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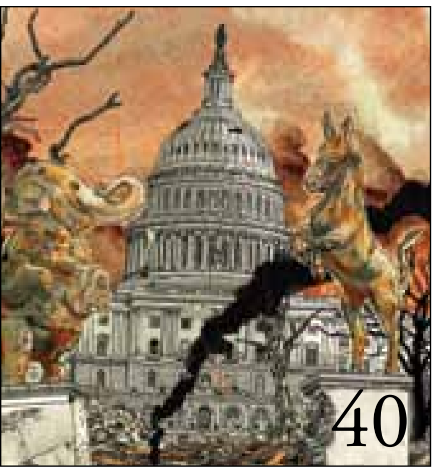

ISRAEL, IRAN AND THE BOMB

AMERICAN POLITICS, 2012

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REVIEWS

North America could be more than the sum of its parts in global affairs. The only things lacking are leaders with vision and strategy.

Beyond the CONTINENTAL DIVIDE

by Robert A. Pastor

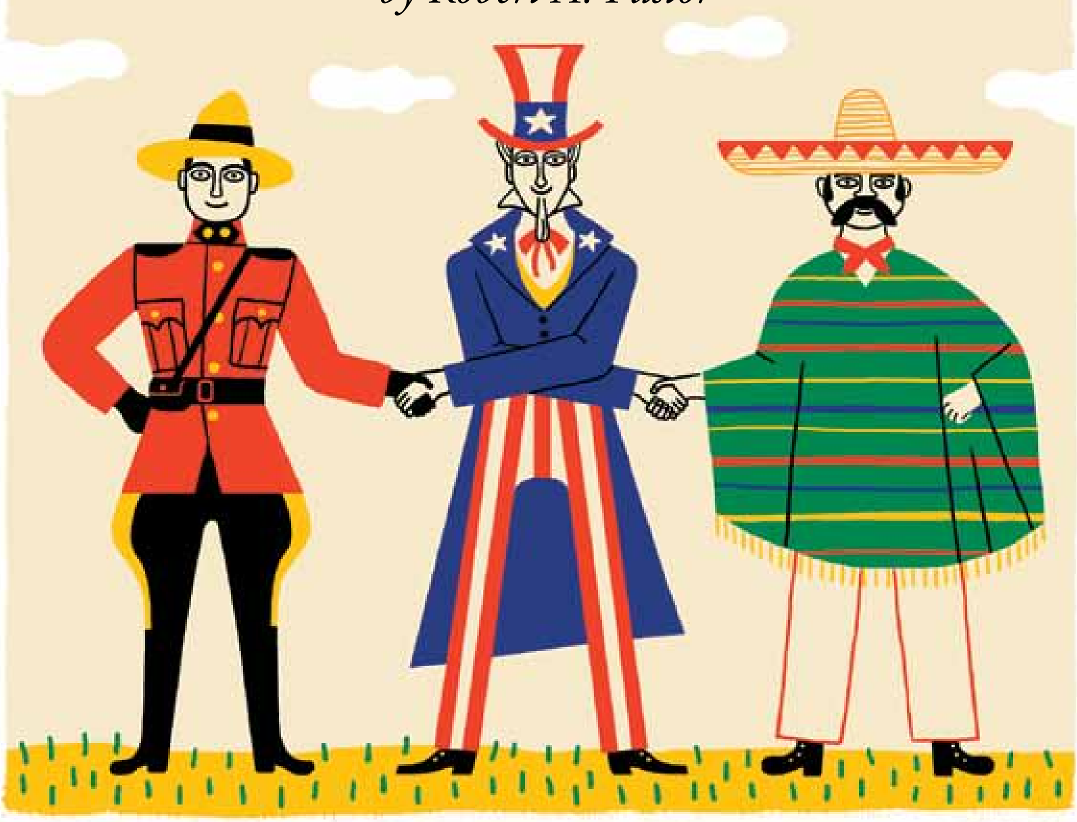

illustration by Luci Gutiérrez

Christopher Columbus is usually credited with "discovering" North America even though he encountered people who had arrived thousands of years earlier. He called them "Indians", mistakenly believing he had reached a continent that was actually on the other side of the world. Not even Viking visitors who arrived centuries before made that mistake. By another twist of irony, the world mistakenly named the "new" continent after another Ital-

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ian adventurer, Amerigo Vespucci, who arrived years after Columbus and, other than his name, left no impression.

About five centuries later, North America was "rediscovered" and, as with the earlier "discoveries", this one too contained an ironic twist. Canada interrupted a discussion about free trade between Mexico and the United States in the spring of 1990 and asked to be included. Mexico and the United States consented, and North America was "born again" in the guise of the North American Free Trade Agreement (NAFTA). Whatever else it promised or achieved, NAFTA provided the region with a first draft of an economic constitution. The latest irony is that Canada, which in a sense fathered the new North America, has since 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 mostly unresponsive to new ideas, and it has violated the agreement without notable qualms when special interests have insisted it do so. Canada has been altogether dismissive of Mexico and its trilateral proposals. Embracing its "special relationship" with the United States, Canada remains oblivious to the overwhelming evidence that its affections are reciprocated with empty gestures, not agreements. The result is that the noble experiment of creating a genuinely new North America that soared in its first decade has been in decline ever since.

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 labor standards—instead of implementing all of these initiatives, or for that matter, any of them, the political leadership of all three countries from administration to administration in Washington, Toronto and Mexico City essentially reverted to the dysfunctional dual-bilateral relationships—U.S.-Canada and U.S.-Mexico—that had characterized the pre-NAFTA era.

The three countries of North America had an opportunity to create a unique regional alternative to the European Union that would begin with three countries and, like a magnet, could draw the entirety of Latin America and the Caribbean toward it, strengthening the New World's democracy, prosperity and security in the process. But they dropped the ball.

Instead of that better future, we gained another irony. NAFTA dismantled most trade and investment barriers in North America, and the gravitational attraction of the U.S. market gave birth to a continental economy with an agenda extending considerably beyond NAFTA's. That new economy created or exacerbated economic and social challenges, including immigration, drug-related violence and border and labor-market complexities. Instead of developing more robust forms of collaboration to deal with these issues, our leaders reverted to the method of dealing with one issue, one crisis, one country at a time. They measured progress by the number of meetings rather than by results.

This strategy of proliferating transactional costs without generating solutions allowed Asia to acquire a new dynamism while the three countries of North America slipped. And though NAFTA was never empowered to deal with such issues, it was blamed for these problems and much else, morphing into a piñata to be whacked by pandering pundits and politicians in all three countries. The acronym became politically toxic, and the free trade area became a leadership-free zone.

That zone endures to this day. During its first two years, the Obama Administration seemed uninterested in filling the vacuum, possibly because both the President and the Secretary of State had been among the politicians who had whacked at NAFTA while seeking the White House. The world looks different once inside government, however, and Obama and Clinton reassured their Canadian and Mexican counterparts. But they did not embark on any major initiative until the Republican capture of the House in the 2010 mid-term elections. Then the Administration established separate working groups with Canada and Mexico to address issues related to borders and regulatory convergence, and the President finally proposed a trade policy aimed at doubling U.S. exports to complement his domestic efforts to restore the U.S. economy. He also struck a deal with Republicans to approve three free-trade agreements long since signed and awaiting ratification (with Colombia, Panama and South Korea) along with a trade adjustment assistance package (which was not specific to any of the agreements). He followed this with an Asian tour in November of last year with the declared purpose of trying to harness Asian economic dynamism to restore American growth.

The juxtaposition of these actions, punctuated by the heralded "pivot to Asia", raises the question of whether the Administration systematically examined the potential of an Asian or a North American economic strategy to serve U.S. interests. The rhetoric heralding the Asian strategy has been so superficial that one might conclude that the Administration was simply chasing headlines about Asian success rather than acting on the basis of an in-depth examination of its strategic options. If that is the case, the Administration made an irresponsible mistake. If it conducted a serious examination of its options and chose the Asian option anyway, it made a responsible mistake, but a mistake nonetheless.

To understand our real choices, and before we can usefully compare Asian versus New World options, we need first answer some basic questions about North America:

- Why should the United States care about North America?

- Is NAFTA a problem? Should we build on it, repeal it or just let it be? What should our goals be in North America?

- Should we have separate policies for each neighbor, or should we work with both Canada and Mexico to create a North American community?

Let's begin our answers by first defining our interests, then proceeding to an examination of the strengths and weaknesses of NAFTA, a comparison of an Asian versus a North American strategy, and, finally, offering a blueprint for a North American strategy.

Interests

It's no surprise that a North American strategy is not on our radar screen. Newspaper reports are filled with grisly images of drug-induced violence in Mexico, and U.S. policy toward our southern neighbor seems preoccupied with containing that challenge. Canada, on the other hand, seems trouble-free. This is a relief for the United States, since all the world's crises seem sooner or later to get deposited on the White House lawn; but it is not, however, a reason for us to neglect our northern neighbor.

Most Americans think that the largest markets for U.S. exports are China and Japan, and that may explain the Obama Administration's Asian initiative. But the truth is that Canada and Mexico are the top two markets for U.S. exports. Most Americans also think that Saudi Arabia and Venezuela are the largest sources of our energy imports, but again, Canada and Mexico are more important. And again, we think that most tourists who come and spend money here are European and Asian, but more than half are Canadians and Mexicans. A similar percentage of Americans who travel abroad go to our two neighbors. All in all, no two nations are more important for the U.S. economy than our two closest neighbors.

From the perspective of U.S. national security, too, recall for a moment that Mexico and

Canada made an historic gamble in signing NAFTA. Already dependent on the behemoth next door and wary of the imbalance of power, both countries feared that NAFTA could make them more vulnerable. Still, they hoped that the United States would be obligated to treat them on an equal and reciprocal basis and that they would prosper from the agreement. Canadians and Mexicans have begun to question whether they made the right choice.

There are, of course, a wealth of ways to measure the direct and indirect impact of NAFTA, but political attention, not without justification, tends to focus on violations of the agreement. The U.S. government violated NAFTA by denying Mexican trucks the right to enter the United States for 16 years, relenting in the most timid way, and only after Mexico was permitted by the World Trade Organization to retaliate in October 2011. And for more than a decade, Washington failed to comply with decisions made by a dispute-settlement mechanism regarding imports of soft-wood lumber from Canada. More recently, the United States decided to build a huge wall to keep out Mexicans, and after a three-year process of reviewing the environmental impact of the Keystone XL pipeline from western Canada to the Gulf of Mexico, this past December 2011 President Obama decided to postpone the decision for another year. This is the sort of treatment likely to drive both Canada and Mexico to conclude that depending on the United States was the wrong decision.

Imagine for a moment what might happen if Canada and Mexico came to such a conclusion. Canada might divert its energy exports to China, especially if China guaranteed a long-term relationship at a good price. Mexico would diversify with South America and China and might be less inclined to keep America's rivals, like Iran, at arm's length. Is there anyone who thinks these developments would not set off national security alarms? A very old truth would quickly reassert itself: The United States can project its power into Asia, Europe and the Middle East in part because it need not worry about its neighbors. A new corollary of that truth would not be far behind: Canada and Mexico are far more important to the national security of the United States than Iraq and Afghanistan.

Beyond the economy and national security, our two neighbors have societal ties to the United States that make all other ethnic connections seem lean in comparison. By 2015, there will be about 35 million people in the United States who were either born in Mexico or whose parents were born in Mexico; that number exceeds the total population of Canada. Canadians in the United States don't stand out as much as do Mexicans, but nearly a million Canadians live in the United States. And more Americans live in Mexico than in any other foreign country.

In sum, the economy, national security and society of the United States, Mexico and Canada are far more intertwined than most U.S., Canadian and Mexican citizens realize. Most Americans haven't worried about Mexico in strategic terms since the days of Pancho Villa, or about Canada since the 1814 Battle of Plattsburgh. That's unwise. Bad relations with either country, let alone both, would be disastrous. On the other hand, deeper relations could be vastly beneficial. We don't seem ready to recognize that truth either.

Orphan NAFTA

NAFTA generated a sunny set of hopes and a thunderstorm of fears. Mexicans hoped that their country would rise to First-World status; 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 NAFTA would put an end to undocumented migration from Mexico. Alas, none of these hopes panned out.

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 actually declined. The United States feared that its jobs would march south to Mexico, but the greatest period of NAFTA-promoted trade growth in the United States (1993–2001) coincided with the largest U.S. job-creation expansion in U.S. history. So the fears also fell short.

Leaving aside hopes and fears, if the criteria for evaluating NAFTA were whether it achieved its explicit goal of removing barriers and expanding trade and investment, then it succeeded grandly. In its first seven years, trade among the three countries of North America tripled, foreign direct investment quintupled and North America's share of world product soared from 30 to 36 percent. Unfortunately, that upward trajectory has not been sustained. Since 2001, the growth in trade among North American countries declined by two-thirds; in foreign direct investment the rate of growth shrunk by half, and the share of the world product sank to 29 percent. Intra-regional trade as a percent of the three countries' world trade rose from 40 percent in 1992 to 46 percent in 2001, only to fall back to 40 percent in 2009. Why? What happened?

Will Rogers once said that even when you are on the right road, you're going to get run over if you sit down. To some extent, that's what happened to North America: We sat down in 2001, and China ran over us. Although Canada and Mexico remain the most important markets for U.S. goods, China replaced them as the largest source of U.S. imports. But the China factor is hardly the whole story, and it's the least important part of it from a policy perspective.

Besides China's commercial success, new security barriers erected after 9/11 took a major toll on commerce without any discernable benefit to security. Barely eight years after NAFTA began to lower barriers to trade, the United States raised new and more formidable barriers to our two closest neighbors. We slowed traffic and insisted on a plethora of credentials, forms and fees to cross the border, driving many of the small trucking firms in Canada out of business. Since 9/11, on average, each year 65 million people transit between San Diego and Tijuana, but the Department of Homeland Security has not arrested a single individual on suspicions of terrorism. The impact was paradoxically most severe on our neighbors because NAFTA had begun to transform the way the three countries traded with each other. Instead of just trading products, we started making them together on a "just in time" basis, meaning that parts would be shipped across the border within a day. The automotive industry had long been the most important segment of North American trade, with car parts crossing the borders many times before ending up fully assembled. The added cost of 9/11 restrictions, therefore, transformed the North American advantage into a disadvantage; other countries only had to surmount one border just once instead of two borders seven times.

Also responsible for the North American reversal were the ongoing U.S. underinvestment in infrastructure (a folly for which both parties are responsible) and U.S. non-compliance with some NAFTA provisions (in trucking, for example).

Above all, what hurt the trilateral relationship most is that the biggest of the three countries, the United States, had no continental strategy, no vision of how to build institutions to span the three giants. NAFTA was like a sturdy three-step stool that allowed the United States, Canada and Mexico to move up and see further. But once there, instead of building a ladder to the next level, we blamed the stool for not being a ladder.

Asia or North America

The global economy seems increasingly divided into three main regions: a dynamic East Asian zone, a crisis-prone eurozone and a semi-conscious North America. Each region faces formidable challenges, but only North America seems unaware that its future competitiveness depends more on addressing its internal challenges than in gaining access to the others' markets.

Taken together, these three regions constitute 80 percent of the world's product and trade, and more trade passes within each region than between them. A study of 348 of the largest multinational corporations in the world found that 154 firms were North American, with 75 percent of their sales in North America; 127 were European, with 64 percent of their sales in Europe, and 67 firms were based in Asia, with 76 percent of their sales in that region.[1] Globalization is not as important as regionalism.

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[1]Alan Rugman and Chang H. Oh, "Friedman's Follies: Insights on the Globalization/Regionalization Debate", *Business and Politics* (November 2008). The other companies did not have geographically based data available.

Just as the ability of the United States to project power abroad depends in part on the security of its North American base, so too can U.S.-based multinationals extend their reach into Asia and Europe backed by the power of the largest market in the world. The United States is the single largest national market, but the combined gross national products of Canada ($1.6 trillion) and Mexico ($1 trillion) would rank them the fifth largest economy. Combined with the United States, in 2010 the three had a nominal GDP of $17.1 trillion—larger than the $16.2 trillion of the 27-nation European Union.[2]

Over the past 15 years, the regions have performed somewhat differently than most people think. Parts of East Asia have achieved the highest growth rates, but as a whole the region's share of world product declined from 25 percent to 22 percent. The European Union's share improved from 26 percent to 28 percent. Most surprising, the gross product of the three countries of North America soared from 29.5 percent of the world in 1994, when NAFTA began, to 36 percent in 2001. Since then, it has declined to 29 percent, but it remains the largest of the three.

Faced with the most urgent crisis, the European Union has taken the boldest, most long-term approach. Instead of fragmenting or retreating to unilateralism, the region is trying to forge a fiscal union that will discipline its members' budgets while investing in the region's future. Whether the EU succeeds at this remains to be seen, but no one can gainsay the effort. When faced with a financial crisis in 1997, Asia assembled a stabilization fund and is now negotiating a free-trade agreement among the ASEAN countries and the three principal economies of China, Japan and South Korea.

By contrast, the three nations of North America took separate paths after the deep recession of 2008. Each pursued its own infrastructure strategies and policies. The United States insisted on a "Buy American" policy and an independent approach to the auto industry, though most cars in the United States are literally North American, being assembled with parts from all three countries. Lily Tomlin, the Canadian comedienne, once quipped, "Together, we are in this alone." That applies to North America. Successive U.S. administrations have chosen to duplicate their work by addressing the same issues with each neighbor separately rather than addressing them more effectively together.

At the same time, the United States has been chasing a phantom in East Asia. At the APEC Summit in November 2011, the Obama Administration put its weight behind the "Trans-Pacific Partnership Agreement" (TPP), a free-trade agreement with eight countries whose combined gross product is a mere one-seventh that of Canada and Mexico. Of course, the TPP is not a trade strategy, or at least not a serious one. Its real purpose is to prevent China from unifying the Asian economy because it includes provisions—for example, on state-owned operating enterprises—that China cannot accept. But that TPP strategy was pre-empted within a week of the APEC Summit when China, Japan and South Korea joined the ASEAN countries in free-trade talks.

Whatever its actual purpose, a TPP is likely to take a long time to negotiate and yield comparatively little in terms of additional trade. Moreover, like all trade agreements, the Administration would have to invest time and considerable political capital to get it approved by Congress. That would be a waste of political capital compared to the North American alternative. Just do the math: U.S. trade with Canada and Mexico in 2010 exceeded $1 trillion, 30 percent more than trade with China and Japan. More importantly, the best markets to expand U.S. exports are not in Asia but with our immediate neighbors. For every additional dollar that Canada and Mexico buy from abroad, more than eighty cents are U.S. exports, and for every additional dollar we import from our neighbors, a large proportion—about forty cents—is actually composed of our exports to them. In other words, the balance of trade is less important with our neighbors than the overall volume, since our production and marketing arrangements are already so intertwined. The opposite is true of our trade with Asia.

The best strategy to compete against China, double our exports and invigorate

[2]IMF/World Bank data. If one uses purchasing power parity, the Mexican GDP is $1.6 trillion, Canada's is $1.3 trillion, and with the United States ($14.5 trillion), the total for North America would be $17.4 trillion.

our economy is to deepen economic integration with our neighbors and to do it together rather than apart. Unfortunately, the latter approach has prevailed since NAFTA. The three leaders mostly meet one-on-one in separate bilateral forums. The three North American leaders met as a group in Guadalajara in August 2009 and pledged to meet annually, but they missed the next two years. On April 2, 2012, Obama hosted Harper and Calderon in Washington. Their "Joint Statement" emphasized "deep economic, historical, cultural, environmental, and societal ties", but their initiatives remained packaged in two separate bilateral compartments.

A North American Blueprint

The Presidents of the United States and Mexico and the Prime Minister of Canada should seek to construct a North American Community that would invigorate their economies and improve the region's competitiveness with Asia and Europe, enhance continental and public security, address more effectively the new transnational agenda, and design lean but effective trinational institutions for the 21st century.

Such a Community would advance the principal goals of each country. For Mexico, it would narrow the development gap and lift its people to First-World status. For Canada, it would create institutions that would bind the three nations to agreed standards. For the United States, it would create a new style of leadership more aligned with long-term goals than with short-term special interests. For all three countries, it would allow a more cooperative and effective approach to transnational issues like transportation, infrastructure, immigration, anti-narcotics policies and the environment.

The vision that undergirds this proposal is based on a principle of managed interdependence. If one country suffers a setback, all are hurt; success for one helps the others. The principle is simple and often lauded by leaders, but rarely acted on. If the United States actually accepted its "shared responsibility" for the drug problem, for example, it would get serious about making sure the 7,500 gun shops on the U.S. side of the border do not sell weapons to drug cartels. And if all three countries actually incorporated a sense of community, they would advertise "Buy North America" instead of "Buy USA", "Buy Mexico" or "Buy Canada."

The word "Community" refers to a group in which the members feel an affinity and desire to cooperate. It is not a union, and their relationship would differ from Europe's, although, as already suggested, it should try to learn from Europe's experience. It would be flexible enough for the three countries to define the new relationship that they would seek. Like the people and states of North America, the Community would be eminently pragmatic, choosing policies based on what advances the interests of all.

By moving from a dual-bilateral relationship to a trilateral approach, the three countries could avoid duplication and clashing efforts. They would replace power imbalances with fair rules and would mobilize all three peoples to attack problems rather than each other.

In December 2011, the U.S. and Canadian governments presented "Action Plans" on the border and regulatory convergence, and the U.S. and Mexican governments repeated the same exercise. The three countries restated the goal that they announced a decade before in the two "Smart Borders" agreements: to make the border efficient and secure. And they affirmed the need to harmonize regulations, just as they did in 2005, when they established the Security and Prosperity Partnership to avoid "the tyranny of small differences in regulations" that serve only to protect companies rather than benefit consumers.

As it turned out, the "Action Plans" were really inaction plans. They set one-year deadlines for studies on virtually every issue identified a decade ago without ever trying to explain why the three governments had failed to achieve their goals. The Obama Administration waited until its third year to announce studies that won't be completed until December 2012. The leaders called the plans "game-changers", but anyone who bothered to read them knew they were playing the same old games. This was little more than a full-employment act for bureaucrats.

It is possible, of course, that a trilateral approach might not yield any more effective policies than the dual-bilateral efforts have so far.

Nevertheless, it is clear that the only way to move forward on the agenda is for the leaders to grasp the North American opportunity, give it a high priority and organize their governments to accomplish their goals. It's also clear we need to create institutions to help the three governments think continentally. At a minimum, we need a North American Advisory Commission to prepare continental options for all three leaders to consider and choose at annual summits.

There is no paucity of problems to address. The three leaders should call for a North American Plan for Transportation and Infrastructure, for example, and establish a North American Investment fund that would connect the poorest southern regions of Mexico with the richer North American market. Such a fund would create the infrastructure in the south of Mexico that would attract investment and jobs and thus reduce migration to the north.

As long as our leaders persist in focusing on bilateral or Asian relationships, they will be blind to the promise and the problems of North America.

To create a seamless market, the three countries should negotiate a common external tariff. That would eliminate the excessive "rules of origin" tax of about $500 billion per year, and the nominal common tariff could be used to fund the North American Investment Fund. Building roads, dismantling unnecessary border restrictions, expanding educational opportunities across the continent, harmonizing and raising environmental and labor standards, training tri-national teams of customs officers—these small steps could begin to invigorate the sleeping giant of North America.

It is unrealistic to expect these ideas to become policy in a short time. Big ideas take time for the body politic to absorb. But we have to keep at it, and there are various ways to gain leverage. Representatives from the border regions could generate support for the "North American Idea", for example. The nations' three leaders could articulate a vision and announce a few, inexpensive initiatives that would nonetheless put the idea on their constituencies' mental maps. They could merge the two sets of working groups on borders and regulations into a single North American group. They could ask their Ministers of Transportation to develop a North American Plan in a year. The three countries' coast guards have much to share and could benefit from more coordination. Our leaders could allocate as little as $15 million for scholarships and support for Research Centers for North America. That research could be connected to a North American Garden initiative to plant trees, conserve fresh water resources and share insights on how to grow healthy food in abundance. All of these would be a good start.

The problem is that our leaders do not think continentally. As long as they persist in focusing on bilateral or Asian relationships, they will be blind to the promise and the problems of North America. At base, today's problems are the result of the three governments' failure to govern the North American space for mutual benefit. Once they visualize "North America" and decide to approach their problems from a continental perspective, solutions will appear that were previously invisible.

None of the many proposals that have been advanced for the region can be achieved without such a vision. Americans and Canadians will not contribute to a North American Investment Fund to narrow the development gap with Mexico without being convinced that Mexico's growth will benefit their countries. There is little prospect of reaching an agreement on labor mobility, harmonizing environmental standards, forging a transportation plan, or most any proposal that would cost money or change the status quo unless there is a vision of a wider community that could attract the support of the people and their legislatures. The right vision can inspire the three nations to rethink North America and incorporate the idea into our consciousness and policies. We can be more than the sum of our three great countries, but only if we first see the possibility.