

North American Integration Post-Bush

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The 2008 U.S. Presidential Campaigns – The Story So Far

The winter 2008 musings of the candidates for the US Democratic Party nomination, to the effect that they would use the threat of withdrawal from NAFTA to force Mexico and Canada to attach stronger labor and environmental protection provisions to the 1992 pact, may have only been superficial political shots, fired in the bitter fight for the vote of blue-collar America. After all, neither Hillary Clinton nor Barack Obama really believes in abrogating the agreement.

But these statements underscore the paucity of ideas in the political arena concerning the much-needed modernization of the NAFTA economic relationship. Even should a new US leadership attempt to return the now antiquated NAFTA train to its original station, for a paint job or simply to scrap it, they would find the old station abandoned and surrounded by a ghost town of factories that are never to be revived, under any trade policy.

The vast majority of decision-makers realize of course that it is an illusion to think that one could return to a pre-NAFTA world or, more specifically, that lost jobs would return if we tried to abrogate that agreement. What, then, is the future of the mutually beneficial North American economic integration that the NAFTA was meant to herald?

The Future of North American Free Trade in Canada and Beyond

Even though they may harbour radically different feelings about where the voyage has taken them so far, the three passengers on the NAFTA train – Canada, the United States and Mexico – all realize, or should by now, that this train is not taking them anywhere particularly fast. Indeed, there has been a significant drop in Canada's trade and investment flows with the NAFTA zone over the past five years, relative to Canada's trade and investment flows with the rest of the world.

While we in Canada should rejoice in the rapid expansion of our trade and investment relationships with the rest of the world, especially at times when this trend protects us against the colder economic winds from the United States, it would be wrong to interpret this swing as a signal that it is now less important than before to work hard at our relationship with the United States, a country that remains by far Canada's most important export marketplace. Canada's manufacturing sector is certainly feeling an acute pain from both a softening of the U.S. economy and a rapid rise in the value of the Canadian dollar relative to its U.S. counterpart. Mexico's has been similarly affected.

The medium-term question for all three countries in this difficult economic context is: what do we make of opportunities that arise to strengthen our individual and joint global competitiveness? The NAFTA economic relationship deeply affects each economy's success in other markets, particularly with respect to manufactured goods. This is because manufacturing production in all three countries has become increasingly dependent on fluid border crossings, due to increased specialization in parts and other intermediate manufactured

products between the three countries. It has also become increasingly hostile to what are now some of the most complex and restrictive rules of origin of any regional trading arrangement. Under the guise of encouraging the benefits of regional free trade to flow to producers of goods with minimum North American content, these rules stifle imports of intermediate imports from elsewhere that are needed to increase the competitiveness of businesses in North America.

The Import(ance) of Imports and the Threat of Security

Let us be clear about what observations in the above paragraph imply: imports mean jobs. It is practically not possible any more to produce a good without some imported component being included in that good. Disruptions in land border crossings and restrictive rules concerning the purchase of machinery and intermediate inputs mean significant difficulty for Canadians and Mexicans in particular – those at the periphery of the giant US market – to produce manufacturing goods, let alone having to find an alternative to the United States as an export outlet for that production.

Yet the highly integrated production apparatus is continuously threatened by schemes to address ever-present border security concerns, and general indifference of politicians seemingly focused alternatively on internal issues and on problem areas overseas, with little attention paid to our own common backyard. While security considerations are paramount, there needs to be an overarching, systematic examination of how they can be addressed without harming the economic side of the relationship and the temporary movement of people that often underpin it.

Meanwhile, other regions of the world have made significant progress in liberalizing trade, investment and the temporary movement of skilled people – key elements of economic well-being in the global economy – since the three North American countries signed the NAFTA. The North American leadership on this question has clearly been falling behind global trends. Notwithstanding the Security and Prosperity Partnership (SPP), struck in 2005 between the three countries, so far the three NAFTA amigos have exhibited a greater proclivity to hang separately than to hang together in the face of both rising global competition and opportunities.

The SPP and The Smart North American Economy

The SPP has been criticized – not altogether unfairly, at least from the point of view of optics – for being a top-down exercise subject to the stop-and-go vagaries of political calendars, yet one also captured by special interests working with the bureaucracy to introduce pro-integration measures falling below the radar screen of legislators. From another perspective, the SPP's list of initiatives aimed at facilitating freer and more secure flows of goods and people across North American borders does not give the impression of coherent progress toward truly enhancing the overall well-being of North Americans.

Canadian policy-makers responded intelligently and creatively to the security concerns at the border following 9/11 by providing much of the content behind the December 2001 Smart Border Declaration, and have pushed many initiatives since then to keep the Canada-U.S. border both secure and open. It

has now become necessary for Canada to propose to our partners that we move forward on a Smart North American Economy.

In this context there is a need for a transparent body clearly answering to elected representatives in each of the three countries. Perhaps this role could be filled by a Commission, dedicated to advancing the Smart North American Economy and bringing a coherent approach to the relationship between cross-border commercial and investment issues and those affecting the environment, temporary migration, border security and health and sanitation questions. In short, this commission would be charged with autonomously and robustly move the process of modernizing the North American economic relationship to bring it on competitive par with others in the world.

This body would almost certainly look at harmonizing certain rules and practices among the three countries where the benefits in terms of reduced transaction costs and the costs in terms of lost policy autonomy insignificant. But mainly, it would be charged by North American governments with making recommendations to the relevant agencies in the three countries, toward ensuring economic relations in North America that are as open, fair and secure as possible in spite of the legal, regulatory and other differences, bearing in mind also the need to often deal with Canada-U.S. issues and Mexican-U.S. issues on different tracks.

Learning from the experience of the Canada-United States International Joint Commission, that was set up under the 1909 Boundary Waters Treaty, such a body would give authoritative advice to governments and their agencies on

critical issues such as lumber that require a mixture of public input, technical advice, and an ability to transcend different policy realms (e.g. trade and environment) and regimes. Canada can and should lead in establishing such a transparent, responsive and effective framework, intelligently using our existing room for maneuver to advance our national interests within a North America that badly needs rethinking.