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**U.S. Senate Foreign Relations Committee**

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### **A North American Community Approach to Security**

Senators Lugar, Coleman, and Dodd. I appreciate the invitation to testify before your Committee. You asked me to place the issue of the Western Hemisphere Travel Initiative within the context of North American cooperation and border control and to relate it to the recent report by an Independent Task Force on the Future of North America sponsored by the Council on Foreign Relations in New York. The Chairs and Vice Chairs of the three nation, 31-person Task Force were John F. Manley and Tom d'Aquino of Canada, Pedro Aspe and Andres Rozental of Mexico, and William F. Weld and I from the United States. Entitled "**Building a North American Community,**" the report offered a blueprint of the goals that the three countries of North America should pursue and the steps needed to achieve those goals.

The focus today is on the new requirement for all citizens of the United States, Canada, Mexico, and Bermuda to have a passport to travel among our countries. It is intended to secure the homeland, but I question whether this approach will achieve the goal, and I fear that it will harm other U.S. interests and divert us from more effective paths toward securing our continent.

As we approach the fourth anniversary of 9/11, it is time for us to step back from our trauma and the border and examine the problem in a broader context. The best way to assure security is not at our borders with Canada and Mexico and not by defining "security" in conventional and narrow terms. We need to think about these issues in the context of a continent that is integrating economically and socially at a rapid rate. The problem is that the three governments have failed to understand this phenomenal transformation. Policy has not kept pace with the market, and our security is endangered as much by the limits of our vision as by the terrorists who threaten us.

Defensive about Europe's example, we have failed to learn from their experience and succumbed to the opposite mistake. Whereas Europe built too many, intrusive, supra-national institutions, we have practically no credible institutions. Instead of trying to fashion a North American approach to continental problems, we continue to pursue

problems on a dual-bilateral basis, taking one issue at a time. But incremental steps will no longer solve the security problem, or allow us to grasp economic opportunities. What we need to do now is forge a North American Community, based on the premise that each member benefits from its neighbor's success and is diminished by its problems.

The subject of this hearing today – whether passports should be required to cross our two borders – is symptomatic of the problem. We are thinking too small. We need to find ways to making trade and travel easier while we define and defend a continental security perimeter. Instead of stopping North Americans on the borders, we ought to provide them with a secure, biometric Border Pass that would ease transit across the border like an E-Z pass permits our cars to speed through toll booths.

In my statement, I will comment first on the emergence of North America, the next decade's agenda, and the response by the three governments. Next, I will describe some of the recommendations of the Council Task Force Report and focus on the travel initiative and the security and border issues.

As a word of introduction, I have been working on issues related to North America for nearly thirty years – in the government, in a non-governmental organization (the Carter Center) monitoring elections in Mexico, the United States, and Canada, and as a teacher and writer of five books and many articles on the subject of North America. Because I believe deeply that our security and prosperity depend on forging a new relationship with our neighbors, in September 2002, I established and now direct a Center for North American Studies at American University.

### **The Emergence of North America**

On January 1, 1994, the North American Free Trade Agreement (NAFTA) came into effect. If one judges a free-trade area by the size of its product and territory, North America became the largest in the world, larger than the European Union (EU). Yet that fact escaped all but a few analysts. It is widely known that the United States has the world's largest economy, but North America also includes the eighth (Canada) and ninth (Mexico) largest economies as well. (**The Economist**, 2004)

In the eleven years since NAFTA came into effect, U.S. trade (exports and imports) more than doubled with its two neighbors – from \$293 billion in 1993 to \$713 billion in 2004. Annual flows of U.S. direct investment to Mexico went from \$1.3 billion in 1992 to \$15 billion in 2001, and the stock, from \$14 billion to \$57 billion. The annual flows of U.S. investment in Canada increased eight-fold, and the stock of FDI increased from \$69 billion in 1993 to \$153 billion in 2002. Canadian investment flows to the United States grew from a stock of \$40 billion in 1993 to \$102 billion in 2001.

Travel and immigration among the three countries also increased dramatically. In 2004, people crossed the two borders about 400 million times. The most profound impact came from those people who crossed and stayed. The 2000 census estimated that there

were 21 million people of Mexican origin in the United States. Nearly two-thirds of all Mexican-born immigrants arrived in the last two decades.

North America is larger than Europe in population and territory, and its gross product not only eclipses that of the EU but also represents one-third of the world's economic output. Intraregional exports as a percentage of total exports climbed from around 30 percent in 1982 to 58 percent in 2002 (compared to 61 percent for the EU). Our two neighbors export more energy to us than any other country, and U.S. exports to them were nearly twice those to all of Europe and nearly four times those to Japan and China in 2004. North America is no longer just a geographical expression. It has become a formidable and integrated region.

### **North America's New Agenda and The Response**

With a few notable exceptions — such as trucking, softwood lumber, and sugar— where U.S. economic interests have prevented compliance, NAFTA largely succeeded in what it was intended to do: barriers were eliminated, and trade and investment soared. A decade later, however, North America faces new challenges that require new policies.

- First, NAFTA was silent on the development gap between Mexico and its two northern neighbors, and that gap has widened.
- Second, NAFTA did not plan for its own success: it failed to invest in new roads and infrastructure to cope with more trade and traffic. The resulting delays raised the transaction costs of regional trade more than the elimination of tariffs lowered them.
- Third, NAFTA did not address immigration, and the number of undocumented workers in the United States jumped in the 1990s from 3 million to 11 million (55 percent or 6 million came from Mexico).
- Fourth, NAFTA did not address energy issues, a failure highlighted by the catastrophic blackout that Canada and the north-eastern United States suffered in August 2003, and the dramatic growth in imports of natural gas by Mexico from the United States.
- Fifth, NAFTA created few credible institutions to coordinate policy, leaving the region vulnerable to market catastrophes like the Mexican peso crisis.
- Finally, NAFTA did nothing to address security, and as a result, the long-term effects of September 11 threaten to cripple North American integration.

This is the agenda for North America in the next decade. On March 23, 2005, President George Bush, President Vicente Fox, and Prime Minister Paul Martin met in Texas. This was not their first meeting, but the others had been little more than photo-opportunities. The three leaders announced a “Security and Prosperity Partnership of North America,” based on the premise that both security and prosperity are “mutually dependent and complementary.” They declared that the partnership is “trilateral in concept,” but the framework was incremental and dual-bilateral in fact.

Instead of addressing chronic problems like softwood lumber or sugar, the three

leaders tasked their Ministers to chair working groups with “stakeholders” and produce a report in 90 days – by June 23<sup>rd</sup> – with concrete steps to achieve measurable goals. The first question, of course, is why these security and competitiveness goals have not already been implemented since most of them have been declared often, and the security goals are, by and large, a part of the “smart borders” agreement. The answer is that our governments are not organized to address these questions on a trilateral basis, and so it should come as little surprise if the results are meager.

More importantly, compared to the agenda above, these steps are quite timid. The truth is that traffic has slowed at the border because of additional inspections, but it is not at all clear that the borders are more secure today than they were four years ago. The flow of unauthorized migrants is as high or higher. The Communique lacks a clear uplifting goal like a Customs Union. One cannot eliminate “rules-of-origin” provisions without a common external tariff, which the WTO equates with a “customs union.” Most important, there is no allusion to the paramount challenge of North America – the development gap that separates Mexico from its northern neighbors, and therefore, there is no proposal for dealing with that. There are no plans for dealing with education, energy, transportation, or establishing institutions that could prepare North American options or monitor progress. To move this agenda requires an organizing vision and political will.

There was a moment early in the Fox and Bush administrations when North American leaders appeared to grasp the essence of such a vision. In February 2001, Fox and Bush jointly endorsed the Guanajuato Proposal, which read, “**After consultation with our Canadian partners, we will strive to consolidate 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.**” Unfortunately, they never translated that sentiment into policy (with the exception of the symbolic but substantively trivial \$40 million Partnership for Prosperity).

All three governments share the blame for this failure. President Bush’s primary goal seemed at first to open the Mexican oil sector to U.S. investors, while then-Canadian Prime Minister Chrétien showed no interest in working with Mexico. President Fox, for his part, put forth too ambitious an agenda with too much emphasis on radical reform of U.S. immigration policy. Bush’s initial response was polite, but he soon realized he could not deliver and postponed consideration. The illegal immigration issue remains thorny and unsolved. Ultimately, however, it is **more symptom than cause: the way to reduce illegal immigration is to make Mexico’s economy grow faster than that of the U.S.**

The Council on Foreign Relations Task Force Report spells out such a vision. [http://www.cfr.org/pub8102/independent\\_task\\_force\\_report/building\\_a\\_north\\_american\\_community.php](http://www.cfr.org/pub8102/independent_task_force_report/building_a_north_american_community.php) Let me summarize and amplify some of its recommendations.

NAFTA has failed to create a partnership **because** North American governments have not changed the way they deal with one another. Dual bilateralism, driven by U.S.

power, continue to govern and irritate. Adding a third party to bilateral disputes vastly increases the chance that rules, not power, will resolve problems.

This trilateral approach should be institutionalized in a new North American Advisory Council. Unlike the sprawling and intrusive European Commission, the Commission or Council should be lean, independent, and advisory, composed of 15 distinguished individuals, 5 from each nation. Its principal purpose should be to prepare a North American agenda for leaders to consider at biannual summits and to monitor the implementation of the resulting agreements. It should be an advisor to the three leaders but also a public voice and symbol of North America. It should evaluate ways to facilitate economic integration, producing specific proposals on continental issues such as harmonizing environmental and labor standards and forging a competition policy.

The U.S. Congress should also merge the U.S.-Mexican and U.S.-Canadian interparliamentary groups into a single “North American Parliamentary Group.” A third institution should be a “Permanent Tribunal on Trade and Investment.” NAFTA established ad hoc dispute panels, but it has become difficult to find experts who do not have a conflict of interest to arbitrate conflicts. A permanent court would permit the accumulation of precedent and lay the groundwork for North American business law.

Canada and Mexico have long organized their governments to give priority to their bilateral relationships with the United States. Washington alone is poorly organized to address North American issues. To balance U.S. domestic interests with those in the continent, President Bush should appoint a White House adviser for North American affairs. Such a figure would chair a cabinet-level interagency task force on North America. No president can forge a coherent U.S. policy toward North America without such a wholesale reorganization.

For North America’s second decade, there is no higher priority than reducing the economic divide between Mexico and the rest of NAFTA. A true community or even a partnership is simply not possible when the people of one nation earn, on average, one-sixth as much as do people across the border. Mexico’s underdevelopment is a threat to its stability, to its neighbors, and to the future of integration.

Europe demonstrated that the gap could be narrowed significantly in a relatively short period with good policies and significant aid. The Council Task Force proposed serious reforms by Mexico coupled with a North American Investment Fund, which was also proposed by Senator John Cornyn. This is a far-sighted initiative that deserves the support of this Committee and Congress. I have written a report explaining the need for such a Fund and the way it could work. (See [www.american.edu/cnas/publications](http://www.american.edu/cnas/publications))

North American governments can learn from the EU’s efforts to establish EU Educational and Research Centers in the United States. Centers for North American Studies in the United States, Canada, and Mexico would help people in all three countries to understand the problems and the potential of an integrated North America—and to think of themselves as North Americans. Scholarships should encourage North American

students to study in each other's country. Until a new consciousness of North America's promise takes root, many of these proposals will remain impractical.

### **The Travel Initiative, the Integration Dilemma, and the Security Perimeter**

September 11 and the subsequent U.S. response highlighted a basic dilemma of integration: how to facilitate legitimate flows of people and goods while stopping terrorists and smugglers. When Washington virtually sealed its borders after the attacks, trucks on the Canadian side backed up 22 miles. Companies that relied on "just-in-time" production began to close their plants. The new strategy—exemplified by the "smart" border agreements concentrates inspections on high-risk traffic while using better technology to expedite the transit of low-risk goods and people. The decision to require passports to re-enter the United States after brief visits to Canada and Mexico is another example of an approach that is too narrow to solve so fundamental a problem.

Overcoming the tension between security and trade requires a bolder and more innovative approach. The three governments should negotiate and complete within five years a North American customs union with a common external tariff (CET). This would have a dual purpose. It would enhance the security on the border because guards could concentrate on terrorism rather than inspection of all the goods, and by eliminating cumbersome rules-of-origin provisions (which deny non-NAFTA products the same easy access), it would enhance efficiency and reduce the costs of trade.

**At the same time, our Task Force recommends that all three governments define and defend a continental perimeter.** This means that all three governments have to have confidence that a terrorist has no more chance of entering their own country as their neighbors. A common exclusion list, better intelligence-sharing, and combined training are needed. The three governments should establish a "North American Customs and Immigration Force," composed of officials trained together in a single professional school, and they should fashion procedures to streamline border-crossing documentation. The Department of Homeland Security should expand its mission to include continental security—a shift best achieved by incorporating Mexican and Canadian perspectives and personnel into its design and operation.

Instead of creating new obstacles at the border, we should find ways to ease traffic and harmonize safety and transportation regulations. As a May 2000 report by a member of Canada's Parliament concluded, "Crossing the border has actually gotten more difficult ... While continental trade has skyrocketed, the physical infrastructure enabling the movement of these goods has not." The bureaucratic barriers to cross-border business impede as much as the infrastructural problems. There are 64 different sets of safety regulations in North America, 51 in the United States.

The North American Council should develop an integrated continental plan for transportation and infrastructure that includes new North American highways and high-speed rail corridors. The United States and Canada should each develop national

standards on weight, safety, and configuration of trucking and then negotiate with Mexico to establish a single set of standards.

In addition, the United States and Canada should begin to merge immigration and refugee policies. It will be impossible to include Mexico in this process until the development gap is narrowed. In the meantime, the three governments should work to develop a North American Border Pass with biometric identifiers. This would permit expedited passage through customs, immigration, and airport security throughout the region. The program should build upon and unify the existing NEXUS (US-Canadian) and SENTRI (US-Mexican) programs. Only those who voluntarily seek, receive, and pay the costs for a security clearance would obtain a Border Pass, which would be accepted at all border points within North America as a complement to passports.

These are alternatives to the Western Hemisphere Initiative. It is true that we have not done a good job of keeping track of people crossing the border, and the passage of the Real ID Act shows that there is a growing and grudging recognition that some form of National Identification Card may be needed. Congress really ought to address this issue head-on. We should not use the driver's license, the social security card, the medicare card, or our credit cards for anything other than the purpose for which they are intended. These cards are not intended to judge immigration status or citizenship. We will not only fail if we use them for that purpose; we will also undermine their real purpose. We don't want to discourage people from getting tested to drive because they fear that their status will be questioned.

Similarly, compelling Minnesotans to get passports to cross the border into Canada for a Sunday afternoon picnic is not the best way to approach the border security issue. What we need is a new approach to jointly police the perimeter, a North American border pass to facilitate travel, and a Customs Union to allow inspectors to concentrate on terrorists rather than tariffs on goods.

### **Defining A North American Community**

North Americans are ready for a new relationship. Studies over the past 20 years have shown a convergence of values, on personal and family issues as well as on public policy. An October 2003 poll taken in all three countries by Ekos, a Canadian firm, found that a clear majority believes that a North American economic union will be established in the next ten years. The same survey found an overwhelming majority in favor of more integrated North American policies on the environment, transportation, and defense and a more modest majority in favor of common energy and banking policies. And 75 percent of people in the United States and Canada, and two-thirds of Mexicans, support the development of a North American security perimeter. The U.S., Mexican, and Canadian governments remain zealous defenders of an outdated conception of sovereignty even though their citizens are ready for a new approach. Each nation's leadership has stressed differences rather than common interests. North America needs leaders who can articulate and pursue a broader vision.

I hope this Committee will pursue the North American agenda beyond the travel initiative considered here. On June 23<sup>rd</sup>, the three leaders promised to publish a report with specific recommendations on how to deepen North American integration. These should be reviewed together with Senator Richard Lugar's far-sighted bill for a "North American Cooperative Security Act" and Senator Cornyn's "North American Investment Fund." The time has come for us to define a true North American Community. Our security and prosperity depend on it.

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