

North America's Three-Sided Challenge

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NAFTA in 2008

North America faces a raft of problems – security, immigration, transportation, development, infrastructure, energy, labor, the environment, and, not the least, a lack of institutions and a spirit of cooperation. All three countries are still groping for ways to respond to 9/11. None of these issues are mentioned in the North American Free Trade Agreement (NAFTA).

Notwithstanding the complaints of the Democratic presidential candidates, the problem is not NAFTA, and the time for debating it is long past. The problem is that the three governments have failed to address the post-NAFTA agenda.

Indeed, the three governments have been intimidated by parochial, anti-globalist forces, and they have sought protection in private meetings with CEOs, thereby provoking the very suspicion that the critics fear. The opposition parties in the three countries have joined in the criticism – much of it unsubstantiated – and have not offered constructive ideas.

Was NAFTA a failure? Leaving aside the excessive promises of its proponents, NAFTA's goals were to reduce and eventually eliminate trade and investment barriers. On January 1, 2008, the final trade barriers on agricultural products came down. And as a result, trade among the three countries has tripled – from \$289 billion in 1993 to \$846 billion in 2006. Foreign direct

investment has quintupled, tying the economies closer together and forging continental firms. If one measures success by whether the agreement achieved its declared goals, it was a success.

But even on the issue of the effect on jobs, it would seem hard to make Ross Perot's case that the jobs all went south during the first seven years of NAFTA when trade increased the fastest because in the United States, this was one of the most dynamic periods of job creation – 22.7 million jobs, many in the relatively higher-paying export sector. And in the last eight years, since China joined the World Trade Organization, Mexico's role as the second largest trading partner for the United States has been overtaken by Asia's new giant so NAFTA can hardly be blamed for the loss of jobs to China.

Some critics fear that the governments are secretly conspiring to merge the three countries into a North American Union. There is no truth to that fear, but it disguises the real problem, which is that the governments are doing little, if anything, about the many issues confronting them. The three leaders meet periodically for photo-ops, as they will be doing in New Orleans on April 21-22, but if they speak of substance, it is on bilateral issues. They rarely address – let alone try to solve – North American problems.

The Importance of the post-NAFTA agenda

Other than the need to enhance the competitive advantage of all three countries and to make our continent more secure, there are three separate reasons why the three governments of North America should march in a positive

direction. Each reason corresponds to a challenge that is distinctive to each country or in which each country has a comparative advantage.

The next President of the United States faces many challenges, but few as daunting as restoring America's prestige and leadership in the world. After nearly eight years of the Bush Administration, the standing of the United States has plummeted. It will not rise until the United States actively seeks to earn the world's respect, and the first step on that road is to regain the trust of its closest friends, its neighbors. What that means in practice is that the United States should fulfill its commitments. The two Democratic candidates criticized its neighbors for not enforcing NAFTA, but the U.S. has been the least compliant. The U.S., for example, does not allow Mexican trucks to travel to the United States and Canada and return with a full cargo. Mexican trucks carrying vegetables north from Hermosillo have to stop and unload their cargo in Nogales, Mexico on to another truck ("drayage") that crosses the border. That second truck stops a few miles into Arizona to transfer its vegetables to an American truck that takes it to its destination. It is hard to imagine a more inefficient way to trade.

The U.S. has treated Canada no better. After ignoring repeated complaints and binding court decisions, the US finally accepted an agreement on soft-wood lumber, but many feel it is not being implemented properly.

This is not the way to demonstrate leadership; it is not the way to earn respect or trust. This is the principal challenge for the United States – not to threaten to withdraw from NAFTA, but to listen to its friendly neighbors and

respond in a way that adapts its narrow definition of interests to accommodate its interests in a North American community.

NAFTA's Benefits to Mexico

Mexico's challenge is the most important – how to narrow the income gap between its people and its two neighbors. There are some who say that a sign that Mexico did not benefit from NAFTA was that its average wages stagnated, but that assertion is misleading. The northern half of Mexico is connected to the North American market, and it has grown ten times faster than the southern half. At the same time, the export sector - connected to the North American market – has higher wages and better working conditions than the domestic sector. The problem can be located in the areas and sectors in Mexico that are not a part of NAFTA. NAFTA is the solution.

A Solution for North American Progress

In the United States, it took more than 100 years for areas in the South to rise to the level of the North. Do we need to wait that long? The European Union demonstrated that it could be done in fifteen years if there is a political will and resources. Adapting from that example, the three countries of North American should pledge a total of \$20 billion per year to a North American Investment Fund to invest in infrastructure connecting the southern part of Mexico to the North American market. Half of those funds should come from Mexico; 40% from the United States; and 10% from Canada. But if those funds are to be well-spent, the World Bank should play a central administrative role, and Mexico needs to undertake the kinds of reforms – on energy and PEMEX,

labor, taxes - that its leaders understand are needed, but have difficulty getting it approved. The U.S. and Canada should pledge to contribute to narrowing the income gap – a continental issue - with a significant infusion of aid and with the understanding that Mexico will also contribute by approving such reforms.

Such an investment fund could close the income gap by 20 percent in a decade, giving Mexicans a feeling that their economies could someday catch up to those of the North. Once such a perception grabs the minds of young Mexicans, they will begin investing in Mexico rather than in an effort to cross the border illegally into the United States.

Canada's Role

The final challenge is for Canada, and it comes in an area that Canadians have long been among the most skilled – establishing and managing multi-lateral institutions. Canada establishes, maintains, and leads multilateral institutions world-wide on a wide gamut of topics. It practically defined peace-keeping operations for the United Nations, and played a leading role in gaining acceptance of the Landmines Treaty and the International Criminal Court. Still, for the single most important relationship, Canadians continue to shy away from institutional mechanisms that could compel members to fulfill their duties and to work together in a peaceful and respectful way to forge a sense of community in North America.

Canada should propose a North American Commission reflecting the diversity of the three countries. The Commission would be lean and advisory – very different from Europe – and it would offer analyses of continental problems

and proposals for solving them. This agenda would then be addressed at annual summits of the three leaders. Canada might also want to propose a permanent North American Tribunal on Trade and Investment, and a North American Parliamentary Group to discuss common concerns among the three sets of legislators from North America.

So those are the three challenges – for the United States, to earn the respect of its neighbors; for Mexico, to take the lead in closing the income gap; and for Canada, to construct multilateral institutions. If each of the governments design a strategy to accomplish their challenges, and if each chooses to execute their design only after full consultation and cooperation with its neighbors, then they will begin to forge a community that will make the continent unique and inspiring.