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NORTH AMERICAN INTEGRATION: MIGRATION, TRADE, AND SECURITY

BIG ISSUES COME IN COMBINATIONS

*Sidney Weintraub**

CURRENT and future efforts toward North American integration rest on the three linked issues of migration, trade, and security. At a recent conference at the Institute for Research on Public Policy in Ottawa, I met with colleagues and experts to discuss components of integration – migration, investment, perimeter security, and institutional needs. In addition, I believe that a common currency will one day be a critical element in the grand theme of integration. Underlying the discussion is a strong sense that the free movement of goods, services, and factors (capital and people) in North America will eventually be a reality. This situation will not come all at once; instead, it will be an ongoing process. Furthermore, many ideas now being discussed will not necessarily be good or even feasible. It is reasonable to hope for an eventual bargain through an open debate of substantive ideas and the passage of time. The European Union, for example, has now been fifty years in the making. My comments here will thus deal with combinations of themes: trade, investment, and migration initiatives; trade and security; and the idea of a common currency between Canada and the United States, or among the three NAFTA countries.

I. TRADE, INVESTMENT, AND MIGRATION

The movement of goods, services, and capital is now largely unimpeded within North America, but there are limits. The first is agricultural trade. In this sense, NAFTA is two agreements, U.S.-Mexico and these two with Canada. Then there are special interest restrictions on sugar, softwood

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lumber, and cabotage – point-to-point transportation of property or passengers. Perhaps most important are the rules of origin under a free trade agreement (FTA). These rules amount to non-tariff barriers to trade by establishing criteria to define where a product is made and then conferring preference to members of the FTA. Globalization affects the fairness of rules of origin since often a product is processed in several countries before it is ready for the market. There are more sensitive points: the bugaboo that prompted Canada's proposal for an FTA with the United States, anti-dumping (AD) and countervailing duty (CVD) measures, is still in place; oil commitments from Mexico are mostly absent; and the precise definition of cultural goods and services in Canada is elusive.

A customs union would largely eliminate rules of origin, but would not provide a comprehensive solution. The issue of bilateral FTAs – mostly those of Mexico and the United States – would remain. Side FTAs by one country are not compatible with the common external tariff of a customs union. One way to address this problem would be to shift to joint FTAs between the third countries and the customs union rather than the individual countries. Another caveat is that it is unclear whether the United States is ready to drop AD and CVD practices even in a customs union. Current protectionist sentiment in the United States makes it evident we are not talking about moving now to a customs union.

The reality is that trade and investment are inherently inseparable in North America. The magnitude of intra-firm and intra-industry trade is striking. Intra-NAFTA exports in 2002 alone totaled \$625 billion. There is widespread co-production and great use of just-in-time (JIT) inventory systems.

If migration is added, the discussion then goes beyond a customs union to a common market. The free movement of people is not currently feasible for Canada and the United States in relation to Mexico due to large income disparities. In 2002, GDP per capita (in 1995 US\$) was \$23,590 in Canada, \$3,713 in Mexico, and \$31,977 in the United States. These figures also suggest that disparities are a problem even between Canada and the United States.

A common argument is that steady economic development in Mexico will at some point reduce the urge to emigrate. The hope is that Mexico will transform into an Ireland or a Spain – countries once on the European Union periphery that are now considered solid economic successes. Unfortunately, this does not seem to be happening with Mexico, even though population growth rates are declining.

One issue is whether, in the long term, increased trade and investment can raise Mexican GDP enough to make free movement of people feasible. In theory, the answer is yes. But despite ten years of steady growth in Mexican exports and substantial inflows of foreign direct investment under NAFTA – Mexico has had little real per capita income growth over this period. Mexico's failure has been in economic policy, especially the

inability to carry out structural changes in the fiscal situation and the justice system.

II. TRADE, MIGRATION, AND SECURITY

We are all aware that the immediate aftermath of 9/11 slowed the movement of goods and services across borders. This wreaked havoc on JIT systems – especially as between Canada and the United States. The situation is better now, but by no means fully robust, with the two smart border agreements in North America. The challenge is to create a Canada-U.S. border that is “open to trade and closed to terrorists.” But unless timely supply of imports can be assured, the incentive to move the input production from Canada to the U.S. side of the border could be overwhelming. By trying to prevent terrorists from crossing between the two countries, the movement of people has also been impeded. More than ever, the idea of pre-clearance of goods before they get to the border has become essential. This is a practical way to reduce the impediment of the border, but it does not really eliminate it. Pre-screening is an enormous problem, though, especially considering the enormous movement of containers, whether on trucks or ships or railways.

III. PERIMETER SECURITY

The idea of perimeter security arises because, in the abstract, it is a way of dealing with border impediments. Full perimeter security would essentially mean securing North America as a geographic unit rather than making the borders between the Canada, Mexico, and the United States restrictive. Perimeter security need not imperil sovereignty, just as it has not done in Europe. Obviously this depends on how the attributes of sovereignty are defined. However, perimeter security does require a sharing of sovereignty as this pertains to trade and immigration policy.

If border impediments are removed – and the impediments moved instead to the perimeter – there is a set of requirements that must be met. Perimeter security would require: a common external tariff and of other trade barriers, a common immigration policy (or something very close to that), shared inspections at the perimeter, and shared perceptions of the terrorist threat – this may be the biggest problem. Taking this into consideration, I doubt that any of the three North American countries is ready for full perimeter security, although one day they may be.

IV. A COMMON CURRENCY

A single currency, by avoiding wide swings in currency relations among the three North American countries, would surely facilitate trade and investment and resolve many trade disputes. 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. This is a

bigger idea than a customs union. 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. Support for a common currency has fluctuated over the years in the North American countries, but currently there is no organized movement to take this idea to the next level.

V. WRAPPING UP

This summary discussion has been about ideas now being discussed, even if not necessarily by governments. They are being discussed because the problems exist, such as: terrorism, the effect of terrorism on border control, largely uncontrolled immigration (for the United States at least), trade frictions, production problems caused by border delays, and the reduced competitiveness of North American products due to these delays. There are no magic bullets for resolving most of these matters. In my view, big problems are rarely resolved – they are managed and the nature of the problems then changes.

There is much asymmetry among the countries of North America. Populations, the size of the economies, and per capita incomes are a few of the main differences that immediately come to mind. The political structures vary, though all three are now democracies. The countries also differ as between immigration-sending and immigration-receiving countries. Each one of these differences has a unique and significant impact on shaping policy interests and choices of North American countries.

Many of the ideas touched on here are “big ideas.” This may be a mistake; smaller changes are easier to digest, not to mention that when big ideas go awry, the disruption is great. North America does not now have the institutions to deal with many of these suggestions. It would be impossible to operate a customs union or manage the asymmetries of power and size under the current conditions. Yet, nations often make progress when they debate important matters. Examples in North America are: the Canada-U.S. Free Trade Agreement, NAFTA, and dealing with terrorism. That is exactly what my purpose is here – to look at how to approach current issues in some connected way, rather than in isolation.