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The Future of North America

Replacing a Bad Neighbor Policy

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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

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 this, North America's different voices are audible. One is the strident and angry voice, personified by Dobbs, which argues that Mexicans have little in common with Americans, that free trade hurts workers and the economy, and that the United States can solve the "immigration problem" by building a wall. This voice has echoes in Canada and Mexico, and it resonates among those who are uneasy or fearful about trade and integration. Another voice represents those who welcome integration and are willing to experiment with new forms of partnership. Public opinion surveys suggest that the latter voice represents the majority, even if few leaders speak for them today.

There are many surveys of public opinion conducted in North America, and they have found that values in all three countries are similar and converging. Americans, Canadians, and Mexicans like and trust one another more than they do people from almost any other country, even though Canadian and Mexican views of U.S. policy have grown negative in the past seven years. Thirty-eight percent of the people in all three countries identify themselves as "North American," and a majority of these publics would even be in favor of some form of unification if they thought it would improve their standards of living without harming the environment or diminishing their national identities. A majority believe that free trade is good for all three countries, although respondents also believe that free trade has benefited the other countries in North America more than it has theirs. A majority of the publics in all three countries would prefer "integrated North American policies" rather than independent national policies on the environment and border security, and a plurality feel the same way about transportation, energy, defense, and economic policies.

Given these surveys, the obvious question is why the current presidential candidates believe that the American public is anti-Mexican and supports protectionism. There are several possible explanations. Support for free trade is evident over an extended period, but the degree of support varies over time and space, depending on the state of the economy and the size of the trade deficit. A CNN national poll conducted in October 2007 found that more Americans believed foreign trade was an opportunity than believed trade was a threat. But exit polls of Democrats voting in the Ohio primary on March 4, 2008, showed that 80 percent blamed trade for job losses. In a tight race, the candidates responded to the negative view, which was more intense than the hopes reflected in the public opinion surveys. For that reason, and because no political leader is contesting him in the marketplace of ideas, Dobbs is shaping the debate, and the unions are shaping the policy prescription.

North America faces a Dobbsean choice—between reversing and accelerating integration, between putting up barriers and finding new ways to collaborate. Ironically, the Dobbs view has strengthened just as economic integration in North America has weakened.

A CONTINENTAL APPROACH

It is clear that the Bush administration's incremental, quiet, business-based approach has not succeeded in promoting economic integration or closer collaboration with the United States' neighbors. Instead, it has raised some legitimate concerns and provoked a nativist backlash. It was a mistake to allow CEOs to be the only outside advisers on deregulation and the harmonization of remaining regulations. Civil society and legislatures must be heard on these issues, which are less about business than about how to pursue environmental, labor, and health goals. More broadly, free trade is clearly not enough. Those groups that pay the price of increased competition need to share the benefits and need to have a safety net that includes wage insurance, education and trade adjustment assistance, and health care. Nor is free trade all that is needed to help Mexico enter the developed world.

The dual-bilateral strategy (U.S.-Canada, U.S.-Mexico) is also failing. It exacerbates the defining and debilitating characteristic of the United States' relations with its neighbors—asymmetry. It leads Washington to ignore them or impose its will, and it causes Ottawa and Mexico City to either retreat or be defensive. Given the imbalance in power and wealth, a truly equal relationship may be elusive, but it is in the long-term interests of all three countries to build institutions that will reduce the imbalance. The genius of the Marshall Plan was that the United States used its leverage not for short-term gain but to encourage Europe to unite. That kind of statesmanship is needed to step beyond short-term and private interests and construct a North American Community.

There are other reasons for a North American approach. If three governments rather than two sit at the table, they are more likely to focus on rules than on power, on national and continental interests rather than on the interests of specific companies or unions. On issues such as transportation and the environment, a three-sided dialogue could produce North American plans. Even on border issues, the three nations could benefit from comparing procedures and borrowing from one another the ones that work the best.

A North American approach needs a vision based on the simple premise that each country benefits from its neighbors' success and each is diminished by their problems or setbacks. With such a vision, it becomes logical to consider a North American investment fund to reduce the income disparity between Mexico and its northern neighbors. Without such a vision, such a proposal has no chance. Without a vision, the governments will continue to grapple with one issue, one country at a time, reinforcing old stereotypes, such as that of Mexico as a corrupt, drug-dealing, immigrant-sending problem. With a vision of a community, all three governments should see one another as part of the transnational problem and essential to a solution.

North America's model differs from Europe's. It respects the market more and trusts bureaucracy less.

The first step is to deepen economic integration by eliminating the costly and cumbersome "rules of origin" regulations, allowing all legitimate goods to move seamlessly across the borders, and permitting border officials to concentrate on stopping drugs and terrorists. To eliminate the rules of origin, the three governments will need to negotiate a common external tariff at the lowest levels. This will not be easy, as there are other free-trade agreements that would need to be reconciled, but it will make the North American economy more efficient. A smaller measure, which could have as large an economic impact, would be to comply with NAFTA and harmonize the three countries' regulations on truck safety so as to permit trucks to travel in all three countries.

Other decisions could harness the comparative advantage of each country to mutual benefit. For example, more Americans live and retire in Mexico than in any other foreign country. If the United States certified hospitals in Mexico and allowed retirees to use Medicare there, both countries would benefit. The second step is to secure national borders and the continental perimeter. The best approach would be to train Canadian, Mexican, and U.S. officials together to avoid duplication, share intelligence, and secure the borders as a team.

Another challenge is to narrow the gap in income that separates Mexico from its northern neighbors by creating a North American investment fund. The fund should target $20 billion a year to connect central and southern Mexico to the United States with roads, ports, and communications. With the goal of building a North American Community, all three governments should commit to narrowing the income gap, with each deciding how it could best contribute. Since it will benefit the most, Mexico should consider contributing half of the money for the fund and also undertake reforms—fiscal, energy, and labor—to ensure that the resources would be effectively used. The United States should contribute each year 40 percent of the fund's resources—less than half the cost each week of the war in Iraq—and Canada, 10 percent. Since NAFTA was put into place, the northern part of Mexico has grown ten times as fast as the southern part because it is connected to the Canadian and U.S. markets. North America can wait a hundred years for southern Mexico to catch up, or it can help accelerate its development—which would have positive consequences in terms of reducing emigration, expanding trade, and investing in infrastructure to help Mexico enter the developed world.

North America's model of integration is different from Europe's. It respects the market more and trusts bureaucracy less. Still, some institutions are needed to develop continental proposals, monitor progress, and enforce compliance. The three leaders should institutionalize summit meetings at least annually, and they should establish a North American commission composed of independent and distinguished leaders from academia, civil society, business, labor, and agriculture and with an independent research capacity. The commission should offer continental proposals to the three leaders. The leaders would continue to be staffed by their respective governments, but they would respond to a continental, rather than a dual-bilateral, agenda. The commission should develop a North American plan for transportation and infrastructure and plans on labor, agriculture, the environment, energy, immigration, drug trafficking, and borders.

The three heads of state must also commit to building a new consciousness, a new way of thinking about one's neighbors and about the continental agenda. Americans, Canadians, and Mexicans can be nationals and North Americans at the same time. Indeed, an appreciation of one's neighbors as part of a compelling North American idea could enhance the prestige of each country. To educate a new generation of students to think North American, each country should begin by supporting a dozen centers for North American studies. Each center should educate students, undertake research, and foster exchanges with other North American universities for both students and faculty.

This is a formidable agenda that could transform North America and each of its states. It is not possible without a vision, and it is not feasible without real leadership and credible institutions. But with all three, a North American Community can be built. The existence of such a community would mean that the United States would consult its neighbors on important issues that affected them. It would mean that Canada would work closely with Mexico to build rule-based institutions and to develop a formula for closing the development gap. It would mean that Mexico would undertake reforms to make good use of the additional resources.

This is a very different agenda than seeking to improve working conditions and the environment by rewriting NAFTA and threatening to increase tariffs. Labor and environmental issues should be part of the North American dialogue working to improve the continent, but there is no evidence that foreign investors move to Mexico in order to take advantage of lax labor and environmental rules. Quite the contrary: Mexico's labor laws are so rigid that they often discourage foreign investors. Moreover, they incorporate the eight core international labor standards, whereas the United States has not approved six of them. As for its environmental laws, Mexico maintains standards that are quite good; the problem is that it lacks funds for enforcement or cleanup.

The immigration issue also needs to be addressed in this broader context. A fence is needed in some places, but building a 700-mile wall would be more insulting than effective. If the United States is going to try to forge a community, it needs to articulate an approach that acknowledges that it is complicit in the immigration problem in hiring illegal immigrants, who work harder for less. More important, if the United States were to join with Mexico in a serious commitment to narrow the income gap, then cooperation over other issues would become possible. The best place to enforce immigration policy is in the workplace, not at the border, but national, biometric identification cards will be needed for everyone to make the policy effective, and a path to legalization will be needed to make it just.

A NORTH AMERICAN COMMUNITY

IT MIGHT seem strange that President Bush would host his final North American summit meeting in New Orleans, as he did in April. His response to Hurricane Katrina was deservedly criticized for its mismanagement. But New Orleans was, at the same time, an appropriate site: both Canada and Mexico mobilized to assist the people of New Orleans after Katrina, with Mexico even sending troops to bring food and undocumented Mexican workers helping to rebuild the city.

The April summit meeting was probably the last hurrah for the SPP. The strategy of acting on technical issues in an incremental, bureaucratic way, and of keeping the issues away from public view, has generated more suspicion than accomplishments. The new president will probably discard the SPP. Annual summits, however, should be continued, but be opened to civil society, as Senator Obama has proposed, and intergovernmental connections should be strengthened.

It would be desirable for Canada and Mexico to join in making a comprehensive proposal for a North American Community, but Canada's aloofness from Mexico makes that unlikely. Therefore, the responsibility for defining North America's future will lie with the new U.S. president. If the next administration seeks to renegotiate NAFTA, presses for enforceable labor and environmental provisions, and allows special interests, such as the Teamsters Union and the trucking industry, to prevent competition and avoid compliance with the agreement, the United States' neighbors may look back on the Bush years with nostalgia. Canada and Mexico would be under pressure to seek their own exemptions to NAFTA, and they would likely remind Washington that when it comes to enforceable sanctions, the United States has been more guilty of noncompliance than they have. Renegotiating NAFTA would require a significant investment of the new administration's time and political capital without, in the end, helping workers or the environment much, if at all.

The alternative approach needs to start with a vision of a North American Community and some institutions—quite different from Europe's—designed to pursue a bold agenda that includes a customs union, a North American commission, a North American investment fund, and a common team of customs and border guards to man the borders and the continental perimeter. To move toward these goals, the next president should designate a national adviser for North American affairs, who would chair a cabinet-level committee to formulate a comprehensive plan and to help the president negotiate the difficult tradeoffs between special interests and national and continental interests. Instead of refighting the NAFTA debate, this comprehensive approach would lay the foundation for a new North America.

This is a very ambitious agenda, but on the eve of NAFTA's 15th anniversary, Americans are looking for a fresh approach, and no set of foreign policies would contribute more to U.S. prosperity and security than those devoted to building a North American Community. If the United States wants to compete, it cannot march backward, nor can it stand in place without falling behind. The new president—working with counterparts in Canada and Mexico—has the opportunity to redefine the face of North America for the twenty-first century. If the principal foreign policy challenge for the next administration is to restore trust in the United States, then the first step is to demonstrate to the world that it can work with and respect its neighbors.