FOREIGN AFFAIRS
Published by the Council on Foreign Relations

January/February 2014
ESSAY

NAFTA's Unfinished Business

The View From Canada

Michael Wilson
MICHAEL WILSON is Chair of Barclays Capital Canada. He served as Canadian Minister of International Trade from 1991 to 1993 and as Canadian Ambassador to the United States from 2006 to 2009.

In 1992, when Canadian Prime Minister Brian Mulroney sat down with Mexican President Carlos Salinas and U.S. President George H. W. Bush to sign the North American Free Trade Agreement, free trade was still a matter of fierce national debate in Canadian politics. NAFTA was meant to build on the U.S.-Canadian free-trade agreement that Mulroney had signed at the beginning of 1988, and his support for that deal had cost his party 34 parliamentary seats in federal elections later that year, which had focused almost exclusively on the issue.

Today, however, the debate in Canada over the merits of free trade is settled. Few dispute that NAFTA has produced large and measurable gains for Canadian consumers, workers, and businesses. In 1993, trade within North America amounted to around $290 billion; by 2012, that number had skyrocketed to over $1.1 trillion -- a nearly fourfold increase. Over the same period, U.S. and Mexican investment in Canada tripled. Canada has created 4.7 million net new jobs since 1993, and the North American economy has more than doubled, with a combined GDP increasing from $8 trillion in 1993 to $19 trillion in 2012. Perhaps more important, NAFTA produced a sea change in how Canadians think about their role in the global economy: no longer wary of U.S. dominance, they have grown confident that they can compete against the best.

Judged solely in terms of liberalizing trade, NAFTA has succeeded. But those of us who championed NAFTA hoped the agreement would be something more: a means to deepen integration among the three economies. Unfortunately, when measured against this more ambitious benchmark, NAFTA has fallen well short of expectations. The good news is that it’s not too late to play catch-up. But to do so, policymakers in Canada, the United States, and Mexico must start working together now to tear down more fully the barriers that still stand in the way of complete economic integration.

BORDER BARRIERS

NAFTA did make some progress in integrating the continent’s economies, and Canadian, U.S., and Mexican companies quickly began collaborating more on joint production. The automotive sector is the most frequently cited example of this phenomenon -- car parts now cross national borders multiple times during the assembly process -- but it applies equally to other important sectors, such as beef, with animals raised in one country and slaughtered in another. “Made in North America” may not appear on any labels, but it reflects the true origin of many continental exports.

That said, the reality is that two decades after NAFTA came into force, efforts to advance the cause of North American economic integration have stalled. One reason for the lack of progress lies in the deep-seated skepticism of free trade prevalent among average Americans, which U.S. policymakers have never been able to overcome. Canadians, on the other hand, are more supportive of open trade with the United States, which they credit with boosting the Canadian economy. The negative impacts so feared in the 1988 elections -- the end of Canada’s social programs and, more broadly, its way of life -- simply never materialized.

The 9/11 attacks also played a role in setting back economic integration. Both Canada and the United States understandably tightened their border security in response, but the new restrictions profoundly reduced the relative ease of movement between the two countries. Consider one data point: same-day crossings from the United States to Canada fell from 25.3 million in 2001 to less than 7.7 million in 2012, the lowest number since record keeping began in the 1970s. Indeed, in most years since 9/11, the U.S.-Canadian border has posted double-digit declines in same-day traffic originating from the United States.

Today, there seems to be little hope of advancing North American economic integration through trade policy. Progress would require overcoming the hefty political baggage associated with NAFTA in the United States. It would also run headlong into strong support in Congress for “Buy American” provisions, as well as misguided suspicions that more liberalized rules for the temporary entry of businesspeople would open a backdoor to immigration reform. Moreover, efforts at further economic integration would require a change in the orientation of the Office of the U.S. Trade Representative. Whether hemmed in by the realities of U.S. politics or simply reflecting a mercantilist mindset, that office has long shown little interest in taking a joint approach to trade policy with Canada and Mexico. The talks over the proposed Trans-Pacific Partnership exemplify this phenomenon, with Washington negotiating tariff reductions bilaterally with each participant, including Canada and Mexico, for fear that others will free-ride off its negotiating leverage.

ONE CONTINENT, ONE ECONOMY

Even though trade policy stands on rocky ground, there are other, more fertile soils in which the seeds of greater continental cooperation can be planted. The first concerns the border. In early 2011, Canada and the United States embarked on an intensive effort to rethink the way they manage their 5,500-mile boundary and created a steering committee of officials from the Canadian Cabinet Office and the White House to oversee it. As a result, Ottawa and Washington are now implementing a detailed action plan to deal with threats at the ports of first arrival and even overseas, before they reach the U.S.-Canadian border.

The plan calls for increased intelligence sharing and a unified approach to screening cargo, under the principle of “cleared once, accepted twice.” Already, both countries have harmonized the inspection of air passenger baggage and air cargo, and they have taken steps toward mutually recognizing each other’s “trusted trader” programs, which reduce hassle at the border for businesses that meet certain security standards.

So far, however, it remains unclear whether the plan’s ambition will be matched by its execution. The real test will be whether the plan’s various pilot projects, which have been experimenting with new ways to speed up border clearance for various industries, are ever brought up to scale. The United States has embarked on a similar border-streamlining effort with Mexico, suggesting that a longer-term objective might be “cleared once, accepted thrice.” As a first step, the three governments should consider developing a joint “trusted traveler” program involving common screening criteria and information sharing.

Another way to stimulate North American economic growth involves regulatory reform. Echoing their efforts to streamline border crossings, Canada, the United States, and Mexico have established “cooperation councils” to unify their regulations. In support of that work, U.S. President Barack Obama issued an executive order in 2012 mandating that U.S. government agencies identify and eliminate unnecessary regulatory differences with U.S. trading partners. Over the past three years, the U.S.-Canada Regulatory Cooperation Council, led by top officials in both countries, has identified ways to align rules for several industries, including the agricultural, transportation, and health-care product sectors.

The hope is that these efforts will overcome the so-called tyranny of small differences between the two countries’ regulatory regimes, which drive up costs for businesses. In December 2012, for example, Health Canada and the U.S. Food and Drug Administration announced that they had completed their first joint review of a veterinary drug, part of a new process for simultaneous approval of such pharmaceuticals. But there is room for expansion: the U.S.-Canadian and U.S.-Mexican cooperation councils should meet regularly to share best practices and identify new areas for joint work, an approach that business leaders from across the continent endorsed in a 2013 open letter to the three heads of state.

ROOM FOR IMPROVEMENT

Policymakers should also seize opportunities for greater cooperation on energy security and climate change. Even as the Keystone XL pipeline project remains the subject of intense debate, vast pipeline and transmission networks are already sending energy south. Today, Canada exports more oil to the United States than does any other country: at least 2.3 million barrels a day, or 99 percent of Canadian crude oil exports. That oil makes a vital contribution to U.S. energy security and will do so for the foreseeable future, even after taking into account the rapid growth in U.S. domestic production caused by the shale oil boom.

In recognition of this reality, in 2009, Obama and Canadian Prime Minister Stephen Harper established a “clean energy dialogue,” which so far has focused on energy efficiency, carbon capture and storage, the electricity grid, and clean energy research and development. Mexico, for its part, is pushing ahead with a major reform of its energy sector, which may open the market to foreign firms for the first time in decades. If it is carried out, this reform should attract new investment and technology to develop offshore and shale deposits, augmenting production and enhancing North America’s energy security.

To improve on these efforts, all three countries can and should work together to responsibly develop unconventional resources, build and maintain energy infrastructure, and promote higher energy-efficiency standards. Although the global economic recession has pushed climate change lower down on the world’s agenda, this is likely to be a temporary phenomenon, and North American governments share much common ground on the issue. Canada and the United States have long cooperated on transborder air-quality issues, such as ozone pollution, and all three countries are already members of the UN’s Climate and Clean Air Coalition, which aims to reduce short-lived climate pollutants.

Preparing for pandemic disease is another area ripe for trilateral engagement. In 2005, spurred by concerns about the emergence of a new avian flu, the leaders of Canada, the United States, and Mexico agreed to develop a plan for fighting it. Updated in 2012, the plan outlined a continental framework for detecting, monitoring, and controlling influenza outbreaks, without unnecessarily restricting the movement of people, animals, or goods. Senior officials in all three countries have backed its implementation, and the three countries are now examining closely a range of actions, covering governance, communications, training, surveillance, and border measures, to contain outbreaks and limit their economic damage, particularly disruptions to travel.

Finally, the three countries should make common cause on security. Canada and the United States have enjoyed a long history of military cooperation, especially through the jointly staffed North American Aerospace Defense Command, which was created during the Cold War. Ottawa and Washington also both worry about drug smuggling and human trafficking through Mexico, and they operate programs to train Mexico’s police, improve its administration of justice, and prevent crime. Convening at the White House in April 2012, the three heads of state agreed to do more to fight transnational crime, and in March of that year, their defense ministers met in Ottawa to discuss ways to deepen security cooperation, with a follow-up meeting planned for this year in Mexico. In 2012, the three defense ministries developed the first continental threat assessment, and they are now planning joint disaster-response simulations.

As supply chains become increasingly globalized, the prospects for a comprehensive trade agreement under the Doha Round of the World Trade Organization fade even further, and as new competitors emerge in Asia and South America, the case for a more integrated North American economy has never been stronger. Twenty years after NAFTA entered into force, it will be up to a new generation of policymakers to make the case for North America. For now, the prospects for trilateral cooperation on trade look less hopeful, on account of U.S. reluctance, but policymakers have taken promising steps on other areas of cooperation. Further progress, however, will depend on leadership from the top. Given the scale of the potential benefits, the continent’s leaders have every reason to provide it.

Return to Article: http://www.foreignaffairs.com/articles/140350/michael-wilson/naftas-unfinished-business
Home > Essay > NAFTA’s Unfinished Business
Published on *Foreign Affairs* (http://www.foreignaffairs.com)