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Taking a Fresh Look at North American Integration

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**Mapping the New
North American Reality**

**IRPP Working Paper Series
no. 2004-09c**

Taking a Fresh Look at North American Integration

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HEC-Montréal

Abstract

The concept North American integration should be revisited and extended beyond traditional trade theory. After taking a look at its architecture, we present a perspective articulated around the conflicting interests of businesses, government and civil society. We conclude by suggesting an agenda for academics and practitioners.

The Times, Are They A-Changin'?

When Bob Dylan first sang "*The times they are a-changin'*" two decades ago, he probably did not anticipate the lasting appropriateness of his words, least of all as applied to the process of regional economic integration in North America. In the past decade, we have witnessed increasing trade between Canada, the U.S. and Mexico under the auspices of the North American Free Trade Agreement (NAFTA). However, more recently, we have also felt the impact of a protectionist resurgence – as in the cases of softwood lumber or steel. Furthermore, since 9/11, security-related regulation has increased the cost of doing business in many industrial sectors and affected labour mobility. Are the times a-changin'?

Perhaps these conjunctural shifts appear to signal a reversal of fortune for integration, but, structurally, integration in North America continues to deepen. Indeed, historically, North America has experienced many swings between protectionism and openness but still remains very integrated. Moreover, while it has become commonplace both within academia and in the general public discourse to equate North America to NAFTA, North American integration is not just about trade between three nation-states. Rather, we need to move beyond trade theory to explain, and act upon, a complex compendium of integration processes which encompass investment, finance, and a slew of non-traditional trade-related issues such as food safety, immigration, energy security, and environmental protection. We need a new way to envision "North America" as an integrated, and integrating, region.

This article will sketch the outlines of such a new conceptualisation of the integration process in North America, starting from the premise that trade is but the tip of the iceberg of processes drawing together Canada, Mexico, and the United States in a regional economy. We will start by examining globalization and the post-9.11 security environment as the drivers and inhibitors of integration in North America. Next, we will develop a model describing how three main actors shaping integration processes – business, government, and civil society – define their interests and find themselves competing and converging across a variety of overlapping integration issues. Finally, we suggest how academic analyses and policy actors can benefit from a more dynamic and complex understanding of integration of North America.

Drivers, inhibitors and architecture

To better understand North American integration, we must identify the forces and actors behind it. Specifically, we need to look beyond conventional economic analyses of trade flows to the larger international context to identify drivers and inhibitors of these processes. On the one hand, the focus of the Bush Administration on “homeland security” has meant that borders that were becoming more trade-transparent have hardened in the search for greater security. On the other hand, globalization – characterized by advances in technology and the shift from national to global production chains – remains a driving force behind the acceleration of North American integration. At the same time, economic integration’s rapid pace has outstripped the ability of political and social institutions to adapt, leading to uncertainty regarding the future of integration despite indisputable and apparently unstoppable expansion of intracontinental trade. North American integration is thus proceeding at the intersection of these competing international forces, reflecting the paradox of a fragmented world that is more and more integrated.

Indeed, the phenomenon of regionalism is a response to this paradox, though the North American response differs considerably from the European model. This naturally reflects the differences between North American and European modes of capitalism. Whereas the European model is more consensual and negotiations on a variety of issue areas are carried out simultaneously through a top-down process led by policymakers, North America’s approach tends to be more confrontational and sectoral, and is managed through a bottom-up process led by business, with government more often than not playing catch-up. What we are witnessing is an increasing integration of trade matched by a dis-integration, or continentalization, of production, neither of which is being directed through a government-led integration “project” and both of

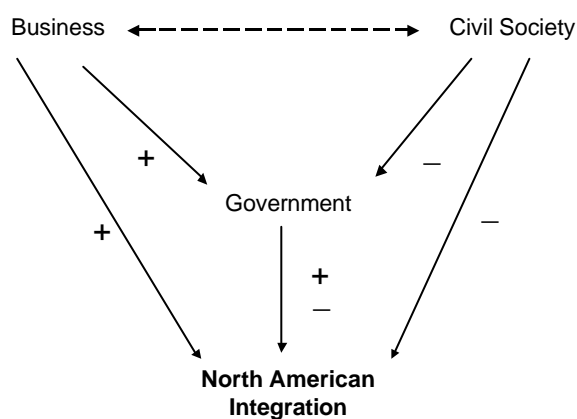
which are eliciting an often negative response from civil society critical of the inequalities attributed to economic integration processes.

North America does not follow in Europe's footsteps, and yet analysts err when they fail to recognize this bottom-up model as a separate path towards regional integration. Below we will present a model for understanding the dynamics of North American integration that is centred on the main actors shaping the process: business, government, and civil society.

An emerging conceptualisation

Figure One depicts our view of North American integration as an actor-driven process that places governments – already facing conflicting incentives from the two international processes discussed above - in the cross-hairs of competing interests expressed by business and civil society. In this section, we analyse these competing interests and show how they interact to produce the complex picture of a complex region.

Figure 1: Actors and their support (+) or reservations (-) for North American integration
(note: the dotted line indicates a disconnect)



Businesses. We model the business community as favoring greater regional economic integration. Faced with the shift of incentive structure over the past decade of globalization, many of the most successful businesses in the three NAFTA nations shifted towards continental rather than national production and distribution strategies even before the agreement was signed. While economists posit that the objective of the firm is to make a profit while financiers will affirm that it is to maximize its market value, both would agree that firms have focused on minimizing costs. As they are constantly looking for cheaper supplies, companies become important drivers of integration since their value chains become more and more scattered throughout the world. For larger businesses, however, doing business within North America may represent only a temporary advantage, which can be easily lost once other firms have learnt to “play the game. Meanwhile, smaller businesses, particularly those in Canada and Mexico, have new incentives to adapt to the new rules of the game and apply technology to improve productivity and take advantage of access to the lucrative American market. In this context, businesses are anxious to see governments provide them with the kind of flexible regulatory framework that will make these ‘bets’ on continentalization pay off.

Civil Society. We model civil society as opposing or questioning the benefits of continental economic integration, representing a possible counterweight to the generally pro-integration stance of business and placing its own pressures for government action on national policymakers. Here, while recognizing the diffuse and complex nature of civil society “interests” as well as the enormous regional, national and local disparities within the three North American nations, we identify ‘civil society’ as a political force which crystallizes around labour unions, NGOs and other similar types of public-interest advocacy groups. Their political power comes from their ability to articulate the collective fears of dislocation from economic globalization as well as moral arguments about rising inequalities attributed to globalization, notwithstanding the fact that many workers are, in fact, benefiting directly from those same economic forces. Thus, rather than simply “protectionist,” civil society must be seen as the voice of ambivalence which questions the social implications of integration, often seeking a seat at the table in forging national and regional responses to policy challenges associated with continental economic integration on issues such as immigration, environmental protection, and agriculture. At the same time, we must recognize that, just as business interests may fragment along national lines, civil society in the three nations may not always agree on whether integration is ‘good’ or ‘bad’ for their constituencies. Still, we model it as a force which questions the bottom-up mode of integration that is pushed forward by business interests .

Governments. At the apex of these competing pressures for policy response are national governments. We model governments both as targets of group pressures and also as entities which have been by-passed as business pushes bottom-up integration and civil society responds to the lack of institutional control of the process. At the same time, the autonomous role of the state in driving and/or inhibiting integration must not be discounted. Governments use budgetary policy to redistribute resources within society and direct intervention to cope with crisis and guide the development of certain strategic industries. Both functions underscore the state's power to limit or direct the freedom of action of economic agents. This is also the case for policies related to integration. Indeed, as some authors observe, governments may strategically choose to promote regional integration. For example, promoting integration allows governments to distance themselves from certain protectionist lobbies by subcontracting some authority to supra-national institutions – that is, it helps governments respond to criticism from anti-integrationist forces by claiming that their “hands are tied” because of their international commitments.. This may become a double edged sword, however, since such policy subcontracting may limit governments' flexibility in responding both to pro-free trade business and civil society's critique of a ‘democratic deficit’ in the integration process.

A model? We see the varied, often conflicting, interests and motivations of our three main actors most clearly when they confront integration-related issues. For example, the case of the impact of cross-border regulatory or pollution management issues: First, firms might be tempted to adjust the build business operations in environments where environmental regulatory costs are lowest, without regard for civil society's stand on the issue. Governments are cross pressured, therefore, to regulate against integration (following civil society's anti-integrationist position) and to favour *laissez-faire* policies (following the pro-integration position of business). Business cannot assume that it will control the integration process if civil society is able to mount a credible challenge within the policymaking process. At the same time, because of both self-interested partisan/electoral concerns and the more virtuous desire to balance two competing views of the “national interest,” governments may attempt to act simultaneously both in favour and against integration – that is, it will please neither group and possibly lose out on the benefits of integration and on re-election.

What is missing, of course, are trilateral institutions which would channel these competing interests away from national governments and into a less politicized venue. A mutually-agreed upon institution such as a NAFTA tribunal would only be, for example, an imperfect means of optimizing a response to all interests,

but it would have the merit of being a framework that could provide tangible and measurable results as well as modest legitimacy for a set of rules for managing the integration process.

What's next?

We argue that North American integration goes beyond trade flows to encompass a more complex political process in which three sets of actors – businesses, governments, and civil society– interact in a mosaic of interests that collide or converge depending on the situation. This does not mean that trade is irrelevant to gauge integration; rather, it is a call to academic researchers as well as to practitioners to expand their definitions of integration processes and to recognize that, even without powerful supranational institutions, North America is integrating in profound and often misunderstood ways.

Implications for academia. First, in order to increase the relevance of its contributions, researchers must construct more complex, interactive and dynamic models which are not necessarily driven by the relative availability of trade-related data. Second, because there “North America” is not perceived to exist in the same way that “Europe” does, the focus of investigation must be shifted from a local or national to a regional perspective.

Finally, the study of North American integration would benefit from interdisciplinary cross-fertilization among the fields of economics, political science and international business, particularly as regional integration and globalization remain tightly related.

Implications for practitioners Practitioners from government and civil society in the three countries must also realize and to act upon their identities as “North Americans”. This regional orientation would improve policy analysis and advocacy, and would also allow for better common positions in addressing the de facto expansion of NAFTA through bilateral accords (e.g., U.S.-Chile Free Trade Agreement), and in negotiations for the Free Trade Area of the Americas (FTAA). Civil society agents would particularly benefit from alliances across borders to shape policies at the regional level as well as the agenda for democracy and transparency within the FTAA.. Furthermore, careful examination of other integrating regions and the strategies of their counterparts within those regions could provide valuable lessons for the future of North American integration.

Meanwhile, practitioners from the business world must adapt their global strategies to reflect the growing “regionalisation” of the world, including North America. Also, they have to strive for greater and tighter integration of their supply chains while taking into account the probable inconvenient and costly resurgence of security-driven border issues. In addition, they, too, have to develop a more overtly “North American” orientation by recognizing the continental source of their competitive advantage and realizing that the deep integration of North America is a great opportunity to generate unequalled levels of wealth. Finally, they must become more aware of the need for an overt political strategy to counter the growing profile of anti-integrationist groups within civil society. If they do not, then they risk losing out on the benefits of the economic system they have built from the bottom-up.