A North American Community*

ROBERT A. PASTOR**

The North American Free Trade Agreement (NAFTA) came into effect on the first day of January 1994. If one judges a free trade area by the size of its output and territory, North America became the largest in the world, larger than the European Union. 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 (*The Economist*, 2003: 24). Within a decade, trade and investment among the three countries had nearly tripled, and North America had achieved a level of integration (defined as intra-regional trade as a percent of world trade) that approached Europe's (58 percent as compared to 61 percent). In other words, North America is no longer just a geographical expression. It has become a formidable, integrated region, comparable in some respects to the European Union.

And yet few in North America or outside view the region as anything more than three sovereign countries: a global superpower and two uncomfortable neighbors. It is not hard to explain this perception. The United States accounts for 85 percent of the region's gross output and a much higher percentage of the region's military power and reach. The other two countries of North America are very dependent on the United States economically, and partly because of that, have used their foreign policies to define their distance and separateness from it. NAFTA, which can be considered a kind of draft constitution for an emerging region, dismantled most trade and investment barriers and accelerated social and economic integration. That compelling fact and the security implications that flow from September 11 brought the leaders of the three North American countries together for a summit in

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** Director of the Center for Northamerican Studies, Vice President of International Affairs and professor of International Relations at the American University. E-mail: <rpastor@american.edu>.

Texas on March 23, 2005, where they proclaimed a new "Security and Prosperity Partnership", a framework of an agreement that is "trilateral in concept" but barren of vision and incremental and dual-bilateral in fact (White House Press Release, 2005).

In contrast, the Council on Foreign Relations sponsored a tri-national task force on the "future of North America", which, in an initial statement among the chairs of the group, proposed a community "based on the premise that each member benefits from its neighbor's success and is diminished by its problems" (Council on Foreign Relations Independent Task Force, 2005).

Let us first evaluate NAFTA and describe this emerging region. Then, we will draw lessons from Europe's experience and define the agenda that North America faces in its second decade. Finally, I will propose that the best approach to the new agenda is to forge a North American Community.

NAFTA AND NORTH AMERICA

From its onset, NAFTA was subjected to blistering criticism, often based on outlandish predictions. U.S. presidential candidate Ross Perot warned of a "giant sucking sound" –jobs leaving the United States for Mexico. Mexicans and Canadians, meanwhile, feared that their economies would be taken over by U.S. companies. Opponents predicted that free trade would erode environmental and labor standards in the United States and Canada.

Few of these prophecies were borne out. The United States experienced the largest job expansion in its history in the 1990s. Although both Mexico and Canada attracted considerable new U.S. investment (since NAFTA gave them privileged access to the U.S. market), the percentage of U.S.-owned companies in each country did not increase. (In fact, Canadian investment in the United States grew even faster than did U.S. investment in Canada.) In Mexico, income disparity did worsen, but only because those regions that do not trade with the United States grew much more slowly than those that do; the problem was not NAFTA, but its absence. Environmental standards in Mexico actually improved faster than those in Canada and the United States, and Mexico's 2000 election was universally hailed as free and fair. And although Mexico and Canada became more dependent on the U.S. market, as opponents of integration warned, the reverse also happened: U.S. trade with its neighbors grew roughly twice as fast as did its trade with the rest of the world. By 2000, in fact, 36 percent of all U.S. energy imports came from its most important trading partners –Canada and Mexico– and exports to its neighbors were 350 per-

cent greater than exports to Japan and China and 75 percent greater than exports to the European Union.

So much has been attributed to NAFTA that it is easy to forget that it was simply an agreement to dismantle most restrictions on trade and investment over the course of ten years. With a few notable exceptions –such as trucking, softwood, lumber, and sugar– where U.S. economic interests have prevented compliance, the agreement largely succeeded in what it was intended to do: barriers were eliminated, and trade and investment soared.

In the eleven years since NAFTA came into effect, U.S. trade (exports and imports) more than doubled with its two neighbors –from $337 billion in 1993 to $794 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 2000 alone, 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 22 million people of Mexican origin in the United States, about 5 million of whom were undocumented workers. Nearly two-thirds of these have arrived in the last two decades.

North America is larger than Europe in population and territory, and its gross product of $11.7 trillion 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). As in the auto industry –which makes up nearly 40 percent of North American trade– much of this exchange is either intraindustry or intrafirm. Both industries and companies have become truly North American.

But although NAFTA has successfully increased trade and investment, it has failed to confront some of the major challenges of integration. This failure has not only harmed the three countries, it has also seriously undermined support for the agreement, thus preventing North America from seizing opportunities for further progress.

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 success: it failed to make any plans to improve roads and infrastructure to cope with increased traffic. The resulting delays have raised the transaction costs of regional trade more than the elimination of tariffs has 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 10 million (55 percent of whom 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 made no attempt to coordinate macroeconomic policy, leaving North American governments with no way to prevent market catastrophes such as 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.

OLD LESSONS FROM NEW EUROPE

The thread that connects these failures is the lack of true trilateral cooperation. Integration has usually taken the form of dual bilateralism –U.S.-Mexican and U.S.-Canadian– rather than a continental approach –whether a community or a partnership. The negotiation of "smart" border agreements after September 11 was a good example: instead of creating a uniform North American standard, Washington signed separate but almost identical agreements with its neighbors.

The failure to construct multilateral institutions has been largely deliberate. Canada believes that it can extract a better deal from the United States when acting alone (a claim for which there is little, if no evidence). And because Washington is not in a multilateral mood these days, Mexico has been the lone advocate of trilateral cooperation. Successful integration, however, requires a new mode of governance in North America, based on rules and reciprocity.

The European experience with integration has much to teach North American policymakers, provided one understands the clear differences between the European and North American models. European unity grew out of two cataclysmic wars, and its principal members are comparable in terms of both population and power. The per capita GDP gap between the wealthiest and the poorest nations of North America (the U.S. and Mexico) was roughly twice as wide in 2002 as between the wealthiest and poorest nations of the European Union (Denmark and Portugal).[1] North America's model has a single dominant state and has always been more market-driven, more resistant to bureaucracy, and more deferential to national autonomy than Europe's; these elements will always distinguish the two. But

[1] For four tables and a discussion of the income gap within North America and between it and Europe, see Pastor, ed., 2005: 30-41.

despite these differences, 50 years of European integration should teach North American policymakers that they must address the failures and externalities of an integrating market –whether currency crises, environmental degradation, terrorist threats, infrastructural impediments, or development gaps.

There was a moment early in the Fox and Bush administrations when North American leaders appeared to accept this point. 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. Bush's primary goal was to open the Mexican oil sector to U.S. investors, while then-Canadian Prime Minister Chrétien showed no interest in working with Mexico. Fox, for his part, put forth too ambitious an agenda with too much emphasis on radical reform of U.S. immigration policy. His proposal called for raising the number of legal temporary workers and legalizing millions of undocumented ones. Bush's initial response was polite, but he soon realized he could not deliver and postponed consideration until his second term. The illegal immigration issue remains thorny and unsolved. Ultimately, however, it is more symptom than cause: the only way to reduce illegal immigration is to make Mexico's economy grow faster than that of the United States.

Mind the Gap

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.

The EU experience is instructive here as well. From 1986 to 2002, the per capita GDP of the EU's four poorest countries rose from 65 percent to 80 percent of the average for all member states, thanks to free trade, foreign investment, and a huge transfer of grants at a level that ranged from 2 to 4 percent of the recipient's GDP. Good policy on the part of aid recipients –and the fact that aid was conditioned on such policies– also made an important difference, as is evident from the spectacular growth of Ireland (from one of the poorer nations to one of the richer ones) and the

slower progress of Greece. Admittedly, not all EU aid money has been spent well, and North America can learn from the EU's failures as well as its successes. North America should avoid excessive bureaucracy and concentrate aid on areas such as infrastructure and postsecondary education, which had a strong multiplier effect on the rest of the European economy. The EU model is based on the "recognition that wide disparities are intolerable in a community, if the term has any meaning at all" (European Commission, 1996: 13). Beyond this premise, the EU demonstrated that growth in one country can benefit the others, and if the richer countries can limit the volatility of the poorer ones, all would benefit from that as well.

Mexico needs a new development strategy, partly financed by its North American partners. To reduce the development gap with the United States by 20 percent in the next ten years, Mexico will need to achieve an annual growth rate of 6 percent. At that rate, closing the gap entirely will take decades, but a sustainable strategy that results in small annual reductions will have an important economic and psychological effect. Such growth will require a new, labor-intensive strategy and significant public investment.

Although Mexico as a whole has benefited from NAFTA, free trade and increased foreign investment have skewed development and exacerbated inequalities within the country. Ninety percent of new investment has gone to just four states, three of them in the north. These border states have grown ten times as fast as states in Mexico's south and have become a magnet for migrants from those poor regions.

The border area would seem to have a disadvantage in attracting foreign investors: labor is three times as expensive as it is in the south, annual work force turn over is 100 percent, and congestion and pollution are chronic. But roads from the border to the south are in terrible shape, and other infrastructure is even worse. The World Bank estimates that Mexico needs to spend $20 billion per year for the next ten years to overcome this infrastructure deficit.

To correct this disparity, the three governments should establish a "North American Investment Fund" that would invest $200 billion in infrastructure over the next decade. Washington should provide $9 billion a year, and Canada $1 billion –but only on the condition that Mexico matches the total amount by gradually increasing tax revenues from 11 percent to 16 percent of its GDP. Fox has tried unsuccessfully to institute fiscal reform in the past, but the offer from Mexico's neighbors might help him or his successor persuade Mexico's Congress to accept this and other reforms.

The only way such a proposal becomes feasible is if all three governments decide to transcend traditional concerns about conditionality and sovereignty and forge a North American Community in which each of the states agrees to contribute

to a shared goal –in this case, the narrowing of the development gap between Mexico and its northern neighbors. Success is not possible unless all contribute and act in a respectful way that reinforces the right side of the debate in the other countries. For example, Mexico would be averse to undertaking tax, energy, and labor reforms if the United States was insisting on it, and the U.S. would not contribute to such a Fund unless Mexico demonstrated that it would make good use of the funds by undertaking the reforms. On the other hand, if Mexico decided to undertake the reforms because it understood that the reforms were in its own interest and that of the North American Community, and if the U.S. decided to support a fund because it recognized that it was in its own interest as well as that of a Community, then the idea begins to gain some traction.

While the U.S. contribution may seem large, it represents about one-fourth of Europe's aid to its poorest member states and only one-half of the amount of the Bush administration's aid to Iraq. The return on an investment in Mexico, more over, would benefit the U.S. economy more than any aid program in history. A new agency is not necessary: the World Bank should administer the funds. Ultimately, improved roads and infrastructure would attract investors to the center and south of the country, and income disparities and immigration would decline as a result. The reforms would also make Mexico more competitive with China.

North American Plans

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, continues to govern and to 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 Commission" or as the Council on Foreign Relations Task Force on the Future of North America recommends, a North American Advisory Council. Unlike the sprawling and intrusive European Commission, the Commission or Council should be lean and advisory, made up of just 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." This might encourage legislators to stop tossing invective across their borders and instead start bargaining to solve shared problems. A third institution should be a "Permanent Court on Trade and Investment." NAFTA established ad hoc dispute panels, but it has become increasingly 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. It would also prevent the erosion of environmental standards and make proceedings more transparent.

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. President Bush must take into account the extent to which the domestic interests of the United States collide with those of its neighbors by appointing a White House adviser for North American affairs. Such a figure would bridge national security, homeland security, and domestic policy councils and 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.

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" inventory systems began to close their plants. The new strategy –exemplified by the "smart" border agreements already in the works before September 11– is to concentrate inspections on high-risk traffic while using better technology to expedite the transit of low-risk goods and people. This approach, however, is too narrow to solve so fundamental a problem, and the establishment of the U.S. Department of Homeland Security unintentionally threatens integration as well.

Overcoming the tension between security and trade requires a bolder approach to continental integration. The three governments should pledge to 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 as 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, all three governments must also engage in defining and defending the 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.

Security obstacles, however, are only the beginning of North America's transportation problems. As a May 2000 report by a member of Canada's Parliament concluded, "Crossing the border has actually gotten more difficult over the past five years. [...] While continental trade has skyrocketed, the physical infrastructure enabling the movement of these goods has not." The bureaucratic barriers to cross-border business, meanwhile, make the infrastructural problems seem "minor in comparison." Washington has been criticized for imposing its own safety standards on Mexican trucks, but the truth is even more embarrassing: there are 64 different sets of safety regulations in North America, 51 of which are in the United States. A NAFTA subcommittee struggled to define a uniform standard and concluded that "there is no prospect" of doing so.

The North American Commission or 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 passport, available to a larger group of citizens with each successive year.

Finally, 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. Until a new consciousness of North America's promise takes root, many of these proposals will remain beyond the reach of policymakers.

Old Arguments, New Visions

Opponents of integration often attack such proposals as threats to national sovereignty. Sovereignty, however, is not a fixed concept. In the past, Canada used sovereignty to keep out U.S. oil companies, Mexico relied on it to bar international election monitors, and the United States invoked it as an excuse to privilege "states' rights" over human rights. In each case, sovereignty was used to defend bad policies. Countries benefited when they changed these policies, and evidence suggests that North Americans are ready for a new relationship that renders this old definition of sovereignty obsolete.

Studies over the past 20 years have shown a convergence of values, on personal and family issues as well as on public policy. Citizens of each nation tend to have very positive views of their neighbors, and there is modest net support for NAFTA. (There is also a neat consensus: each nation agrees that the other signatories have benefited more than it has.) Fifty-eight percent of Canadians and 69 percent of Americans feel a "strong" attachment to North America, and, more surprisingly, 34 percent of Mexicans consider themselves "North American." Some surveys even indicate that a majority of the public would be prepared to join a North American nation if they believed it would improve their standard of living without threatening their culture.

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.

North America's second decade poses a distinct challenge for each government. First, the Canadian prime minister, Paul Martin, should take the lead in replacing the dual bilateralism of the past with rule-based North American institutions. If he leads, Mexico will support him, and the United States will soon follow. Mexico, for its part, should demonstrate how it would use a North American Investment Fund to double its growth rate and begin closing the development gap.

Finally, the United States should redefine its leadership in the twenty-first century to inspire support rather than resentment and fear. If Washington can adjust its interests to align or, at least, take account of its neighbors, the world will look to the United States in a new way.

These three challenges constitute an agenda of the greatest consequence for North America in its second decade. A successful pursuit of the three challenges would produce a Community in spirit and substance as well as in word. It would not only energize the continent; it would infuse hope throughout the world.

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