Obstacles To The European Integration Model For North America

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When Vicente Fox took office, he promoted the idea of a deeper integration of North America including not only the free circulation of goods, service and capital, but also labor. He proposed establishing a development fund, equivalent to the European cohesion funds, to invest, among other things, in infrastructure corridors throughout the region. For Fox, then, the European Union process of integration was the model to follow in North America. It facilitated dealing with the problem of the great asymmetries between Mexico and its two northern neighbors, sharpened by the North American Free Trade Agreement (NAFTA).

Up until now, Fox's proposal, known as NAFTA Plus, has met with little success in Canada and the United States. The experts say this is to a great extent because of the events of September 11, 2001. However, I will attempt to demonstrate that in addition to the atmosphere created after 9/11, there are structural, economic, geo-political and socio-cultural factors that

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block the way for implementing the European integration model in North America. Specifically, I am interested in exploring the obstacles in the United States to creating supranational institutions and adopting mechanisms to correct the inequality among the countries of North America.

A first very general answer is linked to the economic asymmetry among the partners in integration, which is much greater in North America than in Europe when it began its process (see graph). On the one hand, this asymmetry inhibits the creation of mechanisms to correct inequality because that would imply the flow of resources from the more developed to the less developed countries.[1] On the other hand, it also determines that these countries prefer a pragmatic association with a minimal number of institutions.

We might think that this asymmetry creates incentives for developing institutions in North America that favor the powerful. This is the case first of all because institutions contribute to resolving difficulties of collective action by reducing both problems of compliance and transaction costs that prevent the political exchange from being efficient and mutually beneficial. In the second place, the most powerful state sees in institutions an opportunity to lock in the behavior of the less powerful states, since it avoids the cost of continually using its power to force others to act in the way it prefers and, in contrast, restricting the arbitrary, indiscriminate exercise of its power. Thus, international institutions correct the asymmetry of power.[2] This explains why, as a super-power, the United States was the great promotor of the multilateral institutional framework that emerged after World War II.

Naturally, this does not mean that it succumbed to using its unilateral power. Historically, it has been ambivalent toward international institutions and rules: it participates actively in those that it dominates and evades or resists those that it cannot control.

This ambivalence also grows out of historical and socio-cultural factors. The combination of several issues linked to U.S. "exceptionalism" gives its political class's actions, particularly those of Congress, a negative bias *vis-à-vis* international institutions, especially if they are supranational.

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An absolute, irrational adherence to seventeenth- and eighteenth-century liberal ideology makes the U.S. experience differ substantially from that of other Western countries. The lack of a strong, centralized state, such as existed in Europe, meant that in the United States the state was perceived as the only threat to the individual. Therefore, individual liberty became the fundamental political value.[3] This liberal absolutism created an American ideology, and those who question these minimum, fundamental values are considered anti-American. Anti-statism, then, made law the only sovereign, giving rise to a legalist, litigious culture.

We should add the profound "patriotism" of U.S. society, partially derived from popular pride in the unique, morally superior values of the first "new nation," and partially from a populist trait of U.S. liberal ideology arising out of the belief that sovereignty resides in the people. This explains why Congress, as an expression of that sovereignty, plays a fundamental role in designing U.S. international policy. The design and implementation of that policy is based on local concerns and interests;[4] this is the basis for its refusal to accept the jurisdiction of the International Criminal Court and even of the difficulty in approving the establishment of the World Trade Organization.

One solution of the U.S. dilemma vis-à-vis international institutions has been the search for an international order with low costs in terms of limiting U.S. political sovereignty. From 1945 on, it promoted an "automatic" international order that would emerge from the dissemination of free trade and would require only minimal direct intervention by the United States. An open world economy would, in turn, lead to a liberal international order in which the U.S. would not have to compromise its political autonomy.[5] For example, the General Agreement on Tariffs and Trade (GATT) established a minimal bureaucracy that disseminated U.S. values and interests without it having to pay the costs in terms of its sovereignty. This trade regimen had broad support from both the public and Congress as a driving force for economic growth and a key to prosperity. The United States promoted a similar focus in NAFTA.

With NAFTA, it fostered an institutional framework based on a legalist *laissez-faire*, leaving very little room for future interpretation or practically any delegation of sovereign authority to inter-governmental bodies or, of course, supranational ones.[6] In fact, with the exception of the supranational mechanism for protecting investors, the dispute resolution procedures, particularly with regard to the application of policies of jurisdiction, are "review" mechanisms for the rules that operate domestically in the countries of North America. In accordance with this perspective, the United States achieved its goals in NAFTA (regarding access to its partners' markets, guarantees for its investors, the political and economic stabilization of Mexico and pushing forward multilateral trade negotiations that were stymied at the time NAFTA was negotiated) without having to invest in strong North American institutions. The supranationality of Chapter 11 was seen as a mechanism that was of interest to the United States since its aim was to discipline the Mexican government *vis-à-vis* U.S. investors.

Canada and Mexico also favored NAFTA's minimum institutional structure because they thus avoided supranational institutions that could end up dominated by the United States. They preferred to reduce uncertainty as well as the indiscriminate use of their powerful neighbor's unilateral might through a regimen in which there was little room for interpretation.

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Historically, the U.S. elites and public have supported capitalist values and the pre-eminence of the market and have not felt the need to "manage" capitalism like in the European case.[7] "Individualism in a growing economy fostered the belief that the U.S. was a land of opportunity, based on meritocracy rather than privilege....The belief in individual opportunity and limited government has meant that there has been much less support for welfare and redistributive policies than is typically found in Europe. There is a strong commitment to equal opportunity, but this is to be in the competition of a *laissez-faire* economy, and not via strong government."[8]

In general, in the United States there is less support for redistributive measures and greater enthusiasm for actions that promote equal opportunity than among Europeans.[9] As Lipset has noted, the United States continues to be the exception among developed countries in the scant support it gives to welfare, housing and public health services. As a result, despite being the richest country in the world, the proportion of its population that lives in poverty is the highest of all the developed countries.[10]

The NADBank is a clear example of the predominance of the market, even in matters related to economic devel-

ASYMMETRIES IN NORTH AMERICA

	GROSS DOMESTIC PRODUCT	POPULATION	TRADE WITH NORTH AMERICA
	% OF NORTH AMERICAN TOTAL	% OF NORTH AMERICAN TOTAL	% OF TOTAL EXPORTS
United States	85.3%	68.07%	37.3%
Canada	7.4%	7.6%	80.2%
Mexico	7.3%	24.4%	90.5%
Absolute total North America	**U.S.$ 12.89 trillion**	**430 million**	**U.S.$626.99 billion**

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opment. In the last phases of the negotiations between President William Clinton and Congress for approval of NAFTA, Esteban Torres, Democratic congressman for California, demanded the creation of a development bank to invest in environmental infrastructure on the Mexico-U.S. border as a condition to vote for the treaty. The original proposal consisted of creating a bank with U.S.$1 billion in capital that could generate U.S.$15 billion for projects favoring social integration. The European model was the inspiration for the bank's design, which should offer guarantees and low interest rates for environmental projects, infrastructure that benefited trade and social development and promoted growing businesses.[11] But the bank ended up having much less capital and a much more limited mandate than the original design called for. Its mandate was restricted to financing environmental infrastructure and making loans at market rates that are not accessible in Mexico and are not very competitive in the United States.[12] The market focus has prevailed even in the reforms to the bank's mandate, which were proposed and designed as a response to Vicente Fox's North American initiative.

Another example is the Society for Prosperity, a Mexico-U.S. program launched in March 2002 to foster development in low growth regions of Mexico that expelled large numbers of emigrants. The ultimate aim is to improve productivity.[13] The plan's goal is to promote investment and experience of the private sector in a series of activities like small and medium-sized companies, housing, agriculture and infrastructure in roads, airports, ports and technological information. As President Bush himself pointed out at a meeting of the Inter-American Development Bank, most of the money for development does not come from aid, but from domestic and foreign direct investment and especially from trade.[14]

The NAFTA experience itself teaches us that, despite this ambivalence vis-à-vis international institutions, the United States is also willing to adopt even supranational elements fundamentally for reasons of domestic politics. For example, the NAFTA environmental side-bar agreement implied the creation of the only trilateral institution, the North American Environmental Cooperation Commission, which, while it does not have broad supranational powers, does establish "independent" functions for its secretariat as well as the bodies that represent the interests of U.S. environmental organizations (particularly the Joint Public Advisory Committee).

The negotiation of parallel agreements on the environment and labor cooperation resulted from the political moment that forced NAFTA proponents who wanted it strictly as a trade and investment agreement to accept the demands of groups very close to the Democratic Party, notably the unions, who opposed the treaty's not including guarantees of labor and environmental standards.[15] These groups even proposed a social charter that would have made the process of economic integration in North America more like the European one. The Mexican government, business sectors on both sides of the border and the conservative components of the Republican Party opposed including other aspects that were not strictly economic, since they thought they were a pretext for introducing protectionist measures.[16] But, the election of William Clinton, who had promised during his campaign to review NAFTA to ensure that it protected environmental and union interests, forced Mexico and Canada to accept the imposition of parallel agreements in order to get NAFTA through the U.S. Congress.

The passionate debate about NAFTA galvanized an anti-free-trade coalition that included groups from both the extreme left and the extreme right concerned about the negative impact of free trade with Mexico. Thus, the historic bipartisan, inter-institutional consensus between Congress and the White House about promoting free trade in the world was broken. The battle for NAFTA was won, but the war for free trade was lost.

Polarization inside the United States was so great that for eight years, President Clinton was denied the extension of fast track authority. While President George W. Bush obtained congressional approval for trade promotion authority (TPA, previously known as fast track), he won it by only one vote (215 to 214: 21 Democrats out of 211 and 194 Republicans out of 221). He won it in exchange for substantial support for the steel industry and agriculture, as well as environmental and labor regulations that will have to be introduced in the texts of trade agreements. Thus, even with TPA, a consensus around U.S. foreign trade policy has still not been reconstructed, after it had existed for decades, making it possible to promote free trade throughout the world. In a context in which the popular perception of NAFTA and free trade in general is negative, the powerful private sector coalition that supported and made the approval of NAFTA possible has not been reconstructed.

In this polarized context, it is difficult to predict the acceptance of broad initiatives that would mean the negotiation of more formal institutional arrangements with Mexico and Canada. A strictly economic integration that deepened the NAFTA model in North America would meet with opposition of unions and environmentalist groups and, therefore, of a majority of Democrats. The Republicans, meanwhile, would oppose any form of integration that would favor more the interests of groups fighting for introducing social rights in new institutional structures in North America. But even if these obstacles were overcome, it is to be expected that the United States' pragmatic viewpoint and preferences about integration, particularly with regard to how to deal with problems of inequality, will persist. VM

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NOTES

[1] Robert Pastor, *Toward a North American Community. Lessons from the Old World for the New* (Washington, D.C.: Institute for International Economics, 2001), pp. 36-39.

[2] G. John Ikenberry, "State Power and the Institutional Bargain: America's Ambivalent Economic and Security Multilateralism," Rosemary Foot, S. Neil MacFarlane and Michael Mastanduno, eds., *U.S. Hegemony and International Organizations* (Oxford: Oxford University Press, 2003), pp. 69-70.

[3] Louis Hartz, *The Liberal Tradition in America* (San Diego: A Harvest Book, 1955), p. 43; Samuel Huntington, "American Ideas versus American Institutions," G. John Ikenberry, ed., *American Foreign Policy* (New York: Longman, 1999), pp. 222-231; Seymour Martin Lipset, *El excepcionalismo norteamericano. Una espada de dos filos* (Mexico City: Fondo de Cultura Económica, 1996), pp. 33-149.

[4] Robert Pastor, op. cit., p. 149.

[5] Judith Goldstein, "Ideas, Institutions and American Trade Policy," G. John Ikenberry, David Lake and Michael Mastanduno, eds., *The State and American Foreign Economic Policy* (Ithaca, N.Y.: Cornell University Press, 1988), pp. 179-216.

[6] Robert Pastor, op. cit., p. 30, and Louis Belanger and Gordon Mace, "What Institutional Design for North America?" Sidney Weintraub, Alan M. Rugman and Gavin Boyd, eds., *Free Trade in the Americas. Economic and Political Issues for Governments and Firms* (Cheltenham, United Kingdom and Northampton, Mass: Edward Elgar Publishing, 2004), p. 115.

[7] Kevin Featherstone and Roy H. Ginsberg, *The United States and the European Union in the 1990s. Partners in Transition* (New York: St. Martin's Press, 1996), p. 208.

[8] Ibid.

[9] Ibid., p. 210, and Derek Bok, *State of the Nation* (Cambridge, Mass.: Harvard University Press, 1998), p. 157, quoted by Pastor, op. cit., footnote 25, p. 35.

[10] Seymour Martin Lipset, *Continental Divide: The Values and Institutions of the United States and Canada* (New York: Routledge, 1990), p. 39.

[11] Albert Fishlow, Shwerman Robinson and Raúl Hinojosa-Ojeda, "Proposal for a North American Regional Development Bank," prepared for the conference organized by the Federal Reserve Bank of Dallas in Dallas, Texas, June 14, 1991.

[12] The bank also manages the non-refundable resources of the Environmental Protection Agency for the border (the Border Environmental Infrastructure Fund [BEIF]), oriented to technical assistance, institutional strengthening and training. Thus, of a total of U.S.$1.143 billion invested in 43 projects by 2002, the bank has only loaned U.S.$24 million and administered U.S.$355 million of the BEIF fund.

[13] The White House, *Fact Sheet*, March 22, 2002.

[14] Office of the Press Secretary, "U.S.-Mexico Partnership for Prosperity," *Fact Sheet* (Washington, D.C.: March 22, 2002).

[15] I.M. Destler, *American Trade Politics* (Washington, D.C.: Institute for International Economics and Twentieth Century Fund, 1997), pp. 199-200.

[16] Ibid., p. 222, and Frederick Mayer, *Interpreting NAFTA: The Science and Art of Political Analysis* (New York: Columbia University Press, 1998).