



DIANA VILLIERS NEGROPONTE

REINVIGORATE NAFTA

The Context

Fifteen years after the signing of the North American Free Trade Agreement (NAFTA) and with growing protectionist tendencies among the three countries there is a risk that NAFTA could become the European Free Trade Arrangement that withered to nothing in the 1980s. NAFTA was bold in its vision of opening markets and offering prospects for closer cooperation between Canada, Mexico and the United States, but the events of 9/11 have changed the vision that a North American community could emerge. Trade among NAFTA has quadrupled since its inception in 1994, but could have been stronger. Since 2001, the U.S. has focused more on thickening border crossings to keep out terrorists than on facilitating trade and the passage of people. We have succeeded in creating integrated production chains and markets for automobiles; logistical chains that should now be used for other products, including knowledge.

A serious trade spat between the U.S. and Mexico over the objection to Mexican trucks using U.S. roads and Mexican retaliatory measures indicates growing protectionist tendencies between both countries. NAFTA has lost its gild edge and those who sought greater integration on issues beyond trade have become disillusioned. The question arises as to whether we leave NAFTA to

tariff minders and truck inspectors or whether we invigorate it by enhancing cooperation on necessary multi-national concerns, such as energy, the environment, infrastructure, education and health policy.

The Challenge

Since its foundation in 1994, non-oil exports have grown four-fold and the stock of foreign direct investments has doubled among NAFTA partners. In 2007, Canada exported close to \$26 billion worth of goods to the U.S. compared to \$18.6 billion from Mexico, accounting for approximately 82 percent of each countries total trade. In 2001, the U.S. exported \$3.6 billion worth of farm and food goods to Mexico rising to \$10.8 billion in 2006. U.S. exports of similar goods to Canada increased from \$4.2 billion in 1990 to \$11.9 billion in 2006.

This growth has been accompanied by increasing demand for energy, for the most part based on increased consumption of fossil fuels. But this growth was accompanied by increased emissions of greenhouse gases (GHG), which measurably damaged our biosphere. Until recently, we could dream of both economic growth and the discovery of alternative fuels to contain GHG, but skyrocketing prices in grains and fuel were followed by a credit crisis among major U.S. financial

institutions with serious repercussions for the economy in both Canada and Mexico.

The financial and economic crisis has resulted in a 30 percent depreciation of the Mexican peso and 16 percent depreciation of the Canadian currency against the U.S. dollar. Trade flows are anticipated to decrease significantly in 2009. Unemployment is rising and underemployment has risen to the level that families are cutting back on food and clothing. Poverty rates, measured by the income necessary to buy a basket of staple food items, have increased sharply in both Mexico and the U.S. (Canada does not have an official poverty line and the calculation is based on a “low income cut-off” figure.) In January 2009, remittances, the life blood for many rural communities in Mexico fell between 11-13 percent from the previous year, reducing the flow of private funds to individual families, as well as poor communities. NAFTA was created to expand trade, but more is needed as demonstrated by the labor and environmental Annexes. We should now consider expanding cooperation further to encompass the challenges presented by energy, infrastructure, education and healthcare.

Hemispheric Opportunity

The summit meeting in Trinidad and Tobago presents an opportunity to make critical commitments: protect the social wellbeing of the poorest citizens and spur economic growth through counter-cyclical stimulus projects. In this respect, the leaders should commit to re-invigorate NAFTA as part of a hemispheric effort to stimulate trade and deter protectionist measures.

- **Trade.** Joint commitment to abide by the NAFTA treaty is needed as the pressure to protect domestic industries and jobs grows. Canada provides a good example with its decision to reduce tariffs on specified goods. The U.S. should not revoke the truck-

ing agreement with Mexico, but rather extend the pilot program and gradually expand the range for Mexican trucks within a mutually agreed regime.

- **Energy.** Joint investments in liquid natural gas (LNG) as well as nuclear, wind, solar and bio-fuels to provide greater security from global price hikes and shortages, as well as to meet the additional 25 percent demand for energy expected by 2025. Existing infrastructure is designed to carry petroleum, and we must jointly invest in new pipelines to transport alternative forms of energy.
- **Environment.** Our shared responsibility to reduce GHG and meet the challenges posed by the heating of our planet should be engaged on a regional basis. A North American GHG exchange strategy could ensure that the U.S. has access to Canada’s energy sources in exchange for offsets for GHG created by their development. Mexico, as the seller of the offsets, could then develop the infrastructure to clean its energy, transportation and industrial sectors. Mexico can leverage the offset revenues to create President Calderon’s Green Fund. This can be used to reverse deforestation and re-establish Mexico’s rich biodiversity. The combination of carbon trading, capture and offsets has potential to impact positively current climate change trends, as well as establish a model for other regions in the Americas.
- **Infrastructure.** The removal of protracted regulatory processes at both federal and local level could encourage the creation of an integrated, multi-modal transportation plan and North American infrastructure model based on private/public ownership. This could help to ensure 24/7 cross-border gateways, toll roads and corridor highways. Planning requires local community input and the example of the Sonora/Arizona partnership is noteworthy.

Furthermore, we need a North American cyber-port that all three nations can access to create a seamless processing of goods and people across our borders.

- **Education.** Opportunities exist throughout NAFTA to increase the exchange of knowledge, faculty and students. Economic resources now exists at a number of colleges to permit people, without the capacity to actually travel, to exchange ideas and engage in more robust teaching, as well as knowledge and policy transfers. We can provide the means to more effectively inform public debates and educate key constituencies.
- **Health care.** Revise national health plans, such as Medicare, so as to grant access to approved and licensed health facilities throughout the NAFTA area. This would enable the elderly to take advantage of devoted nursing skills, good medical treatment and warmer weather in Mexico, as well as reduce costs for patients in northern climates.

Broadening cooperation beyond trade, labor and the environment permits us to envisage a knowledge based NAFTA community rather than a factory based production chain. Co-operative projects among the private sector and between metropolitan areas should be given the opportunity to develop ideas and projects with the support of Federal governments.

Want to know more?

Martinez-Diaz, Leonardo (2009), "Mexico's Economy: Preparing for a Tough Year," The Brookings Institution.

Negroponte, Diana Villiers (2007), "What future for the Prosperity and Security Partnership?" The Brookings Institution.

"Cross Talk II: Building common Security in North America," Woodrow Wilson International Center for Scholars (February 2009).

"Improving Border Policies," El Colegio de la Frontera Norte (December 2008).

"Rethinking U.S.-Latin America Relations: A Hemispheric Partnership for a Turbulent World," Report of the Partnership for the Americas Commission, The Brookings Institution (November 2008).

"The Future of North America 2025: Outlook and Recommendations," CSIS (2008).