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## **Mapping the New North American Reality**

### **Introduction**

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## Introduction: Mapping the New North American Reality

The articles in this series were written by participants in a project sponsored by the PanAmerican Partnership for Business Education, an alliance of four North American business schools.<sup>1</sup> In cooperation with HEC-Montreal and the IRPP, the Partnership hosted a Study Group on “Mapping the New North American Reality” in November 2003. <sup>2</sup> To gain a better understanding of what this new reality entails, we invited 30 Canadian, Mexican and US colleagues from different sectors and fields, from government, universities and NGOs, to explore the nature of North American economic integration. In doing so we believed we could advance our understanding in a way that would transcend the debate centered on traditional concepts of national sovereignty and trade policy.

Our goal was to open a new dialogue, centered on the disjuncture between the facts on the ground – pointing to the deepening of interdependence in such crucial areas as energy, security, health and safety, and job creation – and the near-absence of a public consciousness of shared “North American” interests. We challenged the group to “think North America,” and, by extension, to “talk North America” by mapping out how integration was actually taking place in diverse sectors, issue areas, and geographical regions. The result, which is presented in this issue of Policy Options, is less a single map than a multi-dimensional and interconnected image of a complex and dynamic regional system, one which is poorly understood even as its importance to our future prosperity in the NAFTA nations grows every day.

North America is frequently described as the world’s largest trade bloc, with the world’s largest bilateral trade relationships. What is unsaid, however, is that the cumulative result of cross border trade and investment—especially since the implementation of the Canada-US FTA and NAFTA—is for most practical purposes a single, integrated economy. For example, of the \$1 billion-plus in goods that flow across the US-Canada border each day, the largest segment by far is automotive. But Americans do not buy Canadian cars and they do not sell American cars to Canadians. Americans and Canadians (and Mexicans) make North American cars together in the same companies, in cross-border continental production networks. We

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<sup>1</sup> Members of the PanAmerican Partnership are the Lubin School of Business, Pace University, New York; HEC-Montreal, Montreal; the Graduate School of Business-ITESM, Monterrey, and the Faculty of Management, Dalhousie University, Halifax

<sup>2</sup> This is one in a series of related projects launched with a grant from the Government of Québec. We wish to thank the Government of Canada for its generous support of this Study Group through the Canadian Studies Conference Grant Program

also share increasingly integrated energy markets; service the same customers with an array of financial services; use the same roads and railroads to transport jointly made products to market; fly on the same integrated airline networks, and increasingly meet the same or similar standards of professional practice.

This degree of collaboration and complementarity between countries is unprecedented. Economists refer to the process of mutual integration taking place as “deep” integration and “structural interdependence.” But for the result—a new system with levels of integration that often surpass that of the EU<sup>3</sup>—there is no adequate social science vocabulary. Indeed, efforts to force this “new” North America into standard economic integration paradigms confuses more than it illuminates. Much work on Canada-US relations, for example, draws conclusions based on economic integration as trade theory understands it—that is, as led by trade liberalization and harmonization, moving progressively from free trade area to customs union, to a common market. But North America is already very much a single market without having passed through these subsequent stages.

Moreover, unlike Europe, often held up as the paradigmatic case of regional economic integration, North America’s single market has been primarily built through a bottom-up process driven by corporate strategies and investment decisions that focus on the region rather than national economies as the market to be targeted. Even before NAFTA, many major US companies responded to tougher international competition and falling profit margins by rationalizing operations and reducing excess capacity – and ending Canada’s (and to a significant extent, Mexico’s) “branch plant” economy. For Canadian companies, getting closer to markets and accessing larger pools of capital have always been compelling reasons to expand southward. Meanwhile, as Mexico liberalized trade and investment rules in the 1980s, Mexican companies, too, felt the attraction of the U.S. market. The flexibility of this process, operating without heavy government involvement, encouraged rapid economic growth and job creation in the subsequent two decades. Its unintended consequence was a profound level of integration affecting political and social as well as economic issues in all three countries.

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administered by the Canadian Embassy in Washington, D.C. We warmly acknowledge the continuing generous support the Study Group program receives from HEC Montréal and its Director, Jean-Marie Toulouse.

<sup>3</sup> See Stephen Blank and Martin Coiteux, “The State of North American Integration,” International Management (November-December 2003)

Understanding the new environment was the starting point for the Study Group so it would not repeat the debates of other recent conferences in which trade policy and volumes of goods moving across borders were the primary reference points. We sought to focus on this “deep” integration, to describe and analyze shared production platforms and value chains that cross national borders, and to illuminate the political, economic and social impact of these developments. Along with views on more traditional NAFTA issues, such as the automobile industry, monetary integration, and investment, we turned to experts on banking and financial services, roads and transportation infrastructure, and energy to capture the new growth areas of economic integration. We also included issues, such as immigration and the environment, which respond to the externalities – positive and negative – of regionalism driven by corporate strategies. Finally, we sought out perspectives on explicitly political issues such as security, subnational governments, and civil society, which have often been missing in discussions on North America framed in terms of trade and business. By pressing our members to map out, in detail, how integration has evolved in their respective sectors, we tried to gain a better understanding of how this new reality operates, and what has driven and what has inhibited integration throughout the continental economy.

Each participant in the Study Group presented a first cut at a map. The whole group then subjected it to discussion as we sought to develop a wider understanding of its implications for North America. Later, participants revised their presentations in light of our discussions for publication.

The Study Group members felt that the market-driven integration model made rapid growth possible, but believed as well that this model could no longer deliver big gains without greater coordination of public policy in the region. The events of September 11 created new security and defence-based pressures on the system, while other events – the Northeast power blackout, the mad cow scare, and the re-importation of prescription drugs – placed a spotlight on regulatory issues that challenge national policymaking environments. Meanwhile, NAFTA Chapter 11 investor-state disputes about environmental protection have pitted local regulatory authority against the rights of transnational corporations, creating the public perception that businesses, not communities of individuals, are the primary “citizens” of North America.

Even from a business perspective, participants argued what business needs is for governments in the three NAFTA nations to dismantle emerging barriers to continued integration. Otherwise, company efficiency will be undermined, the international competitiveness of the North American nations will erode, and standards of living will suffer. Indeed, several of the articles in this collection raise serious warning flags. Mary Brooks,

for example, underlines the continued delay in transport harmonization poses a real danger of “stalling the integration of the manufacturing sector.” Isabel Studer, a specialist on the North American auto industry writes, “The auto industry is widely seen as one of the most integrated North American industries. But the protectionist environment in the United States, the continued existence of costly rules of origin, expensive regulations and different standards – particularly between Mexico and its two North American partners – are undermining the competitive potential derived from achieving further integration in the North American auto industry.”

Authors looking at non-economic issues agree that a more coherent policy framework for dealing with this new reality is required. Writing on immigration issues, Deborah Meyers and Kevin O’Neil praise recent moves away from ad hoc and informal cooperation between the United States and its neighbors towards a more coherent regional strategy: “the combination of high volumes of traffic, security risks, and unauthorized immigration has grown to the point...where piecemeal approaches to border and migration management no longer suffice,.” they observe. Similarly, Laura Macdonald argues that “the anemic institutional structure of NAFTA has failed to build a public constituency for North American integration.”

More significantly, participants recognized that it was not simply the need for action that must be demanded of governments, but also a new, ‘North American’ way of viewing policy options. There has been a general failure at the political level to understand, let alone articulate and support, the new environment we have described. Governments seem to lack the appropriate conceptual tools and vocabulary to address the new North America adequately in policy terms. Politicians are reluctant – indeed steadfastly refuse – to redefine national interests in regional terms, raising questions of North America’s institutional capacity to accept and seize the opportunities offered by its new economic structures. What this Study Group hopes to achieve with this report is (1) to signal the need for a shift in the policy focus towards a ‘North American’ perspective and (2) at the very least to begin a process of regular reporting and data gathering on North America as a complex, adaptive system. The more we know about North America, the better we’ll be able to discuss what it means to be North American without necessarily compromising national identities and cherished values. The future well-being and security of the three NAFTA countries may just depend upon it. .

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