

Building a North American Community

Report of an
Independent Task Force

Sponsored by the Council on Foreign Relations
with the
Canadian Council of Chief Executives and the
Consejo Mexicano de Asuntos Internacionales

Introduction

The security and well-being of its citizens are at the pinnacle of any government's responsibilities. At the beginning of the twenty-first century, the futures of Canada, Mexico, and the United States are shared as never before. As a result, all three countries face a historic challenge: Do they continue on the path of cooperation in promoting more secure and more prosperous North American societies, or do they pursue divergent and ultimately less secure and less prosperous courses? To ask the question is to answer it; and yet, if important decisions are not pursued and implemented, the three countries may well find themselves on divergent paths. Such a development would be a tragic mistake, one that can be readily avoided if they stay the course and pursue a series of deliberate and cooperative steps that will enhance both the security and prosperity of their citizens.

At their meeting in Waco, Texas, at the end of March 2005, U.S. President George W. Bush, Mexican President Vicente Fox, and Canadian Prime Minister Paul Martin committed their governments to a path of cooperation and joint action. We welcome this important development and offer this report to add urgency and specific recommendations to strengthen their efforts.

The three countries of North America are each other's largest trading partners. More than 80 percent of Canadian and Mexican trade is with its North American Free Trade Agreement (NAFTA) partners. Almost one-third of U.S. trade is with Canada and Mexico. Trade among these three countries has tripled in value over the past decade.

In addition, cross-border direct investment has increased sharply, contributing to the integration of the three economies.

North America is also energy interdependent, though not energy independent. In 2004, Canada and Mexico were the two largest exporters of oil to the United States. Canada supplies the United States with roughly 90 percent of its imported natural gas and all of its imported electricity.

In addition, all three countries face common security dangers, from terrorism to drug trafficking to international organized crime. Addressing these dangers is a major challenge in this dynamic region: the borders between Canada, the United States, and Mexico will be crossed over 400 million times in 2005.

As liberal democracies, the governments also share common principles: protecting individual rights, upholding the rule of law, and ensuring equality of opportunity for their citizens. North America, in short, is more than an expression of geography. It is a partnership of sovereign states with overlapping economic and security interests, where major developments in one country can and do have a powerful impact on the other two.

More than a decade ago NAFTA took effect, liberalizing trade and investment, providing crucial protection for intellectual property, creating pioneering dispute-resolution mechanisms, and establishing the first regional devices to safeguard labor and environmental standards. NAFTA helped unlock the region's economic potential and demonstrated that nations at different levels of development can prosper from the opportunities created by reciprocal free trade arrangements.

Since then, however, global commercial competition has grown more intense and international terrorism has emerged as a serious regional and global danger. Deepening ties among the three countries of North America promise continued benefits for Canada, Mexico, and the United States. That said, the trajectory toward a more integrated and prosperous North America is neither inevitable nor irreversible.

In March 2005, the leaders of Canada, Mexico, and the United States adopted a Security and Prosperity Partnership of North America (SPP), establishing ministerial-level working groups to address key security and economic issues facing North America and setting a short

deadline for reporting progress back to their governments. President Bush described the significance of the SPP as putting forward a common commitment “to markets and democracy, freedom and trade, and mutual prosperity and security.” The policy framework articulated by the three leaders is a significant commitment that will benefit from broad discussion and advice. The Task Force is pleased to provide specific advice on how the partnership can be pursued and realized.

To that end, the Task Force proposes the creation by 2010 of a North American community to enhance security, prosperity, and opportunity. We propose a community based on the principle affirmed in the March 2005 Joint Statement of the three leaders that “our security and prosperity are mutually dependent and complementary.” Its boundaries will be defined by a common external tariff and an outer security perimeter within which the movement of people, products, and capital will be legal, orderly, and safe. Its goal will be to guarantee a free, secure, just, and prosperous North America.

What We Face

Our countries face three common challenges:

Shared security threats. Over the last decade, terrorist and criminal activity has underscored North America’s vulnerability. All of the 9/11 terrorists succeeded in entering the United States directly from outside North America, but the 1999 arrest of a person trying to cross the Canadian-U.S. border as part of a plot to bomb the Los Angeles airport shows that terrorists may also try to gain access to the United States through Canada and Mexico. This person was found to have cased Canadian targets as well, and al-Qaeda has publicly listed Canada as one of its prime targets along with the United States.

Failure to secure the external borders of North America will inhibit the legitimate movement of people and goods within the continent. After the 9/11 attacks, delays at the Canadian-U.S. border prompted parts shortages in both countries, costing manufacturers millions of dollars an hour. Trade across the Mexican-U.S. border also suffered in the immediate aftermath of the attacks, which hindered U.S. economic growth. Continent-wide consequences mean that Canada and Mexico

have an overriding commercial interest in increasing North American security, apart from any other considerations. In addition, future terrorist assaults could target critical infrastructure or sites in any of the three countries.

Beyond terrorism, all three countries must deal with a persistent flow of undocumented immigrants. International criminal activity also poses a continuing threat to public safety in the region, including drug- and gang-related violence along the Mexican-U.S. frontier. These cross-border threats cannot be adequately addressed by any one government alone.

Failure to address security issues will ultimately undermine gains on other matters. In the North American context, failure to collaborate effectively to address security issues will have a direct impact on commercial relationships as well as on our freedoms and quality of life.

Shared challenges to our economic growth and development.

NAFTA has dramatically enhanced our ability to make better use of the abundant resources of our three countries and thus made an important contribution to economic growth within North America. Over the last decade, however, our economies have faced growing challenges in increasingly competitive and globalized world markets. We need to do more to ensure that our policies provide our firms and workers with a fair and unfettered basis to meet the challenges of global competition. Unwieldy North American rules of origin, increasing congestion at our ports of entry, and regulatory differences among our three countries raise costs instead of reducing them. Trade in certain sectors—such as natural resources, agriculture, and energy—remains far from free, and disputes in these areas have been a source of disagreement among our countries. Furthermore, the NAFTA partners have been unable to resolve a number of important trade and investment disputes, which has created continuing tension in our commercial relationships.

Leaders in our three countries have acknowledged these challenges and discussed a wide range of responses during the 2005 Texas summit. Those involving changes in formal trade agreements will of necessity take time to negotiate and ratify. However, in other areas, notably regulatory cooperation and the expansion of transborder activities in

critical sectors such as transportation and financial services, there is a shared recognition that the three countries can and should act quickly in ways that would make a real difference in improving the competitiveness of firms and individuals in North America.

Shared challenge of uneven economic development. A fast lane to development is crucial for Mexico to contribute to the security of the entire region. Mexico's development has failed to prevent deep disparities between different regions of the country, and particularly between remote regions and those better connected to international markets. Northern states have grown ten times faster than those in the center and south of the country. Lack of economic opportunity encourages unauthorized migration and has been found to be associated with corruption, drug trafficking, violence, and human suffering. Improvements in human capital and physical infrastructure in Mexico, particularly in the center and south of the country, would knit these regions more firmly into the North American economy and are in the economic and security interest of all three countries.

Leaders in our three countries have acknowledged these problems and indicated their support for a number of promising measures, including immigration reform, but there remains considerable scope for more individual, bilateral, and joint efforts to address development needs.

What We Can Do

In making its recommendations, the Task Force is guided by the following principles:

- The three governments should approach continental issues together with a trilateral perspective rather than the traditional “dual-bilateral” approach that has long characterized their relationships. Progress may proceed at two speeds in some spheres of policy. Canada and the United States, for example, already share a long history of military cooperation and binational defense institutions, and they should continue to deepen their bilateral alliance while opening the door to more extensive cooperation with Mexico. Yet many issues would be better addressed trilaterally. Shared concerns range from regional

economic growth to law enforcement, from energy security to regulatory policy, from dispute resolution to continental defense.

- North America is different from other regions of the world and must find its own cooperative route forward. A new North American community should rely more on the market and less on bureaucracy, more on pragmatic solutions to shared problems than on grand schemes of confederation or union, such as those in Europe. We must maintain respect for each other's national sovereignty.
- Our economic focus should be on the creation of a common economic space that expands economic opportunities for all people in the region, a space in which trade, capital, and people flow freely.
- The strategy needs to be integrated in its approach, recognizing the extent to which progress on each individual component enhances achievement of the others. Progress on security, for example, will allow a more open border for the movement of goods and people; progress on regulatory matters will reduce the need for active customs administration and release resources to boost security. North American solutions could ultimately serve as the basis for initiatives involving other like-minded countries, either in our hemisphere or more broadly.
- Finally, a North American strategy must provide real gains for all partners and must not be approached as a zero-sum exercise. Poverty and deprivation are breeding grounds for political instability and undermine both national and regional security. The progress of the poorest among us will be one measure of success.