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CANADA'S SPOTLIGHT ON THE AMERICAS

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FOCUS ON NORTH AMERICA

Whither North America?

Robert A. Pastor

Imagination, leadership and commitment are needed to build a real North American community.



Photo: Department of Foreign Affairs and International Trade Canada

Mexico's Secretary of Foreign Affairs Patricia Espinosa, U.S. Secretary of State Hillary Rodham Clinton, and Canada's Minister of Foreign Affairs, Lawrence Cannon, discuss trilateral and international issues, on July 16, 2009.

The rise of China in the 21st century has coincided with the decline of North America. While China's commercial success is one reason for the decline of our continent, the far more important cause is the absence of leadership by the latest prime ministers of Canada and by the presidents of the United States and Mexico.

Since the signing of the free trade agreement between Canada and the United States in 1988 and that of the North American Free Trade Agreement (NAFTA) in 1992, the three parties experienced an acceleration of economic integration that comes close to the European Union's. By 2001, intra-regional trade rose to 46 per cent of the three countries' international trade —up from 36 per cent in 1988. But by then the North American experiment was exhausted, and since 2001, regional integration declined to 40 per cent.

The reduction of trade and investment barriers originally fueled the rise of a North American market; the fall was more complicated. First, China applied its energy to out-compete the world in trade. Second, 9-11 unhinged the United States, resulting in heightened border restrictions so severe that trading among neighbours became more costly than trading with China. Third, the three countries decided to pursue the easier path of widening free trade with other countries instead of the difficult but more productive strategy of deepening North American economic integration. Fourth, although intra-regional trade had tripled, of which 80 per cent transited overland, the three countries did not invest in continental roads or infrastructure or even plan for it.

The fifth reason for the decline of the trilateral project was the most consequential: with the exception of former

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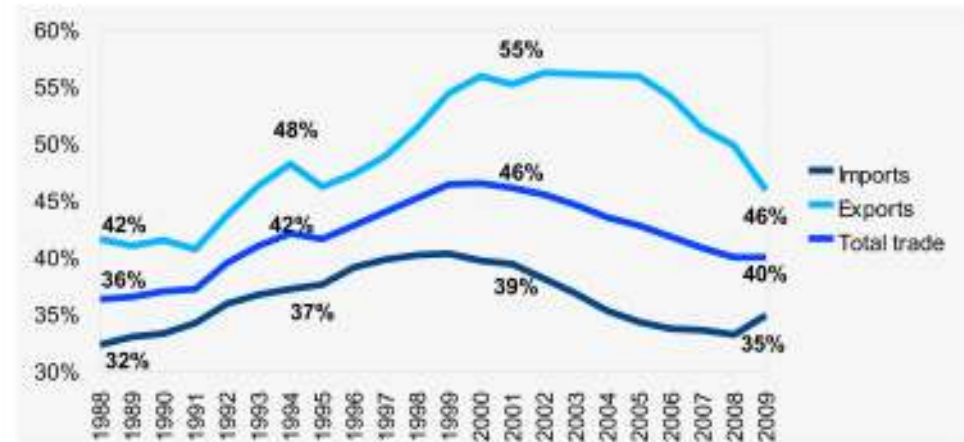
Whither North America?

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Mexican president Vicente Fox, North American leaders have thought small in the past decade. When former U.S. president George W. Bush proposed the Security and Prosperity Partnership at Waco, Texas in 2005, he instructed his Cabinet to think incrementally, exclude Congress, and not ask for money. More recently, President Barack Obama and his advisors have been preoccupied with so many crises that they have missed the continental picture and reverted to the old “dual-bilateral” approach of dealing with one crisis—now drugs—and one country at a time. Canada’s latest prime ministers—Liberal and Conservative—excluded Mexico from their definition of North America, believing that association with Mexican drug violence would undermine its “special relationship” with the United States. The fact that this bilateral relationship has yielded little more than nice rhetoric has not led Canada to question its assumption or policy.

So when the three current leaders met in Guadalajara in August 2009, they had very little to say to each other except to promise another summit in Canada in 2010. Canadian Prime Minister Stephen Harper apparently forgot to issue a formal invitation but, at least, the three foreign ministers met in Ottawa last December. They talked about Central America, Haiti, and natural disasters, but they too forgot to set a date for a summit perhaps because they forgot to talk about North America. In brief, the three governments have reminded us why North America is declining: they lack

Figure 1:
Intra-North American trade as percentage of total North American trade



Source: World Trade Organization, “Selected Regional Trade Agreements” Database

imagination and leadership.

What should they do? Incrementalism has failed repeatedly. The three governments cannot even agree on a single standard for truck safety. The U.S. and Canada cannot agree on pre-clearance facilities in the Niagara area. The U.S. cannot even implement NAFTA’s provision to open the border to Mexican trucks that are certified as safer than American trucks.

We need to start over with a big North American idea, one based on the simple premise that all three countries benefit when one succeeds, and we are all hurt when one fails. Hence we should turn to the paramount challenge for North America: how to construct a Community that will narrow the development gap between Mexico and its northern neighbours, that will re-discover the region’s competitive advantage, and that will fill the institutional vacuum by lean and effective trilateral advisory groups.

Trade is not enough to achieve

these goals. The three leaders need to make substantial commitments. They could set up a 10-year, \$20 billion per year investment fund to connect by roads and infrastructure the poor southern part of Mexico to its northern neighbours. They could commission a 10-year North American plan for transportation and infrastructure, which can provide the foundation for a great leap in commerce that would be facilitated by a common external tariff. They could assemble and train border and customs officials to manage the borders like partners not adversaries. They could replace the dozen identity cards currently needed to transit the borders with a single agreed-upon North American pass.

Existing institutions on trade, environment and labour would also need strengthening. A new North American regulatory commission to harmonize—when desirable—national regulatory policies could be set up and eventually lift environmental,



labour and safety standards. A North American Parliamentary Group could be created to provide a forum for legislators from all three countries, and an Advisory Council to propose continental initiatives and build a North American consciousness could be established.

Public opinion surveys demonstrate that the peoples of North America would like their leaders to be bolder in integrating North America, but the leaders have been intimidated by an intense minority who fear any co-operation with our neighbours. It is time for our leaders to lead and design a North America that will lift the continent and its people to new heights. Let us start with a new bold North American idea: not a bureaucratic one, but one that stirs blood.

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Public insecurity and the private sector in Mexico

David A. Robillard and Duncan Wood

Healthy growth and foreign investment cannot mask the damage drug crime is causing to businesses in the country.

As the North American economies continue their recovery from the deep recession of 2008-2009, and the debate over regional competitiveness marks the discussions between the three North American Free Trade Agreement (NAFTA) partners, Mexico is facing an economic challenge of its own that stems from its ongoing conflict with drug trafficking organizations. The violence threatens to become a destabilizing factor for the Mexican economy, despite the fact that Mexico's macro-economy is weathering the security crisis surprisingly well, and will in turn threaten the economic interests of Mexico's North American partners.

The overall economic panorama in the country is very encouraging indeed: growth was more than five per cent in 2010 and is predicted to be closer to four per cent in 2011; inflation is firmly under control at roughly three per cent; government finances are among the healthiest in the world—with a relatively small national debt and a tiny deficit estimated at three per cent for 2011; large amounts of foreign investment are flowing into the country and there is a favourable medium-term outlook.

Despite this rosy forecast, certain areas of the economy, both geographical and sectoral, are feeling the impact of the violence and could dramatically change. Clearly the

country's North has been hit worse than the South, with spiraling violence impacting business confidence there. A number of factors come into play.

First, although foreign investment levels remain high, there has been a shift in both the kind of investment and its destination. Whereas Mexico has had a creditable record in recent years of attracting Foreign Direct Investment (FDI) to the productive sector, the past year has seen a spike in portfolio investment inflows as investors seek to take advantage of the booming stock market. In addition to the inflationary and market bubble fears that this generates, it is important to point out that, should the security situation worsen still further, this money can leave the country as rapidly as it came in.

The investment outlook's second dimension is a shift in FDI from the North of the country to more central locations, with the Federal District and the Estado de México benefitting in particular.

Third, although Mexico's overall investment numbers are good, they could be better. Credit ratings agency Fitch announced on Jan. 12, 2010 that "Mexico's drug war seems to be crimping growth and investment" as investors begin to worry about the security of their investments. According to the Association of Maquiladoras in Reynosa, 80 per cent of its members