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## SHOULD CANADA, MEXICO, AND THE UNITED STATES REPLACE TWO DYSFUNCTIONAL BILATERAL RELATIONSHIPS WITH A NORTH AMERICAN COMMUNITY?

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Christopher Columbus is usually credited with “discovering” North America even though he encountered people who had arrived thousands of years before. He mistakenly called them “Indians,” believing he had reached a continent that was on the other side of the world. By a divine twist of irony, the world mistakenly named the “new” continent after another Italian adventurer, Amerigo Vespucci, who arrived years after Columbus.

Five centuries later, North America was “rediscovered” and, as with the earlier discovery, this one contained an ironic twist. Canada, the last of the three countries of North America to seek independence, interrupted a discussion about free trade between Mexico and the United States in the Spring of 1990 and asked to be included. Both Mexico and the United States consented, and North America was “born again,” this time in the guise of a Free Trade Agreement (NAFTA). The agreement defined the boundaries of North America around three countries, and it provided the region with a first draft of an economic constitution. The irony is that Canada, which in a sense fathered the new North America, has shown little interest in its offspring.

Mexico, the weakest of the three partners, has been the boldest in proposing ways to deepen the relationship. The United States has been courteous but un-responsive to new ideas, and it has not complied with the NAFTA decisions opposed by its special interests. Canada has been dismissive of Mexico and trilateral proposals, continuously referring to “North America” in a way that omits Mexico. Embracing its so-called “special relationship” with the United States, Canada remains oblivious to the overwhelming evidence that its affection is reciprocated with nice words but not policy.

The result is that the noble experiment of North America that had soared in its first decade has been declining since then. Instead of forging a community of interests to make the continent more competitive and secure, instead of negotiating a customs union, regulatory harmonization, a single North American pass to transit both borders, a mechanism for reducing the income gap between Mexico and its northern neighbors, a North American Transportation and Infrastructure Plan, proposals for joint research and educational exchanges, a common policy on climate change and energy security, higher labour standards – instead of doing all of these initiatives, or for that matter, any of them, the three leaders

reverted to the dysfunctional dual-bilateral relationships – the U.S. and Canada and the U.S. and Mexico – that had characterized the pre-NAFTA era.

This paper will describe the rise and decline of North America and seek to explain the three puzzling contradictions of Mexican boldness, Canadian anti-multilateralism, and American passivity. Then, it will define a vision of North America, outline policies to implement it, and demonstrate why a trilateral approach to almost every issue on the continental agenda is more likely to succeed and be effective than bilateralism.

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## **The Rise and Decline of North America**

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The NAFTA generated a sunny set of hopes and a thunder storm of fears. Mexicans hoped that their country would rise to the first world; Canadians hoped that the agreement would compel the United States to stop imposing duties on soft-wood lumber and comply with dispute-settlement mechanisms; and the United States hoped that the NAFTA would put an end to undocumented migration from Mexico. Alas, none of the hopes came true.

Mexico and Canada feared that U.S. investors would purchase their country's assets, but despite substantial additional foreign investment in both countries, the percentage owned by U.S. firms declined. The United States feared that its jobs would march south to Mexico, but the greatest period of the NAFTA-promoted trade growth in the United States – 1993-2001 – coincided with the largest expansion in job-creation in the United States. Jobs were lost when the rate of trade growth declined. So the fears also didn't come true.

Leaving aside hopes and fears, if one judges the NAFTA by the specific goals written in the agreement, it was successful. The NAFTA aimed to dismantle trade and investment barriers, and it accomplished that. As a result, trade tripled, and foreign direct investment quintupled in North America since 1994. In an econometric analysis, World Bank economists estimated that by 2002, Mexico's GDP per capita was four to five percent higher, its exports 50% higher, and its foreign direct investment 40% higher than they would have been without the NAFTA.<sup>1</sup>

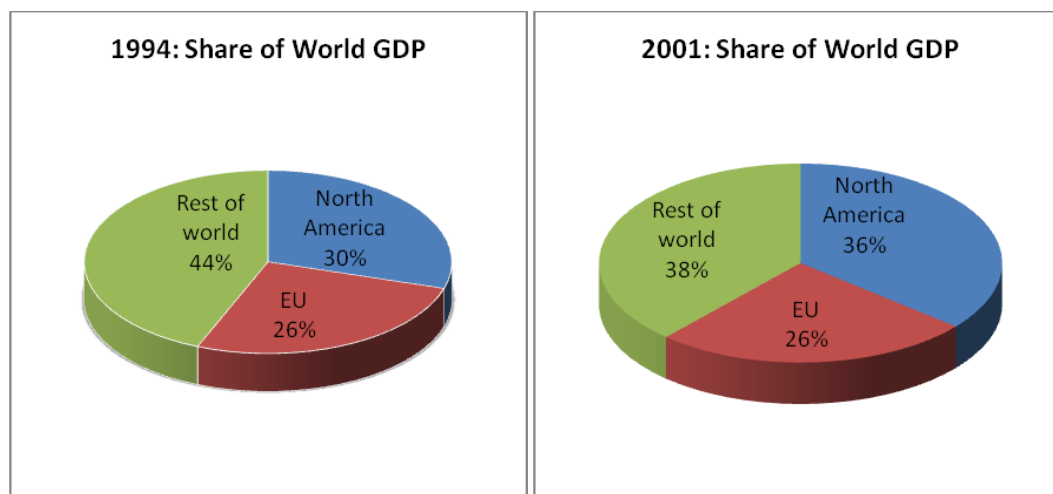
Because of the larger size of its economy, the United States has been less affected by the NAFTA. Still, the first seven years of the NAFTA – from 1994-2001 – were a period of trade expansion and unprecedented job creation in the United States. The NAFTA certainly does not deserve credit for all or even much of this job growth, but it surely cannot be blamed for serious job losses. If one focuses only on jobs, U.S. employment grew from 110 million jobs

in 1993 to 137 million in 2006; and in Canada, from 13 million to 16 million. And US manufacturing output increased by 63% between 1993 and 2006.

North America became the most formidable region in the world. From 1994-2001, North America's share of world gross product climbed from 30 to 36 percent, and intra-regional exports as a percentage of the region's exports to the world ascended to 56% – approaching the level in the EU after five decades of integration.

Another sign of an increasingly integrated region is the growth of foreign direct investment. Businesses in all three countries dramatically increased their investments in each other. From 1987 to 2005, U.S. foreign direct investment in Canada increased almost four times, from \$59.1 billion to \$234.8 billion; in Mexico, almost twelve times, from \$5.4 billion to \$71.4 billion. Canadian investment increased at a faster rate to both destinations – from \$24.7 billion to \$144 billion in the U.S., and from \$190 million to \$2.6 billion in Mexico. Finally, Mexico increased its foreign direct investment in the U.S. from \$180 million to \$8.7 billion, and from \$11 million to \$170 million in Canada.

**Figure 1. North America and the EU – A Comparison**



Source: UN Statistics Division, National Accounts Estimates.

The increasing cross-investment strengthened North American firms at a moment when regionalism was over-taking globalism. A study of 348 of the largest multinational corporations in the world found that almost none were truly global. Nearly half were North American with 75% of all their sales in North America. About one-third were based in Europe, and one-fifth in Asia. <sup>2</sup>

There were many other signs of increasing integration. Canada and Mexico became the first and second largest sources of

energy imports into the United States. Both tourists and immigrants moved across the borders in larger numbers. Approximately 385,000 American citizens live permanently in Mexico, representing probably the largest single body of Americans living abroad, and the largest number of foreigners in Mexico.<sup>3</sup> Canada sends more than one million tourists to Mexico each year, and about 50,000 have become semi-permanent residents in Mexico.

The most important wave of immigration in North America has come from Mexico to the United States. Nearly one-third (11.5 million) of the 35 million foreign-born legal residents are from Mexico, as are about 59% (7 million) of the 11.9 million people in the U.S. illegally.<sup>4</sup> Mexicans working in the United States returned about \$24 billion in remittances to their families in 2007 – the second largest source of foreign exchange.

The United States is the main foreign destination for Canadian and Mexican tourists, who represent more than half of all visitors to the United States in the past two decades. At the same time, more than half of all Americans who venture abroad go no further than to their neighbors. In 2007, 19 million Americans visited Mexico, and 13 million visited Canada. Nearly 18 million Canadians and 14 million Mexicans visited the United States.

In February 2001, President George W. Bush and Mexican President Vicente Fox, two pro-NAFTA former border governors, met at Fox's ranch in Guanajuato and approved a Communique proposing to consult with their Canadian counterpart to establish a North American economic community. Two months later, they traveled to Quebec City to speak with Canadian Prime Minister Jean Chretien. It seemed like the high point of North American integration, and it was. The meeting was one of a long series of pleasant, unproductive photo-opportunities. During his administration, President George W. Bush met with the Mexican President 18 times and the Canadian Prime Minister 21 times, and all three met 12 times. No U.S. President met with the leaders of Canada and Mexico more and yet accomplished less than George W. Bush.

In 2001, the rate of trade growth among the three countries began to slow, illegal migration began to soar; the income gap failed to narrow; Mexico's energy reserves declined; delays at the borders lengthened; drug-related violence worsened; and favorable opinion toward the other peoples deteriorated. The NAFTA was exhausted. If you assess progress by measuring the growth in trade, the reduction in wait times at the borders, and the public's support for integration, the period since 2001 was an unmitigated disaster.



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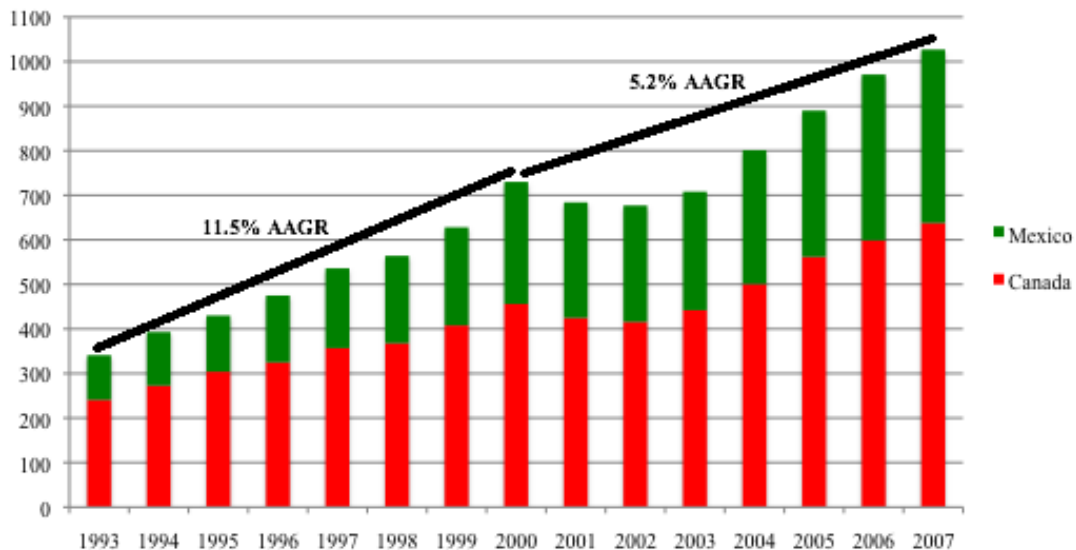
## Trade

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The growth in total trade since 2001 was less than one-half of what it was in the previous seven years – 5.2% vs. 11.5% in 2000. (See Figure 2, below.) It then leveled off and declined to 41% by 2007. (See Figure 3, below.)

What accounts for the slow-down? First, 9/11 had an immediate impact on trade, delaying trucks for days, and closing some plants. The longer-term consequences were much more serious. Security inspections became much more intense, and regulations and delays became much more costly. The border was transformed into giant speed bumps, slowing commerce, and up-ending a corporate strategy of “just-in-time” production that relied on small inventories and rapid shipment of parts across the border. That strategy had given North American firms a comparative advantage, but delays and threats to close the border changed that into a disadvantage.

**Figure 2. US Trade Among the NAFTA Partners, 1993-2007 (billions \$US)**



Note: AAGR is Annual Average Growth Rate.

Source: The NAFTA Office of Mexico in Canada, *Mexico-Canada Trade and Investment from Canada in Mexico*, [http://www.economia-snci.gob.mx/sic\\_php/pages/files\\_varios/pdfs/Can\\_Oct08.pdf](http://www.economia-snci.gob.mx/sic_php/pages/files_varios/pdfs/Can_Oct08.pdf)

The attack on 9/11 was a watershed event not just for geopolitics but for North America and its borders. Legal entries into the United States across the Canadian and Mexican border peaked in the year 2000 at 437 million, having gradually risen by 20 million people since 1992. From 9/11, entries declined consistently so that by 2008, it reached a level of 289 million, 33% below its peak of the year 2000. Equally important, the decline was equally steep on the northern Canadian border and the southern Mexican border. The cause of the decline was due to the “thickening” of the land borders because the number of entries by air and sea during this period stayed roughly constant.<sup>5</sup>

Second, although North American trade tripled, and 80% of those goods are transported on roads, there has been little investment in infrastructure on the borders and almost none for roads connecting the three countries. (A trivial percentage of the funds appropriated for the “stimulus” packages in all three countries will address this problem.) Thus, the delays are longer and more costly than before the NAFTA.

Third, trucks are still impeded from crossing the U.S.-Mexican border, and despite repeated promises by three Presidents to comply with the agreement to open the borders to safe Mexican trucks, the traffic on this bridge remains stalled.

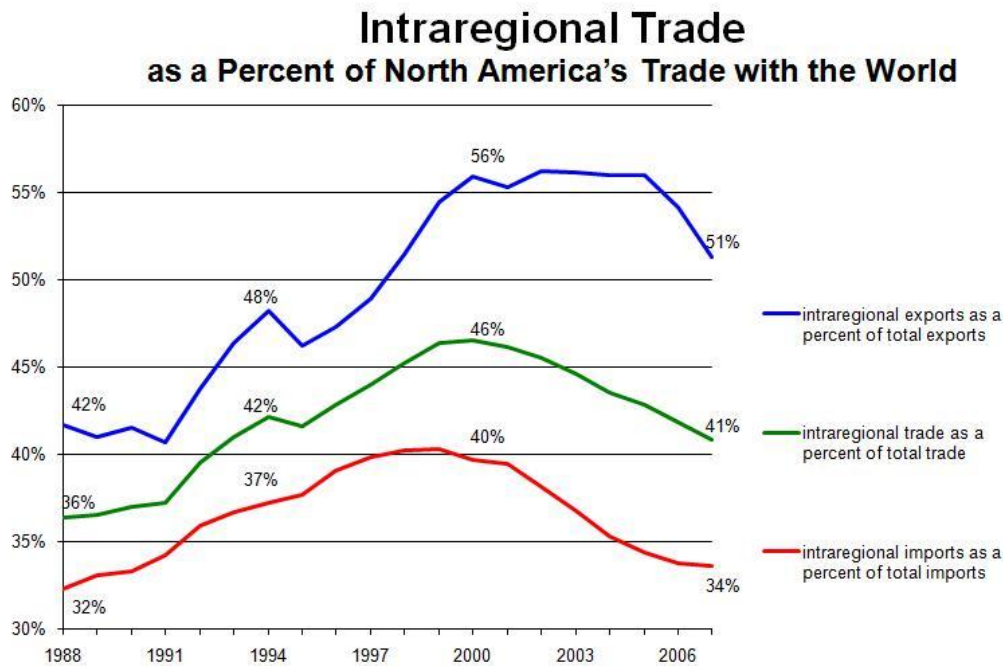
Fourth, compliance with the “rules of origin” provisions are so onerous that many firms simply use the standard tariff that the NAFTA was intended to eliminate.

Finally, North American integration stalled because China joined the World Trade Organization in 2001, and its exports to all three North American countries soon overtook the others. “Even if you are on the right road,” Will Rogers once said, “if you sit down, you will be run over.”

In contrast to China’s bold development strategy, Mexico has been cautious, and while its approach has led to greater macro-economic convergence on inflation and interest and exchange rates, it failed to implement the kinds of micro-economic reforms – on energy, education, and taxes – that would have stimulated a faster rate of growth.<sup>6</sup>

The consequence of all of these changes was the decline of intra-regional trade as a percentage of North America’s trade with the world. This standard indicator of integration looked so promising when it climbed from 36% in 1988 to 46% of trade. (See Figure 3, below)

Figure 3. Intraregional Trade



Source: Source: United Nations, Commodity Trade Statistics Database.

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## Undocumented Migration

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In order to convince Congress to approve the NAFTA, President Bill Clinton promised it would reduce migration. This was not wise. The NAFTA was a free trade agreement with an implicit development strategy that would encourage, not discourage migration.

Most foreign investment in Mexico located on its border with the shortest distance to the U.S. market. These firms attracted labour from the southern part of the country, but the turnover averaged nearly 100% per year, meaning that most workers stayed long enough to learn how to work in a foreign factory and how to cross the border. In other words, the NAFTA served as a magnet to encourage – not discourage - undocumented migration to the United States. Illegal migration increased from 3.8 million in 1990 to about 12 million in 2008, with 59% coming from Mexico.

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## Income Gap and Disparities

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Increased trade exacerbated inequalities within Mexico – between the urban and the rural, between the export and the domestic economies, and most of all, between the north and the south. The north – connected to North America – has grown at ten times the rate of the south. Average wages in Mexico showed little or no improvement under the NAFTA because it averaged those of the south and the north, and altogether, the income gap widened between Mexico and the U.S. (See Table 1 below.)

**Table 1. The Income Gap Has Widened**

	<u>1980</u>	<u>1993</u>	<u>2000</u>	<u>2005</u>
United States	\$22,568	\$28,747	\$34,599	\$37,267
Mexico	\$5,114	\$5,174	\$5,935	\$6,172
Ratio of U.S. to Mexico GDP per capita	4.4	5.6	5.8	6.0

*Source: World Bank, World Development Indicators.*

On the first day of the NAFTA, January 1, 1994, the Zapatistas launched their “revolution” in the most southern state of Chiapas, protesting the NAFTA’s effects. But the real problem of the south of Mexico was not the NAFTA; it was the absence of the NAFTA. The problem was that the south was not connected to the North American market, and so companies did not want to invest there, and its workers migrated to jobs in the north.

Surveys of Mexican undocumented workers in the United States discovered that as many as 93% had jobs in Mexico before they came to the United States so they are not coming for jobs. Their motive is income; for similar work, they can earn six to ten times as much in the United States as in Mexico. There are many ways to reduce undocumented migration, but the only way to end it is to narrow the income gap between Mexico and its northern neighbors. This will take time and resources, but Europe has demonstrated that in just 20 years that a substantial aid program targeted on building roads and communications that connect the poor regions to the richer markets could narrow the income gap. (See Table 2, below.)

**Table 2. Reducing Disparities: GDP as percentage of regional average**

	<b>1986</b>	<b>2003</b>
<b>Ireland, Greece, Spain, Portugal / EU</b>	<b>65%</b>	<b>82%</b>
<b>Ireland / EU</b>	<b>61%</b>	<b>120%</b>
<b>Spain / EU</b>	<b>70%</b>	<b>84%</b>
<b>Portugal / EU</b>	<b>55%</b>	<b>72%</b>
<b>Greece / EU</b>	<b>58%</b>	<b>70%</b>

*Source: Eurostat; European Commission, 2<sup>nd</sup> Progress Report on Economic and Social Cohesion, 2003.*

As Governor of Guanajuato, Vicente Fox visited Texas Governor George W. Bush and proposed a number of ideas to promote the development of Mexico, including a variation on Europe's "cohesion fund." Bush's reaction then and subsequently, according to Fox, was to be positive personally but to be ambiguous policy-wise.<sup>7</sup> Bush acknowledged he had never heard the word "cohesion." Fox told him that it was an English word, and he explained how Europe used it to narrow the income gap between the poorer and richer countries. Once Bush heard it was European and might involve funds, he rejected it. Fox raised the issue again when Bush was in the White House, but the answer was the same. Congress would never approve it. He meant that he wouldn't ask. Fox tried to persuade Canadian Prime Minister Jean Chretien, but ran into a wall there as well.

In April 2001, at a Summit of the Americas in Quebec City, Fox proposed that the three leaders designate representatives for a North American Commission to offer proposals for the region. Bush did not like the idea of multilateral institutions, and “Chretien used up most of the time talking about lumber,” recalled Fox. In the absence of new tri-lateral institutions, the three governments reverted to their dual-bilateral agenda, and the problems were rarely solved because they required a leader over-ruling a strong domestic economic interest in favor of a foreign government. One effect of these failures is that the percentage of Canadians and Mexicans who had a favorable view of U.S. policy declined by nearly half in the Bush years.

In summary, North America has passed through two stages since the NAFTA came into effect. The first stage – 1994-2000 – saw accelerated growth and integration. The second – 2001-2008 – saw a decline. From a peak of 35% in 2001, North America’s share of world gross product declined to 27% in 2008, and the European Union moved ahead of North America for the first time since the NAFTA. In 2003, China surpassed Mexico as the second largest exporter to the United States, and in 2007, China passed Canada. While North America’s leaders were doing photo-ops and debating the past, Europe and Asia had their eyes on the future, and they overtook us.

The fundamental cause of the decline is similar to the financial collapse: the market enlarged, but governance did not keep pace. If the NAFTA had created institutions and a new relationship among the three governments, then the day after 9/11, the Mexican President and the Canadian Prime Minister would have joined President Bush to announce that the attack was against all of them, and they would respond together. Institutions could also have helped the three leaders see more clearly continental risks and opportunities.

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## Three Puzzles

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Since the NAFTA came into effect in January 1994, all three governments have settled back into the relationship that had existed before, which was a dual-bilateral relationship – the United States and Canada and the United States and Mexico. The third leg of the triangle – the relationship between Mexico and Canada – is quite new. Indeed, relations between the two governments were only established in 1944, and trade was negligible until the NAFTA. Since then, trade has grown quickly but from a very low base. By and large, the Mexican-Canadian relationship is the weakest and least defined of the three.

That the three governments have preferred to maintain their two dysfunctional relationships rather than build on the North American idea is a puzzle. Dual-bilateralism reinforces the imbalance in power. For Mexico and Canada, dual-bilateralism accentuates their weakness, and for the strongest nation, it is an effective short-term strategy of “divide and rule,” though the cost is an annoying duplication. Asymmetry means that the United States can and usually does ignore its two neighbors on the hard trade-offs that characterize so many of the issues. Canadian Prime Ministers Chretien and Martin raised the issue of U.S. duties on its soft-wood lumber exports at virtually every meeting for nearly a decade, as the Mexican President did with issues like trucking or sugar, and Stephen Harper did on “buy American provisions.” The U.S. President’s response was nearly always the same: “We will look into it.” And the United States did look into it before deciding to postpone solving it for as long as it possibly could.

The U.S. President wants to avoid antagonizing its lumber industry, Teamsters, sugar growers, or Congress, and so it delayed. In a region of growing interdependence, the power to delay is often as consequential as the power to decide. In the long-term, however, the U.S. does not gain by maintaining the status quo. Failing to comply with its agreements does not enhance its leadership.

Still, U.S. policy is hardly the only reason why North America is stuck. Why has Canada and Mexico invited a “divide and rule” strategy? Why has it failed to see the similarity of their problems and sought to cooperate to solve them? The answer lies in the riddle of three puzzles – each one associated with a member state and its unique challenge:

Why has Canada - the world’s leader in multilateralism and humanism – been uninterested in creating multilateral institutions in North America and ungenerous when it comes to its poorest neighbor?

Why has Mexico – the weakest and poorest of the three – been the boldest in proposing continental initiatives even when they would pay the highest price?

Why is the strongest North American state the most defensive, parochial, and fearful of losing its sovereignty to its weaker neighbors?

## **The Canadian Puzzle**

Canada's motive for initiating the new North America was not a grand vision; it was defensive. It wanted to preserve the gains that it had achieved in the Canadian-U.S. Free Trade Agreement. Caution is an inherited trait for Canadians, but multilateralism has been an earned virtue.

Canada's soldiers have participated in many peace-keeping operations; its diplomats have staffed the United Nations and the International Courts; its leaders have articulated the global strategies of "human security" and the "right to protect;" its governments have negotiated the treaties on the International Criminal Court and on Land-Mines. Despite a superlative record of multilateralism, Canada has not proposed a single multilateral initiative in the one region – North America – that matters most to it. Worse, it has rejected every opportunity to pursue a North American approach to shared problems.

While Canada deserves more credit than its neighbors for starting the North American engine, it also deserves most of the blame for stopping that train and steering it to bilateral tracks. At a conference in Washington, several leaders recounted the celebrated Canadian "veto." Jim Kolbe, former Republican Congressman from Arizona, recalled, "I chaired the U.S.-Mexican Inter-Parliamentary Group for years, and I tried to get Canadians to join us, but the Canadians always opposed the idea." Raul Rodriguez, the first president of the North American Development Bank, said that Mexican President Vicente Fox asked Jean Chretien to join the NADBank in 2004, but he also rejected the idea.<sup>8</sup> Soon after the 9/11 attack on the United States, Jorge Castaneda, Mexico's Foreign Minister, approached his Canadian counterpart, John Manley, to propose a North American "smart border" agreement, but again, Canada declined in favor of a bilateral agreement with the United States.<sup>9</sup> Mexico then pursued an agreement with the United States that was almost the same as Canada's. If the agreements were so "smart," there would have been one rather than two. Most recently, instead of working with Mexico to change the "buy American provisions" into a "Buy North American" approach, it insisted on going it alone.



Canada is also one of the most generous countries, with US\$4.7 billion in aid in 2008 or roughly twice as much of its gross national income as compared to the U.S. It focuses its aid on twenty countries, but Mexico is not one of them. Indeed, Canada gave US\$5 million to Mexico in 2007 - one-third of what it provided to Ukraine.<sup>10</sup>

What explains this discrepancy? Some have suggested that Canadians fear being tainted by association with Mexico and its drug-trafficking, violence, and immigration problems. Others believe that its “special relationship” with the United States gives it an advantage that it would lose if it allied with Mexico.<sup>11</sup> Still, others like Thomas D’Aquino, the former Chief Executive Officer of Canadian Chief Executives, fear that a trilateral approach would simply slow down negotiations: “Three can talk; two can do.”<sup>12</sup>

If effectiveness is the criterion, Canada’s bilateral strategy has not done well. If two can walk faster than three, how long did it take for the United States to reach agreement on soft-wood lumber? In their memoirs, both Jean Chretien and Paul Martin remarked at their frustration in dealing with George W. Bush on the issue.<sup>13</sup> Before the Argentine Summit of the Americas in 2005, Bush asked Martin to take the lead on free trade, and he did so eloquently. Bush thanked him, and then Martin exploded,

“Look, I am out there making the case for free trade – something that you want – and yet you aren’t respecting that principle with your NAFTA partner in the face of judgment after judgment against you on softwood at international tribunals. How can you be credible on free trade of the Americas when you won’t respect the deals you’ve already signed?”<sup>14</sup>

Harper finally reached agreement on lumber that both his predecessors criticized for returning \$1 billion to U.S. groups designated by the Bush Administration, though those funds should have been given to Canada. Working by itself, Canada failed on soft-wood lumber and national labeling. Canada has made no discernable progress in managing the border better with the United States, and therefore felt insulted when Janet Napolitano, the Secretary of Homeland Security, suggested at the Brookings Institution in March 2009 that the U.S. wanted to treat its two neighbors and its two borders on the basis of equality. Canada also did not persuade the Obama Administration to pursue a North American strategy to the declining auto industry or to the financial crisis. Finally, after intense lobbying of Obama, Canada succeeded in securing the modification of the “buy American” provisions, though it occurred amidst rumors that the U.S. decision was linked to the issue of Afghanistan.

Canada betrayed its multilateralist reputation for a bilateral strategy that is not working. Its challenge is to construct a North

American institution that could propose strategies for addressing the full range of North American issues. A joint approach with Mexico that focused on compliance and addressed lumber and trucking would have had a far greater chance of success than if each country focused on its problem alone. Canada is actually in the cat-bird seat because if it coordinates a North American strategy with Mexico, the probability is that the United States will not only give it the attention it deserves, but the chances of acceptance rise substantially.

There is no guarantee that a trilateral approach will be any more effective than a bilateral one, although it is unlikely to be **less** effective. If Canada had joined Mexico and sought a “North American exemption” at the beginning of the Administration, its chances would have improved substantially. There are about thirty members of the Congressional Hispanic Caucus, who monitor developments closely on Mexico and Latin America. They have come to the immediate defense of Mexico with the \$1.4 billion Merida Initiative. Had they joined with Canada on behalf of common interests and a shared goal, they might very well have succeeded. If Canada were to join with Mexico in proposing a leaner and more collaborative approach on the border, they might very well have succeeded.

If Canada and Mexico were to develop a generic proposal for dealing with the pricing of private products in the public sector – e.g., softwood lumber, medicines – a solution might have been found. If Canada were to join with Mexico and the United States in accepting the international definition of “refugee” – a person who would have a well-founded fear of persecution if they returned to their home country – then Canada would not have needed to impose an immigration visa on Mexicans. As soon as one shifts one’s vision toward a North American approach, new ideas emerge. They will not necessarily lead to solution, but they stand a better chance than the bilateral approach.

## **The Mexican Puzzle**

In the early years of the NAFTA, soon after the first genuinely democratic election for President in 2000, Mexico’s new President Vicente Fox proposed a flurry of new proposals, including a Customs Union, freer movement of labour, a Cohesion Fund, and a Commission. His counterparts in the United States and Canada rejected these proposals in favor of an alphabet soup of vacuous initiatives.

The more interesting question was why Fox proposed ideas that would have been far more difficult and costly for Mexico to implement than for the United States and Canada. Notably, a

Customs Union would have meant that Mexico would have had to reduce its tariffs, which were much higher than those of the United States and Canada, to the lowest level. Mexican firms would have suffered deeply from the additional competition.

The answer is that Mexicans were in a hurry to join the club of advanced countries, and its technocratic leadership understood that the best way to develop the country was to open the economy to global competition. Beginning in the mid-1980s, Mexico embarked on a comprehensive set of reforms that shook the old economy to its roots but permitted it to shift from a sharp dependence on oil to one that relied on manufacturing exports. But by the late 1990s, when a second generation of reforms – fiscal, labour, energy – were needed, Mexico was undergoing an even more profound transition toward a democratic system.

In 1997, the governing party – the PRI – lost its majority in Congress for the first time in its history, and in the year 2000, it lost the presidency. The President and the elite understood the reforms that were needed, but a more divided democratic political system made it harder to achieve. Elected by a very slim margin in 2006, President Felipe Calderon decided not to revive Fox's grand proposals on North America. This might have been because of political difficulties in Mexico, or it might have been because Mexico accepted that its two neighbors had no appetite for such proposals. Whatever the reason, in February 2010, Mexico decided to turn its attention to its south, inviting Latin American leaders to set up a new organization without its two North American neighbors.

Mexico's challenge is to blaze a path out of the developing into the first world. Like Canada's challenge, Mexico cannot succeed on its own or with Latin America. It will require a coordinated, intensive North American strategy.

## **The U.S. Puzzle**

The most perplexing puzzle of all is the United States. The NAFTA generated a stiff debate in 1993, but the issue seemed to fade away soon after its approval. The NAFTA re-emerged as a controversial issue during the Presidency of George W. Bush when he proposed a rather innocuous inter-bureaucratic mechanism called the "Security and Prosperity Partnership" (SPP). Led by two conservative cable channel anchors, Lou Dobbs of CNN and Bill O'Reilly of Fox News, the new assault on the NAFTA came from an unexpected direction – a fear that the United States under Bush was abandoning its sovereign rights by surreptitiously creating a North American Union.

How could the world's sole superpower fear domination by its two weaker neighbors? The puzzle is even harder to unscramble because surveys suggest that public opinion favors more cooperation within North America. Instead of being angry or frightened by its neighbors, Americans view both Mexicans and Canadians very positively.

The explanation is that the majority of the public may have a positive view of North America, but their voices are drowned out by the 15% to 20% of the public who are fearful. This nationalistic group feels a loss of control as the forces of globalization or regionalization grow, and their jobs and livelihood are threatened by out-sourcing, trade, and immigration. These concerns rise when the economy declines. In the American political system, substantial funds or "single interest" groups that feel intensely about an issue can skew policy. This conservative critique intimidated President Bush and Congress from considering new and imaginative ways to collaborate with its neighbors.

### **America's Challenge**

America's challenge is to provide a new kind of leadership for the world, but the path to success must begin by demonstrating deep respect for its neighbors. Like the other two challenges, this one will require a new spirit of collaboration.

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## **The Challenge, A Vision, and a North American Strategy**

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The three puzzles – of Canada, the bilateralist; Mexico, the bold; and America, the fearful – yield three challenges. Canada's mission is to design trilateral institutions. Mexico needs to undertake economic reforms to promote competitiveness and work with its neighbors to best utilize additional funds to narrow the development gap. And the United States should redefine its leadership style by incorporating the interests of its two neighbors in order to build a stronger region.

All three challenges are difficult and cannot be achieved without the support of the other two partners. That can only occur if the three leaders begin with a shared vision of North America's future and proceed toward constructing institutions that will translate that vision into policies and agreements. The vision should be based on the simple principle of interdependence – if one nation prospers, all will; if one nation declines, all three will be affected. Therefore, it is in the interest of all three to build a sense of community and assist each other in meeting each challenge.

In meetings that U.S. President Barack Obama had with Mexican President Felipe Calderon on January 12, 2009 and with

Prime Minister Stephen Harper on February 19, 2009, the three leaders sketched two parallel agendas. The issues were security, the economy, and energy and climate change. Not much progress occurred before they met again on their way to the Summit of the Americas in Trinidad in April 2009. Then, all three met in Guadalajara at a North American Leaders Summit on August 10-11, 2009.<sup>15</sup>

In their “Joint Statement” and the press conference that followed the meeting, the three leaders articulated the key premise of a shared vision of interdependence – “that challenges and opportunities in one North American country can and do affect us all.” They committed themselves to “continued and deepened cooperation”, and they outlined a very full agenda that focused on four sets of issues:

- On the economy, they pledged to work together to “accelerate recovery and job creation,” to “avoid protectionist measures,” invest in border infrastructure, cooperate in the protection of intellectual property rights, and reduce unnecessary regulatory differences. They also promised to respect labour rights and protect the environment.
- On climate change and clean energy, they pledged to curb carbon emissions and cooperate on clean energy research and an agreement in Copenhagen.
- On drug-trafficking and public security, the United States accepted “co-responsibility,” and Canada also promised some help.
- Finally, they pledged to work together to strengthen democratic institutions in the Americas and restore the Honduran president, who had been deposed.

In answer to a question from a Canadian journalist about the “buy American” provisions, President Obama said: “I want to assure you that your Prime Minister raises this with me every time we see each other.” Other than demonstrating the importance of the region, it was not clear that they had made any progress on the issue. On the economy and climate change, the sad truth was that each of the three governments had trouble forging its own policy let alone a North American one. There was no attempt whatsoever to fashion a coordinated approach to infrastructure, except for limited applications on the border, and the U.S. Task Force on the auto industry focused on American jobs – not North American – despite the fact that almost all cars have parts from the other two countries. On drug-trafficking, Mexico and the U.S. were cooperating, and Canada offered symbolic support, but the U.S. pledge to stop the flow of weapons to Mexico was a hollow one.

Obama was unwilling to invest the political capital needed to renew the assault weapons ban or close the many gun shops near the Mexican border.

On health issues, each country had a network of health providers that had substantial experience collaborating across borders, and so the leaders were quite right to point to the success in responding to H1N1, but with that exception, the three leaders failed to devise strategies on any of the issues that required a continental approach. They did not ask their Ministers of Transportation for a plan. They did not address issues of the development gap or of educational exchanges, and while they promised to follow up on labour or environmental rights, they were silent on institutions.

Six months later, the Canadian Ambassador to the United States briefed a group on Canada's preparation for the Olympics and the G-8 and G-20 meetings, but he omitted any reference to the North American Leaders' Summit.

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### **Why a Trilateral Community Improves on Bilateralism**

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What could the leaders do if they wanted to forge a genuine partnership? How might a trilateral approach be more effective than a bilateral one?

The most immediate security issues relate to border management. The Canadian government has preferred the bilateral approach because it contends that the two borders are very different, and that it could solve the problems faster with just the United States. Despite eight years of bilateral discussions, the U.S.-Canadian border is no better than it was before 9/11, and while some of the problems differ from those encountered at the U.S.-Mexican border, the truth is that both borders are dysfunctional for similar reasons: inadequate infrastructure; additional security requirements imposed by the U.S. government; and a fragmented approach by agencies within and between the three governments. All three countries need to design a single approach with similar rules and requirements and jointly-trained personnel to manage the borders. Canada and Mexico would benefit from a single set of rules, and the United States would benefit from not having to repeat the same exercise twice. What kind of rules?

First, instead of having multiple "fast" cards, the three governments could agree to a single "North American pass or passport" that would be cleared by all three countries and allow the individual to use the "fast" lane at both borders. Second, instead of three sets of customs forms and officials, they would agree to one set of forms and a single team that would include

individuals from all three governments. Fourth, instead of having different standards for the weight, length, and height of the trucks, there would be a single standard. Fifth, instead of cabotage – that restricts trucks from picking up cargo at different sites - they could agree to allow certified “North American trucks” to deposit or retrieve cargo anywhere in the three countries.

The U.S. Congress is more likely to approve such a new system that would include free movement of trades from Mexico if its two neighbors were joined in proposing a fair scheme. In the U.S. Congress, Canada is appreciated as a friendly trading partner, but as Canadian Ambassador Allan Gottlieb explained in his memoir, Canada has a hard time gaining Washington’s attention.<sup>16</sup> Mexico does not have that problem for two reasons – crises and constituencies – both of which Canada lacks. Mexico’s issues – drug-related violence, immigration – are high on the list of America’s concerns, and the Mexican-American community is the largest and one of the fastest-growing immigrant communities in the United States. Both political parties are competing for the new Mexican-American voters. It is therefore logical for Canada to join with Mexico to secure the constructive attention of the U.S. Congress.

The same pattern applies to other issues. To narrow the development gap between Mexico and its northern neighbors, it would help if all three designed a strategy and agreed as to what each would contribute. To address the dual problems of energy security and climate change, it would be desirable for the three countries to design a unified cap-and-trade system and ask the North American Commission on Environmental Cooperation to measure the problems and the progress. While most prefer a global system, if the three governments of North America found a functional and effective formula for undertaking and testing it at a regional level, then that could be the model.

Why should the three governments pursue their interests trilaterally rather than bilaterally?

- A trilateral approach is more likely to yield an outcome that is based on rules rather than one based on an imbalance of power.
- Canada and Mexico are more likely to feel as if they have a stake in the region’s future if agreements are fair and binding on all.
- Each country brings a different perspective to these and other international issues – from that of a superpower, a middle power; and developing country. To the extent

that the resulting policy integrates those different approaches, then the final one is most likely to have the widest influence in the world.

- If all three governments agree to a single approach to a problem, they might be able to overcome the pleading of their special interests.
- A third perspective could not only add ideas but it could help two sides that are convinced their approach is the best to compromise.

There has been little progress on the bilateral track. Canadians should ask whether an alternative approach might succeed. The Standing Committee on International Trade of the House of Commons of Canada visited Washington in the Spring of 2009, and raised issues that have been bothering Canada for years: the border, including the Western Hemisphere Travel Initiative; country-of-origin labeling (COOL); black liquor subsidy; and the “buy American” provision. At the end of their visit, the Committee reported to the full House of Commons that no progress had been made on any of these issues, and yet their principal recommendation was that the government should continue repeating the same exercise.<sup>17</sup> A trilateral approach involving Mexico offers a better chance.

The paradox is that the leaders have been cautious because they think the public is resistant to integration, but if you listen to the public through surveys rather than the pandering pundits of cable television, one would find that the public in all three countries are ahead of their leaders.

Frank Graves, President of Ekos, a leading Canadian polling firm, has conducted many surveys in all three countries of North America. He found, in the summer of 2005, majority support in Canada (57%) and Mexico (59%) and a plurality in the United States (45%) for forming a common market or economic union like Europe. In the case of the United States, the same question asked three years before yielded 58% support. Not only do the people want an economic union; 61% of Mexicans, 58% of Canadians, and 51% of Americans believe that it is very or somewhat likely that a North American Economic Union will arrive by 2015.

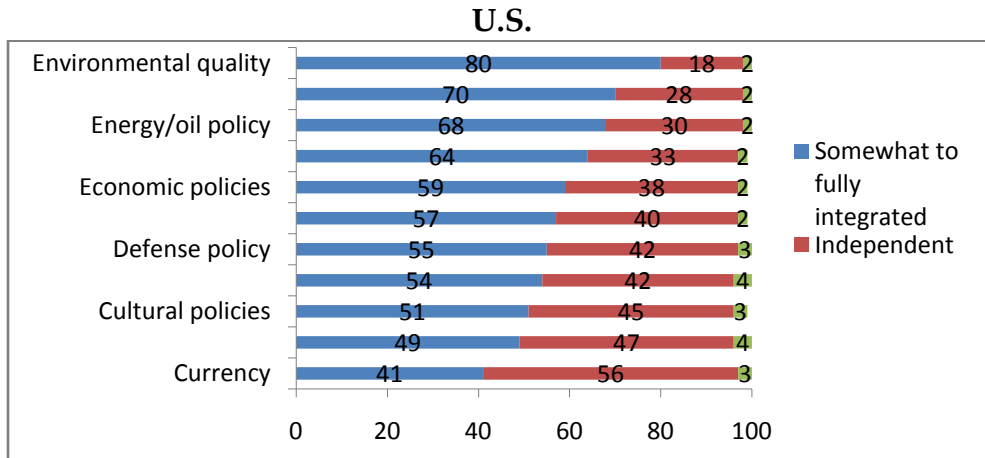
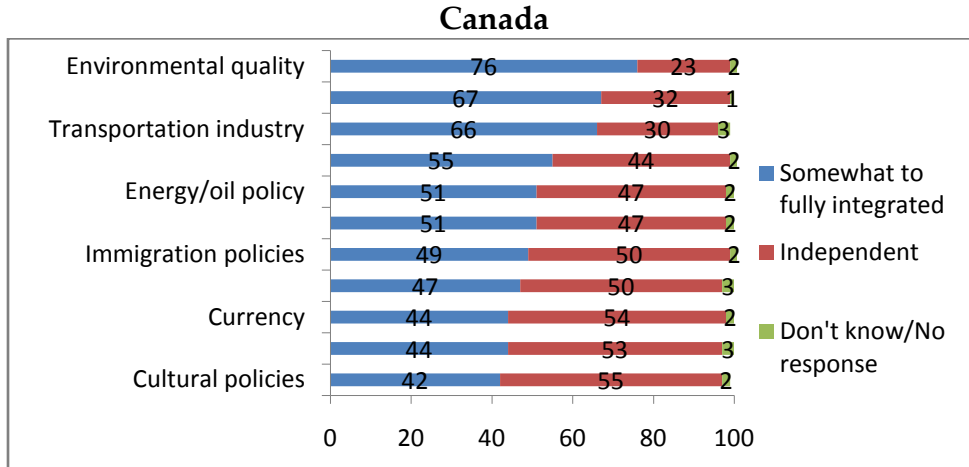
The public prefers trilateral collaboration. In an explicit question as to whether people in each of the three countries would prefer separate or integrated policies in 12 areas, a majority of the citizens of all three countries preferred more integrated, trilateral policies on the environment, transportation, defense, and the economy. On immigration, currency, foreign policy, banking, and



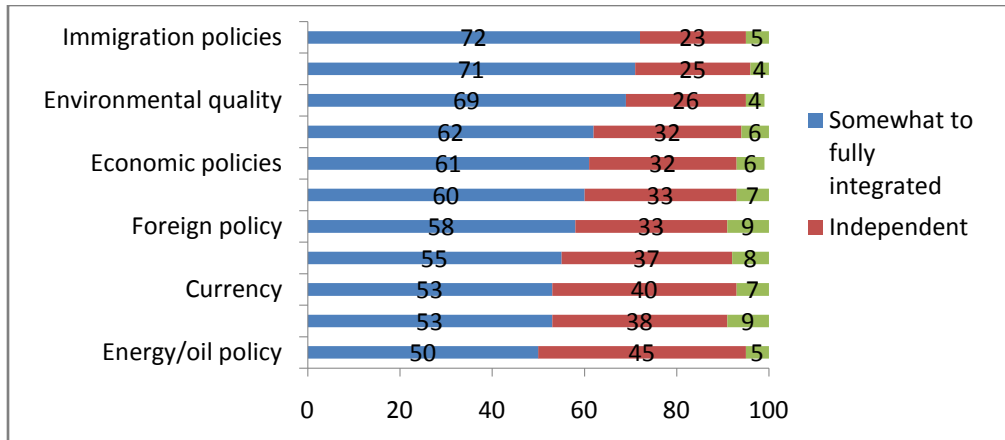
culture, a slight majority favored independent policies. (See Figure 4, below.)

**Figure 4. Desirability of Integrated Policies, June 2005**

**Question: In the future, would you like to see the countries develop policies in a more independent fashion or develop integrated North American policies for each of the following areas?**



### Mexico



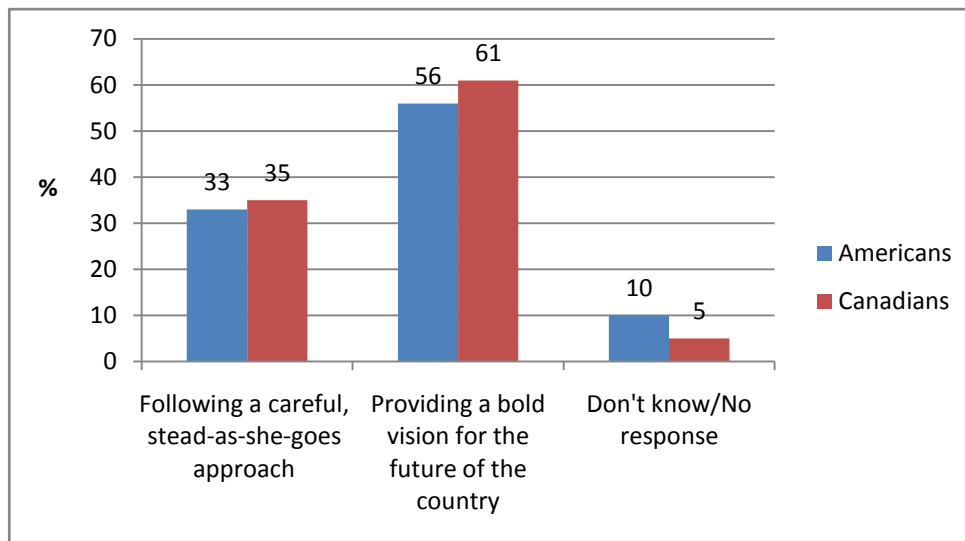
Note: Canada n=1002; U.S.=752; Mexico n=1510.

Source: Ekos. Wave 1—General Public Survey: Canada, the U.S. and Mexico., 2005, p. 1.

While the leaders want to proceed incrementally and slowly, the public is ready for bolder initiatives. One-fourth of Canadians and Americans feel their governments are providing a bold vision for the future, but 56% of Americans and 61% of Canadians wish their governments would do so. (See Figure 5, below.)

**Figure 5. Should Leaders Go Slow or Be Bold?**

**Question: Which way would you prefer the United States/Canadian federal government to operate?**



Note: Americans, May 2007, n=1000; Canadians, May 2007, n=500

Source: EKOS. Survey of Americans: U.S. Wave of the Security Monitor 2006-7, July 2007.

The North American Leaders' Summit in Guadalajara underscored both the promise of North American cooperation and the chronic difficulty. The three governments are trained to think in

bilateral terms, and thus they limit their imagination of North America's future. A genuine three-sided dialogue could introduce new ideas to chronic problems, but it could also create a sense of community that would handle future problems more effectively. With a new sense of community, it would be easier to approach challenges together. In the absence of a sense of community, neither Canada nor the United States would see the development gap separating Mexico from its northern neighbors as a problem. With a sense of community, the three governments might mobilize all three countries to solve it.

Leadership and political will in all three countries are what is needed to replace two dysfunctional bilateral relationships with a North American Community that aims to create a region that could compete against Asia and Europe and develop a model that will make North Americans proud.

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## Questions

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**Question:** Could you please elaborate on what Europe is doing that is right and what they are doing that is wrong?

**Answer:** Trying to integrate 27 countries into one trade area is a formidable task. But it is also important for the world. There are four lessons we can learn from Europe. First, we should try to deepen before we widen. By this I mean that before we extend the NAFTA south in to Latin America, the Caribbean and South America, we should make it work within the three North American nations. There are 21 nations in the Caribbean and the treaty could not go forward if all the countries have a vote. Europe is too wide to go forward. Let's start with the three North American nations. We should narrow the income gap then it would be easier to extrapolate and expand.

Second, we should not move to supranational and intrusive institutions. We should rely more on the market. Europe relies on bureaucracy but we need lean institutions that can lead. We need ways to connect our three parliaments to widen the scope of impact and see how each country affects each other.

Third, we need cohesion. Over a decade or more, Europe invested almost \$500 billion in the poorest countries—Spain, Portugal, Greece and Ireland. By narrowing the income gap, immigration from those countries was no longer a problem. We should do the same. Trade is not enough—a development strategy is needed. We should learn where Europe went wrong. Almost half of the \$500 billion was wasted, going for political purposes. We need to invest in infrastructure. The NAFTA worked in Mexico but if you disaggregate Mexico you see that the North has grown ten times faster than the South. This is because the North had connections to markets. Chiapas got it backwards. It's not that the NAFTA was bad for them; their problem was that it didn't reach them. Europe has shown us that infrastructure is needed for a trading union to work.

Fourth, integration requires reforms. We need a regulatory environment to protect the environment and health. The current intentions are good but the reforms should be harmonized or they will become protectionist. We should look to protect all three countries, not just an industry. For example, Americans can't buy Canadian drugs. This is protecting an industry, not health.

**Question:** It is challenging for politicians to sell the idea of North American integration—maybe because US nationalism and protectionism yields more votes. How can politicians sell the idea?

**Answer:** This is a hard question. It has to do with personal leadership. It is easy to generate fears in the political environment, particularly when an economy is not doing well. People worry about jobs.

President Obama has a remarkable quality to inspire hope and that is how he won the election. It is hard to translate hope into policies and he has only had one year. The political environment in the US is not great and it is hard to know what will happen. If health care reform goes through, there is hope and it is important to generate hope. It is easy to be exclusive and isolationist but it is better to think how to be part of the world. Some of this has to do with education. We must start in the schools and teach children to think of themselves more as North Americans than American, Canadian or Mexican. But we must be sure of our own nationality in order to be conscious of the North American idea. The US is parochial in nature. Although the US is a product of all the nations in the world, we have trouble thinking beyond the US to the rest of the world. In Mexico we must close the income gap. Canada needs to lead in tri-national institution building. This is where Canada is strong.

**Question:** How does the idea of global citizenship fit into the idea of North American citizenship? The Alberta school curriculum looks to the global community and open borders. UNESCO looks to a global community.

**Answer:** Americans also look at global citizenship in their schools but this varies by state. We are all products of multiple identities: gender, ethnicity, province or state, family. We have multiple identities whether national or cosmopolitan global identities. But let's start with the continent as this is more concrete. I don't believe in open borders. It would be a recipe for chaos even in North America. I have studied migration, and income differences are important. A poll showed that 83% of Mexicans would immigrate to the US if they could do so legally. This is 88 million people. The US might be able to absorb that many but what would happen to Mexico? Open borders might work with Canada and the US because income differences are less. But if our three countries could agree, we would have influence in the WTO's DOHA Round. It is practical to work at the North American level.

**Question:** Opposition to the NAFTA came from the left and right in the three countries – the left in Mexico and Canada and the right in the US. Can you see a social charter removing the myopic focus on trade and the environment?

**Answer:** US resistance came from the left via the trade unions. The right didn't want immigration. The hostility from the left is somewhat incongruous, as the left has always talked about globalism. Could a social charter reduce this opposition? Clinton went through a period of pushing the NAFTA but Bush made Clinton take a stand. Clinton delayed as long as he could but he agreed that when elected he would add two side agreements to assuage environment

and labour pressures. These two side agreements haven't made much of a difference. Unions wouldn't come to the table to help define what would be in the labour agreement. The environmental groups were somewhat more willing to look at improvements.

I would start at the beginning. What are our goals? Mexico has made the most progress with the environment, perhaps because they had the lowest standards. But Mexico has also made the most improvements in democracy. This is part of the integration process—how they have become part of the community.

I would welcome a discussion between the three countries on how we can improve standards of labour and the environment. What are the goals? How can we reflect on the goals? How can we improve labour standards? Maybe labour standards need less improvement in Canada than in the US and in Mexico.

**Question:** It is an acknowledged fact that the climate in the US is not favourable to your proposal. How can we get the public to be inclined to think in broader terms? What can we do to get the debate going? In earlier negotiations business had an active role? Has business a role now?

**Answer:** I have lobbied on this issue and I have been discouraged. I worked with Obama a year before his election and this year. His plate is very full, and his administration doesn't see the issues the same way I see them. I think this administration is different from the previous one and they will welcome proposals. That is why I am here. Constituency groups and business should have an interest in integration but US businessmen are increasingly short-sighted. Who is the new David Rockefeller? I can't see leaders about. The Mexicans see it better than we do but they haven't played the role of leaders. Businessmen increasingly say, "Don't disturb our profits, our salaries. Don't talk about a carbon tax." The business community is not stepping up. Unions are against integration. Therefore, we must educate the youth and build up from grass roots. We need more leadership so that we can feel strongly nationalist as well as strongly North American.

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Articles/NA/Berkeley on Trilat – March 4 2010

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## Endnotes

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