

Breaking Out of the Box

Tensions are rising on both sides of the border, again. Yet the only real solution is one that North American leaders aren't talking about.



Hector Mata / AFP-Getty Images

Hard Times: U.S. Customs agents help an illegal immigrant from a car trunk at the San Ysidro, Calif. border crossing

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March 27, 2006 issue - Five years ago, U.S. President George W. Bush visited Mexican President Vicente Fox at his home in Guanajuato. The two pledged to consult their Canadian counterpart and together build "a North American economic community whose benefits reach the lesser-developed areas of the region and extend to the most vulnerable social groups in our countries." They have, in fact, made no progress toward those goals. Since then, the war in Iraq, friction over illegal immigration, violence along the U.S.-Mexico border and a lack of compliance on trade agreements have resulted in a marked deterioration in U.S. relations with its neighbors. According to polls, the percentage of Mexicans and Canadians with a favorable view of the United States has fallen by nearly half since 2000.

When Bush and Fox sit down with new Canadian Prime Minister Stephen Harper in Cancún on March 30, all three leaders will pretend that relations are better than they are. They will note "progress" toward the goals of the Security and Prosperity Partnership, signed last year in Texas, even though it is a timid, paper-shuffling exercise that measures success by the number of bureaucratic meetings.

What they should do is think far more boldly. The only way to solve the most pressing problems in the region—including immigration, security, and declining competitiveness—is to create a true North American Community. No two nations are more important to the United States than Canada and Mexico, and no investment will bolster security and yield greater economic benefits for America than one that narrows the income gap between Mexico and its North American partners.

Bridging that gap was supposed to be one of the many benefits that the North American Free Trade Agreement (NAFTA) would deliver. And indeed, since NAFTA took effect in 1994, trade and investment among the United States, Mexico and Canada have nearly tripled, making North America the world's largest free-trade area in terms of territory and gross domestic product (GDP). Yet the income gap has widened: the annual per capita GDP of the United States (\$43,883) today is more than six times that of Mexico (\$6,937).

NAFTA has been inadequate in other ways as well. The agreement made no provisions for cushioning economic downturns like the Mexican peso crisis of 1994-95. It created no credible institutions that operate on a truly regional basis. Thus, after terrorists struck New York and Washington on September 11, 2001, the Bush administration unilaterally tightened security on its international borders while Ottawa and Mexico City reverted to their traditional ambivalence toward Washington.

Illegal immigration has increased and if anything, NAFTA has inadvertently fueled immigration by encouraging foreign investment near the U.S.-Mexican border, which in turn serves as a magnet for workers in central and southern Mexico. As a result, the number of undocumented Mexican workers who live in the United States has skyrocketed in the NAFTA era, from an estimated 1 million in the mid-1990s to about 6 million today. One of every six undocumented immigrants is under 18 years old, and since the mid-1990s the fastest growth of the population has occurred in states like Arizona and North Carolina that had relatively small numbers of foreign-born residents in the past.

This has fueled an increasingly loud backlash in the United States, where several measures meant to crack down on the migrant flow are working their way through the U.S. Congress. Lawmakers have proposed everything from more walls along segments of the Mexican border and more Border Patrol agents, to a guest-worker program and "regularization" of undocumented workers. Yet none of these measures will end the immigration crisis, and most would actually make it worse. Roughly 90 percent of all Mexican illegal immigrants leave jobs to come to the United States; they seek higher wages. Illegal immigration is unlikely to shrink until the income gap begins to narrow.

How to do so? Valuable lessons can be gleaned from the continent that supplied America's original pool of immigrants. When the European Union added Greece, Spain and Portugal as member countries in the 1980s, it channeled massive amounts of aid to these newcomers and Ireland to narrow the income gap separating them from more-prosperous nations like Germany and France. About half of the \$500 billion in aid was spent unwisely; the best investments were in roads and communications linking these four countries to richer markets. Between 1986 and 2003, the per capita GDP of the four nations rose from 65 percent of the average EU member country's economic output to 82 percent. Spain spent much of the \$120 billion it received on new roads that boosted commerce and tourism. As a result, Spanish immigration to other EU countries all but ceased. Ireland now ranks as the second richest member of the EU in per capita terms—and for the first time in its history, it is actually receiving rather than sending immigrants.

North America isn't Europe. But the region's three countries should draw on the EU's experience and think in more regional terms. The leaders of the United States, Canada and Mexico must articulate a vision that recognizes how instability or recession in one affects the other two. At the same time, they need to remind their constituents that when the value of a neighbor's house rises, so does theirs.

Transforming that vision into programs to promote development in Mexico, the trio's poorest partner, will require leadership, capital and institutions that have been sadly lacking in recent years. Take for example transportation: the three governments have never put together a continentwide plan for transportation and infrastructure despite the huge increase in trade crossing their borders. The first thing NAFTA partners should do is establish a North American Investment Fund that would invest \$200 billion over 10 years in roads and communications connecting the poorer southern part of Mexico to the North American market. If we build them, they will stay: companies will be more likely to invest there, encouraging many Mexican workers to stay home and others, already in the United States, to return. Experts estimate that such investment could double Mexico's rate of GDP growth.

The funds should be administered by the World Bank. As the main beneficiary, Mexico would provide half of the total, the United States could chip in with an additional 40 percent and Canada the remainder. To ensure optimal use of the funding, Mexico also needs to increase taxes, modernize its labor laws, and open up the state-run energy and electricity sectors to private investment. The United States and Canada could help Mexican leaders sell those overdue reforms by promising to commit resources to a joint effort to narrow the income gap.

While the idea of funding Mexican development may sound ludicrous, this investment would also benefit the U.S. economically, and the total is less than half of what the EU spent. Washington's \$80 billion contribution would amount to about a third of what the Bush administration has spent in the last three years in Iraq.

The fund won't end illegal immigration overnight or even in a decade. But if the investment eventually helps Mexico to achieve 6 percent growth rates, double those of its northern neighbors, the income gap will be reduced by 20 percent in just the first decade. Only then will Mexicans begin to think about their future in Mexico rather than plan for an exit north.

This is just one piece of the regional puzzle. To compete with a rising Asia, North America needs a customs union that will end needless inspections of legal goods circulating among the three countries. A North American Regulatory Commission could promote shared goals in health care, protecting the environment and improving conditions in the workplace. Such a panel would also eliminate nonsensical discrepancies in the laws of the three nations that, for instance, bar Americans from buying drugs from a Canadian pharmacist even if the medicine was made in the United States.

The dividends accruing from a true North American Community would not be measured strictly in dollars. Instead of defining security exclusively in terms of fences and border guards, Canadian, Mexican and U.S. officials should create a broader perimeter around the entire region. Teams of officials from all three countries could share intelligence and terrorist watch lists and standardize inspection procedures used at ports of entry. These steps would be intended to supplement rather than replace existing border-protection systems.

To be sure, there is little prospect that these initiatives will be approved in the near future. The Bush administration remains preoccupied by the quagmire in Iraq and mushrooming fiscal and trade deficits. The Canadian prime minister lacks a working majority in Parliament, and Mexico is heading into a presidential election this summer that will choose Vicente Fox's successor.

But the idea of a North American Community is so compelling in my view that it will emerge, one hopes sooner rather than later, as a cutting-edge issue. The question is not whether such a community is likely. The question is whether it is desirable and will lead to a more secure and competitive North America. The answer is a resounding yes on both counts. Bush, Fox and Harper face a choice in Cancún. They can pose for the photographers and pretend that relations among their countries have never been better. Or they can seize the North American opportunity and put their nations firmly on the road to a safer and more prosperous future.

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