North American Integration In Times of Economic Crisis

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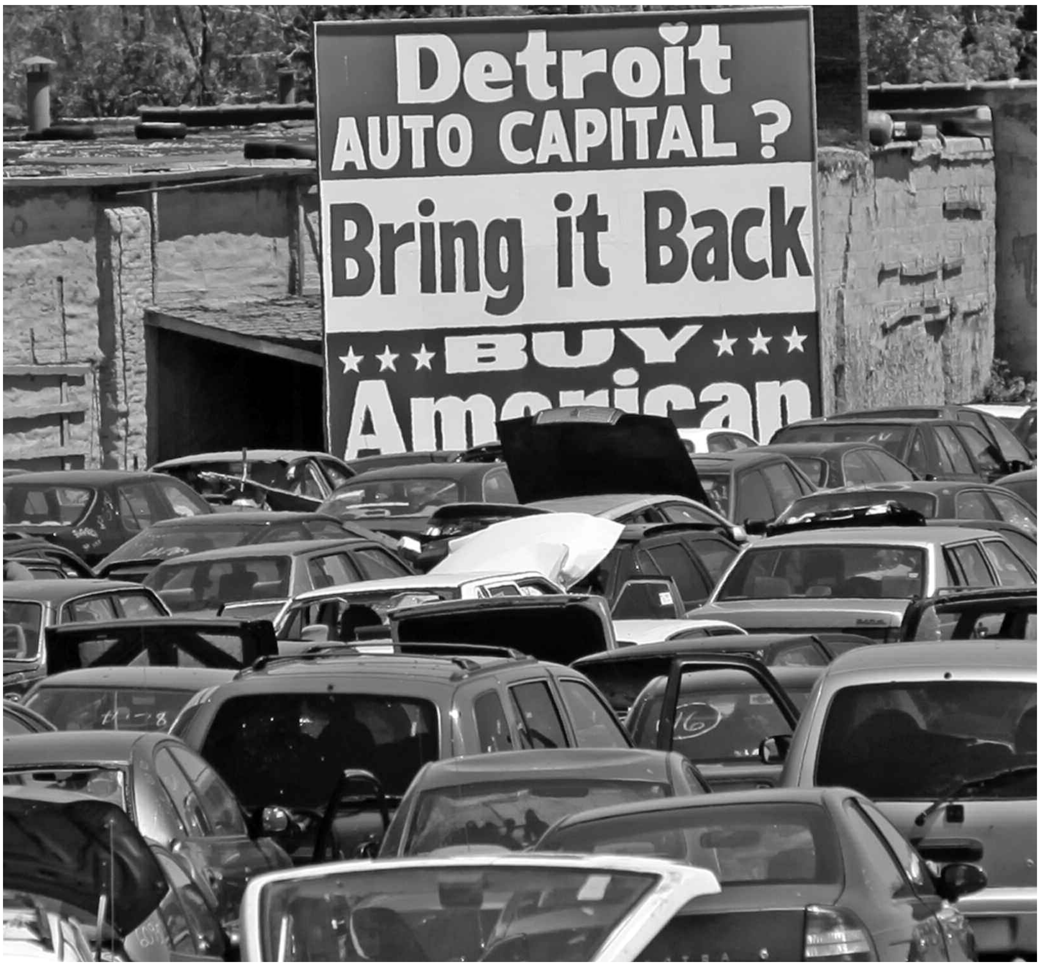

Rebecca Cook/REUTERS

The "Buy American" clause can hardly be considered in keeping with the spirit of NAFTA.

Traditionally, the notion of economic crisis has been linked to the success or failure of regional integration experiences. In the Latin American case, for example, economic conditions during crises have been an obstacle to the advancement and even the existence of regional agreements. This is what happened during the 1980s with the so-called "debt crisis," which stymied many of the region's integration projects. Elsewhere, such as in the European Union during the 1973 oil crisis, economic downturns contributed visibly to the stagnation of the community's integration until well into the 1980s.

But it has also been during economic emergencies that countries have fostered new forms of economic cooperation or integration: this is what happened in the late 1990s with the emergence of ASEAN+3 in southern Asia, whose aim was to achieve financial stability after the severe crisis that hit the region in 1997. Certainly, economic crises have accompanied regional integration processes since the second half of

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the twentieth century, affecting their economic performance, delaying their consolidation or, to the contrary, opening the doors for cooperation among governments.

In this context, North America has not been exempt from periods of economic crisis that have revealed the capabilities and limitations of the process of integration itself. We should remember, for example, the financial crisis that hit Mexico in 1995 that required a U.S. government bail-out package, or the region's loss of competitiveness due to the 2001-2002 U.S. recession, just to mention two experiences prior to the current crisis that has seriously affected the region.

Though economic turbulence seems to have direct repercussions on performance in integration processes, we should ask ourselves how these economic difficulties have impacted the course of integration in the North American case. This is particularly true today, when ostensibly the crisis has affected the three countries, prompting their governments to concentrate on national priorities instead of the regional agenda, because the way countries assume the costs and leadership in the face of these kinds of events seems to be a decisive factor.

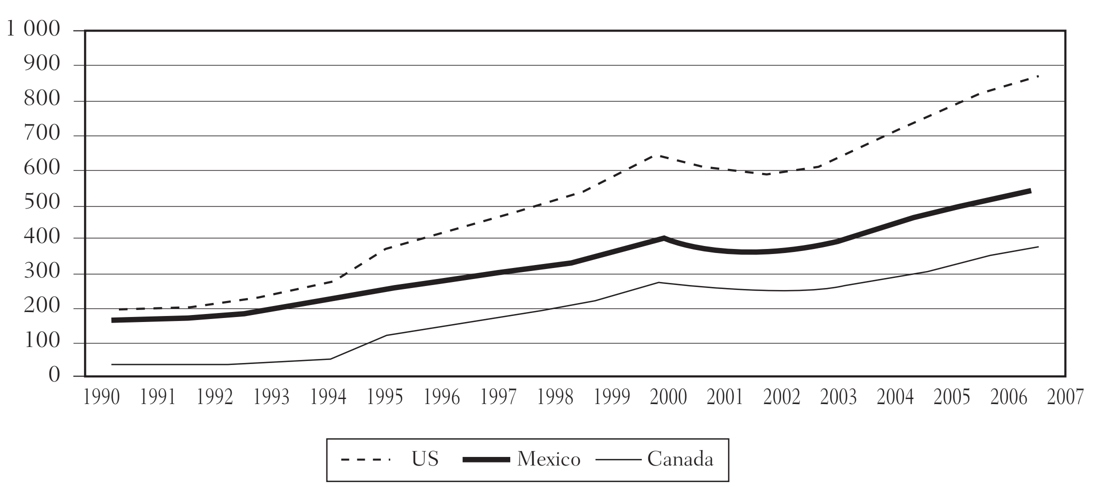
THE IMPACT OF ECONOMIC CRISES ON NORTH AMERICA

As a region, North America has been affected by three important economic crises: Mexico's 1995 financial crisis; the 2001-2002 U.S. recession; and the current international crisis that began in the second half of 2008. Naturally, each of them had different causes and effects for integration.

Mexico's financial crisis broke out in late 1994, during the first year the North American Free Trade Agreement was in operation. Naturally, this affected the Mexican economy considerably, but, given the magnitude of the impact on Mexico and the pressure and instability of financial markets, in January 1995, President William Clinton decided to offer Mexico a credit package for a little over US$50 billion, which included US$20 billion from the Exchange Rate Stabilization Fund.

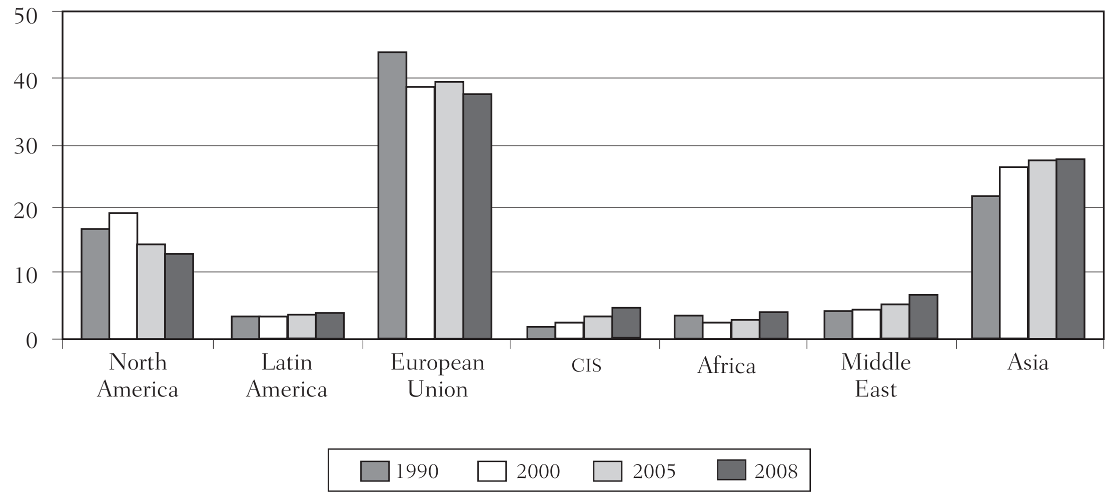
Because of the two economies' interdependence even before NAFTA came into effect, the financial bail-out had several aims: to contribute to the Mexican economy's recovery and the stability of the U.S. financial system itself, as well as to avoid the situation's undermining U.S. world leadership.[1]

GRAPH 1
TOTAL TRADE AMONG NAFTA PARTNERS (1990-2007)
(MILLIONS OF DOLLARS)



Source: U.S. Department of Commerce (Census Bureau), Statistics Canada and Mexico's Ministry of the Economy.

GRAPH 2
REGIONAL PARTICIPATION IN WORLD EXPORTS
1990-2008



Source: WTO, International Trade Statistics, 2006 and World Trade Report, 2009.

The Mexican economy's swift recovery in 1996 coincided with an expansion of the U.S. economy. This is why trilateral trade increased exponentially until 2000, positioning North America as a highly competitive region internationally.

In contrast with the 1995 Mexican crisis's effects on the region, the U.S. economy's 2001 recession brought a qualitative decrease in regional trade and, of course, also for each NAFTA economy. Regionally, for example, the impetus of the agreement's first years contrasted with the 2001 and 2002 drop in exports *vis-à-vis* their main competitors. Even though improvements were visible by 2005, in that same year the region's exports represented 14.5 percent of the world total, while in 2000, they had been 19.5 percent. Of course, the three countries also experienced a considerable decline in their intra-regional exports, as graph 1 shows.[2]

The 2001 U.S. recession clearly showed that one of the direct results of an economic crisis on a region's performance is precisely a decline in trade, particularly when this affects or originates in the dominant economy the other economies are closely linked to. Here, it should be pointed out, however, that, in addition to the economy as a precondition for integration, other factors determine its progress, like governments' willingness to move ahead toward new stages of cooperation, as will be better explained in the next section.

THE CURRENT ECONOMIC CRISIS AND THE REGION'S FUTURE

As everyone knows, the aftershocks of the failure of one of the United States' most important banking institutions, Lehman Brothers, in September 2008, have been highly damaging not only for the U.S. economy but also for the international financial system and the dynamics of world trade. Consequently, the economic performance of the United States' main trade partners —with Mexico and Canada high on the list— has been seriously affected. Suffice it to mention the negative growth in the last months of 2008 and the first half of 2009 and the jump in unemployment in the three countries.

But this sluggish performance by all three countries' economies should be placed in a much broader context. In the first place, we should point out that in an integration process like North America's, the role of the hegemonic country is vitally important. This is particularly the case when there is no nucleus of institutions capable of dealing with the consequences of intergovernmental or supranational interdependence; and even if such a nucleus existed, individually, the countries have to deal with events with their own resources.

In the region, the centrality of the United States is indisputable. This was shown in 1995 when it aided the Mexican

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government to extricate itself from the financial crisis; without that bail-out, it would have affected the U.S. financial system and the beginnings of trade integration. For its part, the effects of the 2001 U.S. recession coincided with the other emergency that occupied all the Bush administration's attention: the 9/11 terrorist attacks. This led to the implementation of an anti-terrorist policy that became his administration's priority, imposing security as the cross-cutting theme for relations among Mexico, the United States and Canada, in order to guarantee compliance with domestic policy.

In North America, these emergency situations, whether economic or of other kinds, have had an important effect on the course and significance of trilateral integration. Since 2001, the regional integration project has been subject to putting domestic policy priorities ahead of regional ones. Graph 2 shows that, beginning in that same year, the economic crisis has caused a decrease in the region's international competitiveness, the leitmotif of NAFTA, something that could sharpen during the current financial crisis affecting all three countries. In 2008, North America's participation in world trade in goods did not grow even 2 percent, while imports dropped almost 3 percent.[3]

In this context, North America's performance as a region has been marked by the three countries' lack of interest in advancing the integration process to a new stage. They have concentrated on resolving domestic problems, although they have increased cooperation on important issues, as was seen recently in U.S.-Mexican cooperation on border security.

This disinterest was patently clear at the most recent North American Leaders' Summit hosted in Guadalajara last August. Without any major expectations for the region's future, the summit showed the three leaders' enthusiasm about the course the region should take. Protectionism seemed to hover in the air, however, with economic recovery contingency measures like the U.S. administration's implementation of a "Buy American" clause hardly in keeping with the spirit of NAFTA. In addition, in the framework of his programmatic foreign policy vision, Barack Obama has shown little interest in North America.[4] Rather, he has concentrated his efforts on resolving the conflicts in Iraq and Afghanistan and on redirecting the anti-terrorist policy.

It should be pointed out that the United States is not the only one that has pushed North America to the back burner as a regional project: the foreign policies of both Mexico and Canada have contributed little either. In the case of Mexico, it has paid little institutional attention to the matter, centering instead on questions like the Mérida Initiative; in Canada's case, the government has sought to consolidate its bilateral relations with the United States to the detriment of trilateralization.

Since the beginning of the decade, the integration of North America has been at an impasse; the actors have sought to overcome it through intergovernmental negotiation and dialogue that have set the pattern for integration through institutional mechanisms capable of controlling the three countries' domestic agendas. In today's times of economic crisis, it is to be expected that regional integration will slow, both because of the negative effects of the economic emergency and because of the United States' change of priorities. This will increasingly undermine North America's economic competitiveness and productivity *vis-à-vis* the European Union and Asia, which seem —particularly the latter— to be in better shape to get out of the pressing economic crisis and consolidate as central actors in the world trade regimen. VM

Notes

[1] Alicia Girón, Édgar Ortiz and Eugenia Correa, *Integración financiera y TLC. Retos y perspectivas* (Mexico City: Siglo XXI Editores, 1995), pp. 9-20.

[2] In 2000, for example, Mexico's trade with the United States reached a high of about US$273.79 billion; it was not until 2004 that that amount could be recovered with US$275.35 billion.

[3] WTO, *World Trade Report 2009,* available on line at http://www.wto.org/english/res_e/booksp_e/anrep_e/world_trade_report09_e.pdf.

[4] Last July 15, Secretary of State Hillary Clinton made a speech to the Council of Foreign Relations about President Obama's main foreign policy guidelines. The speech honed in on the priorities of nuclear disarmament, the fight against terrorism and violent extremism, peace in the Middle East, the recovery of the global economy, the fight against climate change, a clean-energy policy and the fight for human rights. Her only reference to the region was the acceptance of responsibility in the fight against drugs in the case of Mexico, but as part of the recognition of the U.S. government role in resolving transnational problems. Available on line at http://www.state.gov/secretary/rm/2009a/july/ 126071.htm.