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North American Integration: Migration, Trade, and Security
Big Issues Come in Combinations
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Big Issues Come in Combinations

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1. My task, as I see it, is to synthesize

- a. Other sessions deal in some detail with the components
 - i- Migration and Investment
 - ii- Perimeter Security
 - iii- Institutional Needs, and so on.
- b. What are we searching—at the limits—is free movement of goods, services, and factors (capital and people)
 - i- Not all at once right now, but a process
 - ii- The only missing element in this grand theme in this conference is a common currency (or an irrevocably fixed currency)
- c. Not all these ideas are necessarily good—nor are they feasible right now
 - i- But a process based on substantive ideas can be debated
 - ii- And we may get to some kind of bargain over time
 - iii- The European Union, for example, has now been 50 years in the making

2. My comments will deal with combinations of themes.

- a. Trade, investment, and migration initiatives
- b. Trade and security
- c. The idea of a common currency between Canada and the United States, or among the three NAFTA countries.

3. Trade, investment, and Migration.

- a. Movement of goods, services, and capital now largely unimpeded within North America
 - i- There are limits:
 - Agricultural trade (and in this sense, NAFTA is two agreements: U.S.-Mexico and these two with Canada)
 - Special interest restrictions, such as sugar, softwood lumber, cabotage
 - And perhaps most important, rules of origin under a free trade agreement (FTA)
 - The bugaboo that prompted Canada's proposal for an FTA with the United States, anti-dumping and countervailing duty measures, is still there
 - Oil commitments for Mexico mostly absent
 - And the precise definition of cultural goods and services in Canada is elusive

- b. A customs union would largely eliminate rules of origin
 - i. But what to do with bilateral FTA's—mostly Mexico and the United States
 - Perhaps move to FTA's with third countries jointly by the new customs union—if possible—and not by the individual countries
 - Side FTA's by one country are not compatible with a common external tariff of a customs union
 - ii- Unsure if the U.S. is ready to drop AD and CVD practices even in a customs union
 - iii- Current protectionist sentiment in the US makes it evident we are not talking about moving *now* to a customs union
- c. Trade and investment are inherently inseparable in North America
 - i. Intra-firm and intra-industry trade
 - ii- Co-production
 - iii- Great use of just-in-time inventory systems
 - Will return to this when discussing security
- d. If migration is added, the discussion then goes beyond a customs union to a common market
 - i- Free movement of people not now feasible for Canada and the US in relation to Mexico
 - ii- Income disparities
 - iii- Disparities are even a problem as between Canada and the US
- e. A common argument is that steady economic development in Mexico will at some point reduce the urge to emigrate
 - i- Transform Mexico into an Ireland or Spain
 - ii- But this is not happening
 - iii- Even though population growth rates in Mexico are declining.
- f. One issue is whether, in the long term, increased trade and investment can raise Mexican GDP enough to make free movement of people feasible?
 - i- In theory, yes
 - ii- But despite 10 years of steady growth in Mexican exports and substantial inflows of foreign direct investment under NAFTA—Mexico has had little per capita income growth over this period
 - iii- Mexico's failure has been in economic policy

4. Trade, Migration, and Security

- a. We all know the immediate aftermath of 9/11 slowed the movement of goods and services across borders
- b. This wreaked havoc with jit systems—especially as between Canada and the US
- c. Things are better now—but by no means fully robust—with the two smart border agreements in North America

- d. Unless timely supply of imports can be assured—the incentive to move the input production to the US side of the border could be overwhelming
- e. The movement of people has also been impeded
- f. More than ever, the idea of pre-clearance of goods before they get to the border has become essential
- g. This is a practical way to *reduce* the impediment of the border—but not really eliminate it
- h. We all know the problem of pre-screening—especially given the enormous movement of containers, whether on trucks or ships or railways.

5. Perimeter Security

- a. A special session at the conference was devoted to this, and I see no need to repeat this discussion
 - i- The idea arises because, in the abstract, it is a more perfect answer to the problem of dealing with border impediments than pre-screening or pre-clearance
- b. In addition, perimeter security need not imperil sovereignty—as we are seeing in Europe
 - i- This obviously depends on how the attributes of sovereignty are defined
 - ii- However, perimeter security requires a sharing of sovereignty as this pertains to trade and immigration policy
- c. If border impediments are removed—and the impediments moved instead to the perimeter—this requires:
 - i- A common external tariff and other trade restrictions
 - ii- A common immigration policy—or something very close to that
 - iii- Shared inspections at the perimeter
 - iv- And shared perceptions of the terrorist threat—this may be the biggest problem.
- d. I doubt that any of the three North American countries is ready for full perimeter security—although one day they may be.

6. A common currency

- a. I do not wish to get deeply into this because it is not directly on the agenda
- b. I mention this because a single currency, thereby avoiding wide swings in currency relations among the three North American countries, would surely facilitate trade and investment and resolve many trade disputes.
- c. My purpose is not to get into a discussion of optimum currency areas, or synchronization of cyclical shifts, or the question of the need for distinct monetary policy—but rather, I raise this issue for the sake of being more complete.

- i- This is a bigger idea than a customs union
- ii- And it would impinge significantly on the sovereignty of both Canada and Mexico if the US Federal Reserve were to become the central bank for all of North America

7. Wrapping up

- a. This presentation has been about ideas now being discussed—even if not necessarily by governments
 - i- They are being discussed because the problems exist
 - Terrorism
 - The effect of terrorism on border control
 - Uncontrolled immigration—for the US at least
 - Trade frictions
 - Production problems caused by border delays
 - This reduces the competitiveness of North American products
 - ii- There are no magic bullets for resolving most of these matters
 - iii- In my view, big problems are rarely resolved—they are managed and the nature of the problems then change
- b. There is much asymmetry among the countries in North America
 - i- Populations, size of economies, per capita incomes;
 - ii- Political structures vary—but all three are now democracies
 - iii- The countries differ as between immigration-sending and immigration-receiving countries
- c. Many of these ideas touched on here are “big ideas”
 - i- This may be a mistake—smaller changes are easier to digest
 - ii- And when big ideas go awry, the disruption is great.
- d. North America does not now have the institutions to deal with many of these suggestions:
 - i- Operation of a customs union
 - ii- Managing asymmetries of power and size
- e. Yet, nations often make progress when they debate important matters. Examples in North America are:
 - i- The Canada-US free trade agreement
 - ii- NAFTA
 - iii- Dealing with terrorism
- f. And that is my purpose here—to look at how to approach current issues in some connected way, rather than in isolation.