North American Studies, said that the Center was established years ago to address one of the great challenges of the 21<sup>st</sup> century – how to promote regional integration – and to do so by bridging the gap between policy and academic scholarship. It has focused on three areas: education, policy, and research. For the full description of the Center's work, see [www.american.edu/ia/cnas](http://www.american.edu/ia/cnas). This conference developed from two directions – a project on narrowing the income gap sponsored by the North American Development Bank under Raul Rodriguez and a project sponsored by the Council on Foreign Relations on “Building a North American Community.” Both projects underscored the need to deepen economic integration in North America through investments in infrastructure and regulatory cooperation, and CNAS was delighted that Dr. Ines Bustillo, the Director of

the Washington Office of the UN Economic Commission for Latin America and the Caribbean (ECLAC), wanted to co-sponsor.

### **I. General Challenges/Issues**

Participants agreed that strengthening the relationship among the three countries of North America is in the interest of all people in the region, given the degree of economic interdependence and the social and security issues which they must face together.

Although there was some sentiment at the conference that there has been little, if any, progress toward deepening or improving the North American relationship, a number of the presentations found some evidence of collaboration on key issues, for instance in the transportation sector. At the same time it was also evident that there continues to be a tendency for North American issues to be addressed in a bilateral rather than a trilateral framework. Thinking bilaterally and addressing issues from a bilateral perspective was particularly evident in the analyses in the paper by Juan Carlos Villa, the commentary by Raul Rodriguez and David De Carme, and in the dinner address by Alejandro Chacón. The focus in each of these discussions was on the U.S.-Mexico relationship, with the exception of David De Carme, Deputy Director, Office of International Transportation and Trade, U.S. Department of Transportation, who stressed the extent to which existing institutions in the transportation area are working effectively in the US-Mexico Joint Working Committee, the US-Canada Transportation Border Working Group and the Nafta Land Transportation Standards Subcommittee.

Conference participants recognized that some issues should be addressed in a bilateral way, e.g. Mexican immigration to the United States, but it would be preferable to strengthen the extent to which issues engage all three countries.

There was also recognition of the fact that in the post-9/11 environment, security will trump all other areas of consideration, and so reforms in the economic, social or political areas must take the security environment into consideration.

There was a general consensus that the challenges confronting the North American relationships are no longer specifically trade issues, that most trade issues have been effectively resolved and that many of the challenges which are now present are more related to the regulatory structure, institutional weaknesses, the inadequacy of infrastructure in some instances, and in many respects to the lack of political will to deepen NAFTA. There was general agreement that to ensure that the political sector is fully engaged in addressing North American wide issues, it is critically important that politicians and their constituents are “educated” on the economic and social advantages inherent in deepening the North American relationships. Panelists also raised the equally problematic issue of how governments can effectively engage civil society, including labor and environmental groups as well as members of the business community. There were strong expressions of opinion that the North American agenda has been largely driven by business interests with inadequate attention to the broader needs of society.

## II. Sectoral Challenges/Issues:

The three main thematic areas addressed by the commissioned papers dealt with transportation, regulation and agriculture. The key issues and conclusions in each instance were as follows:

**A. Transportation:** Juan Carlos Villa's paper began by recognizing that the first six years of NAFTA saw an annual increase of trade of about 9.8%, whereas the next five years saw an annual increase of 3%. This suggested that the gains of NAFTA had eroded, and if North America is to see continued gains, new investments and policies were needed. One of the most important areas is truck and secondarily rail transport within North America and across its borders. His paper also touched briefly on maritime transport. His main concern was with the impact of transaction costs and the current state of infrastructure related to transportation. Trade has tripled in North America, and 75% of that is by road, and yet there have been almost no investment in additional roads. The main recommendations of his paper, with which conference participants were in agreement, were as follows:

- “Negotiations to implement NAFTA trucking provisions should be accelerated to reach an agreement with the US so that Mexican truckers are allowed to circulate beyond the border commercial zone.”
- Mexican truck weight and size- both of which exceed US and Canadian standards, present a serious obstacle to the integration of truck transport in North America.
- There needs to be a significant investment in Mexican infrastructure and modernization of its trucks, which are heavy and destructive.
- There needs to be a significant modernization in Mexican customs operations. This would involve, among other initiatives, the adoption of new technologies for tracking, tracing and upgrading information and communication systems.
- Although outside the focus of the paper, conference participants noted that there are serious problems associated with the limited number of entry points for major truck traffic to the United States from both Canada and Mexico, with much of the traffic concentrated on Buffalo and Detroit in the north and Laredo in the south.

In accordance with NAFTA and subsequent decisions by dispute-settlement bodies, the United States finally in September of 2007 allowed eleven trucking companies to cross the border from Mexico. The U.S. Congress, pressured by the trade unions and protectionists, is trying to stop this flow, but that would be clearly a violation of the agreement. Transportation remains extraordinarily inefficient with most trucks and ships not permitted to carry cargo back from where they have come. In addition, the infrastructure deficit in all three countries is huge. The demand for fast lanes across the borders easily exceed the availability with no prospect of responding to that demand.

A U.S. transportation official mentioned that after 9/11, the U.S. government discussed “a perimeter strategy” with Canada to move customs and immigration to the outer perimeter, but opposition within both countries caused them to retreat from that proposal.

**B) Regulatory Cooperation.** Michael Hart endorsed the notion earlier advanced by Juan Carlos Villa that the current discretionary nature of cooperation at the federal level is not adequate to obtain the traction necessary to address problems in the regulatory area. Both recommend that the current system be replaced by a process in which the exchange of information, formal consultations and coordination at the federal level is mandatory. There was general agreement among conference participants that each federal government needed to appoint a ministerial level official responsible solely for North American policy issues.

Hart argued that trade liberalization had worked well, but governments are confronted now with issues that are more difficult to deal with and powers which national governments are also less willing to relinquish. He argued that the borders (with particular reference to the Canadian border on which his paper concentrated) were dysfunctional, that border officials were overburdened with hundred of statutory requirements they had to enforce and which collectively were serious impediments to the ease of movement of goods and people. To Hart, such impediments constituted the “tyranny of small differences.” He cited Canadian Prime Minister Stephen Harper, who asked rhetorically, whether the standardization of jellybeans constituted a threat to the sovereignty of each of the countries.

It continues to be essential to focus on security issues, but most of the border bureaucracy and regulatory requirements have little to do with security. There was general agreement at the conference that perimeter security was essential rather than creating major impediments to the movement of goods across the internal borders of North America. To accomplish this end it was suggested that a Treaty may be necessary, that vague gentlemen’s agreements such as the Security and Prosperity Partnership (SPP) do little to advance integration, little to advance security and in fact are an impediment to prosperity.

Hart recommended that under the SPP the three governments should commit to developing a “regulatory convergence agenda” that would pursue cooperation and convergence in the public interest. He argued, and conference participants concurred, that there should be an objective assessment of the costs/benefits of regulatory cooperation and the costs of not achieving convergence.

Hart also recommended that, in spite of significant differences with the nature and structure of the European Union, there was much to be gained from looking at the gains made in the EU and in working with the EU and others on the development of international standards.

Gary Hufbauer, a commentator, while not dissenting from the general assumptions and conclusions of the paper, noted that some of the regulatory issues are simply too contentious for elected officials to tackle. It was also observed that the private sector itself is not always supportive of a common regulatory system, since differences in regulation can create isolated markets which favor their operations. There was nonetheless general agreement that the real beneficiaries of regulatory efficiency would

be Canada and Mexico and that both politicians and the general public need to be educated on the issue.

Neil Eisner said that regulators want rules that are as similar as possible, but this is hard to do within each government or between states, let alone between the three countries. Even in those cases where agreement is reached – for example, drug testing of truck drivers – there remains a problem of compliance and enforcement. Nonetheless, there has been some progress, for example, efforts in the transportation area to allow Canada and Mexico to comment on U.S. proposals for rules that could affect them.

Antonio Ortiz Mena suggested that the OECD should be used to calculate the costs and benefits of regulatory convergence. In addition, the three countries have to reach agreement soon on food safety rules. Unless the case for regulatory convergence is made clearer to the public, however, the prospects of moving forward is small.

**C. Agricultural Trade and Integration.** Knutson and Ochoa stressed in their paper that NAFTA has not realized its potential in integrating agrifood markets. They noted that there is a lack of harmonization of farm programs that subsidize farm prices and/or incomes and an absence of mechanisms for moving forward in harmonizing policies, regulations and standards. The NAFTA Secretariat, they argued, is limited to the single function of dispute settlement. They also contended that there was a clear need for greater centralization of consultation and decision-making among the three countries in the agricultural sector, where they recommend that if it is not possible to have a NAFTA Secretariat with the “backbone” to take action there should at least be established a body of agricultural representatives at the ministerial level to act as a “focal point” for NAFTA coordination- and this should be trilateral, not just two bilaterals. They also stressed that trilateral collaboration is needed in the establishment of scientific labs to deal in particular with animal diseases which are transferable to humans. It was argued that such laboratories “could become the base for pursuing NAFTA wide research, technical assistance and training on a wide range of SPS, food safety and food security issues.” They noted that there is a complete lack of policy analysis when it comes to SPS issues.

Commentators acknowledged that there had been little if any progress either in the Partnership for Prosperity period or not under the Security and Prosperity Partnership. Sometimes, each government makes greater demands on food safety of imports than it does within its own country.

### **III. Stake-Holders and a Research Agenda**

Pastor’s paper identified three chronic problems in the trilateral relationship – immigration, security, and trade, and proposed that one solution to all three problems would be a North American Investment Fund that transferred \$20 billion a year for 10 years to narrow the income gap between Mexico and its northern neighbors. This is almost inconceivable at this moment because the level of cooperation has sunk so low, but mainly because none of the three leaders have bothered to propose a vision of North America that would provide the rationale and the motive for such a sizeable investment.

Accept such a vision it is hard to do the smallest steps or envisage the most modest institution let alone leap across the chasm and set up a fund.

Adrean Rothkopf described the process of the North American Competitiveness Council as a vehicle for advancing trilateral interests in integration, but Thea Lee noted that from the labor and environmental perspectives, NAFTA has been, at best, disappointing, and that neither has been invited to the negotiating table. Indeed, the NAAC has failed to include labor. She argued that a vision is necessary, but a diversity of views is also essential.

With regard to a research agenda, Robert Blecker posed some hard questions about the Mexican development model and how to promote exports while maintaining macro-economic stability and deepening integration. Alejandro Davila pointed to the impact of NAFTA on geographical regions, in particular to the increasing division between north and south Mexico. Claudia Schatan pointed to more progress in the environmental area, in part because civil society groups have played a more constructive role. Jorge Mattar encouraged greater research on regulation, transaction costs, and competitiveness.

#### **IV. Conclusions:**

1. There is a significant need for advanced research on a range of issues impacting the North American relationship, among them the areas of transportation, agriculture, regulatory regimes and health. Collaborative research among North American universities could make a significant contribution in these areas.
2. Governments should play a more active role in existing trilateral institutions and where they do not exist creating those institutions which will have the capacity and power to improve the trilateral relationship.
3. There was general agreement on the need to educate the general populations in all three countries on the value of a closer working relationship among the three countries of North America.
4. There was general agreement on the need to bring the Mexican economy closer to the levels of economic development in Canada and the United States, although there was no consensus on the means to accomplish this objective. Dr. Pastor in the closing paper of the conference proposed the establishment of a North American Investment Fund that would involve all three governments contributing to Mexican economic development.
5. There was a clear consensus on the importance of the North American relationship to the people of all three countries and of the need to nurture that relationship in ways that will enhance the social and economic lives of North Americans while respecting national, local and regional differences.

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