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Introduction

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When it came into force on January 1, 1994, the North American Free Trade Agreement (NAFTA) joined the economic futures of Canada, Mexico, and the United States. Clearly both Canada and Mexico—given their geography and markets—had been integrating with the United States well before NAFTA took effect. Indeed, the United States and Canada had signed a bilateral free trade accord six years earlier. But, with NAFTA in place, the pace of integration accelerated, and systematic rules governing trade and investment along with dispute resolution mechanisms were established, and the governments assumed an active role in guiding, promoting, and managing economic relations among the three countries. Moreover, the three countries are increasingly viewed as a single economic entity, one with a gross domestic product (GDP) of some $10 trillion, or 15 percent larger than the fifteen-country European Union (EU).

What then lies ahead for North America? As it stands, NAFTA takes a narrow view of integration, focusing almost exclusively on trade and investment matters, steering clear of any new institutional, social, or development arrangements. NAFTA barely addresses such vital issues as immigration policy and labor markets, the energy sector, environmental protection, and law enforcement. Moreover, despite their trilateral relationship, the three governments of North America largely conduct business within the framework of two bilateral relationships, that is, between Canada and the United States and between Mexico and the United States.

The governments of Canada, Mexico, and the United States now must confront the question of whether NAFTA is enough. Do they want to keep their trilateral relationship largely focused on economic matters? Or are they interested in integrating more deeply, in more fully joining their societies—perhaps initiating a process to build a North American Community, if not precisely along the lines of the European Union, then something similar but less ambitious? Whatever the three countries decide their ultimate objective to be, what additional steps, if any, should they take in the interim to affect the pace and structure of their integration?

This monograph is designed to begin a process to help answer these questions. It contains thoughtful discussions about the future of North America by three knowledgeable experts on the continent from each of the three countries. Robert A. Pastor from American University (and formerly with Emory University) in the United States has written a comprehensive book on the subject: *Toward a North American Community: Lessons from the Old World for the New*.[1] Andrés Rozental is an ambassador at large for Mexico and president of Consejo Mexicano de Asuntos Internacionales (Mexican Council on International Affairs). Perrin Beatty, a former foreign minister of Canada, is president and chief executive officer of Canadian Manufacturers & Exporters.

The papers in this volume were presented at a conference held at the Brookings Institution in December 2001, as part of a project on the future of North American integration. The project has the support of eight organizations from the three North American countries.[2] The consortium was formed to explore the issues and choices that lie ahead—including the costs, benefits, and constraints associated with various options—as the three nations consider the kind of future relationship they wish to develop. The project seeks to assist decisionmakers, opinion leaders, and ordinary citizens in understanding the promise and challenges associated with the integration of Canada, Mexico, and the United

States. It also aims to encourage them to think more systematically about how they wish to proceed and where they want to end up.

North American Economic Integration

The United States in 2002 is overwhelmingly the largest trading partner of both Canada and Mexico and the biggest foreign investor in both countries.

Total trade between the United States and Canada amounts to about $450 billion per year, nearly two-and-one-half times what it was in the early 1990s. Canada buys some 70 percent of its imports from U.S. suppliers and sends more than 85 percent of its exports to the U.S. market. Nearly two-thirds of all foreign investment comes from the United States.

Trade between the United States and Mexico exceeds $250 billion per year, more than four times that of a decade ago. Mexico ships almost 90 percent of it exports to the United States and obtains about 70 percent of its imports from the United States. Mexico has become the second largest trading partner of the United States, and if the growth of its bilateral commerce continues at its current rate, Mexico could soon be challenging Canada's no. 1 ranking. Mexican exports to the United States, once largely made up of petroleum and agricultural products, are now more than 85 percent manufactured goods.

Although it does not come anywhere close to the amount of either country's bilateral commerce with the United States, trade between Canada and Mexico increased nearly fivefold in the past ten years. The two countries are now each others' third largest trading partner—trailing only the United States and the EU. The amount they sell to and buy from each other amounts to some $9 billion, nearly as much as the trade between Brazil and Argentina.

Economic integration among the three countries already goes considerably beyond trade and investment. Mexicans continue to migrate in large numbers to the United States, principally in search of jobs and higher wages. Upwards of 21 million persons of Mexican origin now reside in the United States. Approximately 9 million of these were born in Mexico. They contribute in countless ways to the U.S. economy and society.

Mexicans and Mexican Americans now send some $8 billion annually back to their communities. Although the numbers are still modest, a growing number of Mexicans are also finding their way to Canada. And tourism is expanding in all three countries, or at least it was before the September 11, 2001, terrorist attacks on the United States.

The three countries are tied together in many noneconomic ways as well. Mexicans are changing language patterns, social norms, and culture throughout the United States. As Mexican migrants become residents and citizens, they are increasingly influencing local and national politics. The voting strength and preferences of Mexican Americans are shaping U.S. policy toward Mexico. At the same time, U.S. cultural phenomena are increasingly pervasive in both Mexico and Canada—through films, TV, music, tourists, and student and professional exchanges. Nongovernmental organizations of many types function easily across the borders of all three countries.

The Future of North American Integration

Unless the three governments decide to halt further integration, recent trends strongly suggest that the societies and economies of the United States, Canada, and Mexico are likely to draw closer together. In particular, cross-border trade, investment, and migration should all continue to increase.

Stronger cooperation is clearly the aim of the three governments. That was made plain in the joint statement of U.S. president George W. Bush, Mexican president Vicente Fox, and Canadian prime minister Jean Chrétien issued in April 2001 during the Quebec City Summit of the Americas. The three leaders recognized that "patterns of cooperation—by governments, business, and other members of civil society—are building a new sense of community among us." And they pledged to "work to deepen a sense of community, promote our mutual economic interest, and ensure that NAFTA's benefits extend to all regions and social sectors." To achieve this objective, the three leaders called for "coordinating efforts in support of efficient North American energy markets" and strengthening "trilateral cooperation to address the legitimate needs of migrants," while pledging to "examine options to further strengthen our North American partnership . . . and advance the trilateral relationship."

President Fox, since his election in July 2000, has most energetically pursued the goal of North American integration. Even before taking office in December 2000, he traveled to Ottawa and Washington, with several groundbreaking proposals for strengthening ties among the three countries. He called on his U.S. and Canadian counterparts to consider transforming NAFTA from a free trade arrangement to a common market and to work toward the goal of open borders, for people as well as goods, among the three countries. Although largely rebuffed on these ambitious aims, Fox has continued to press for deeper integration among all three countries particularly focused, unsurprisingly, on Mexico's bilateral relationship with the United States.

President Bush and many members of the U.S. Congress, even those with a history of antagonism toward Mexico, have endorsed the idea of reshaping U.S. policy toward Mexico in such sensitive areas as immigration and drugs and in pursuing closer economic ties. Bush has called the U.S. relationship with Mexico its most important in the world.

The events of September 11 radically transformed the foreign policy agenda of the United States—and shifted priorities in U.S. relations with Mexico and Canada. Border security commanded most of the immediate attention of policymakers in the United States, while the issues of greatest concern to Mexico and Canada—resolving outstanding trade disputes and reshaping immigration policies, the core issues of any integration effort—appeared to lose their urgency. Instead, security matters became a central focus for collaboration among the three governments. Canada and Mexico recognized the importance of security concerns on their own merits, but they were also intensely aware that, in light of changed U.S. priorities, security cooperation was essential to sustain normal cross-border commerce, capital flows, and the movement of people. The agendas of the three countries may be less congruent than they were before September 11, but the three countries each now have different, and possibly stronger, reasons for integration.

Different Paths toward Integration

Although many political leaders in the United States, Canada, and Mexico agree that greater economic and political coordination among the three countries would be desirable, no preferred formula or path for achieving that coordination has yet emerged. Wide differences exist on how to proceed, depending on a range of factors, including specific interests at stake, ideological preferences, and pragmatic judgments of what is possible.

Fully Implement NAFTA

For those supportive of further integration—and all of the authors in this volume are to varying degrees—it is crucial that, at a minimum, NAFTA be fully implemented. So far, the provisions of the accord have been largely fulfilled on schedule, but a great deal still needs to be done to meet its requirements in both letter and spirit.

In particular, many in Mexico have expressed concern about U.S. compliance with NAFTA on issues as varied as sugar and trucking. For their part, Canadians were irritated about the recent imposition of U.S. tariffs on its lumber exports and concerned about possible new barriers raised against the import of Canadian wheat and steel. While all of these matters may not be specifically covered by NAFTA, many in Canada feel that the United States is not showing good faith by restricting free trade in key commodities. As for the United States, many policymakers and citizens remain concerned about Mexico's adherence to NAFTA's rules of origin provisions and its labor and environmental side agreements.

Some advocates of closer North American links argue that, for the next several years, the three governments ought to focus only on resolving these various disputes and work to ensure the full implementation of NAFTA. Several arguments are cited to support this view.

For one thing, NAFTA provides the core legal and institutional framework for integration. If it cannot be made to work, then how can the governments think of further initiatives to deepen integration? Pursuing other integration strategies could end up weakening the commitment to NAFTA and defer its completion.

Moreover, some dark clouds on the horizon could make NAFTA even more difficult to implement in the years ahead as the scheduled tariff reductions under the agreement become more binding, especially in Mexico. Facing greater competition from the north, domestic constituencies within Mexico may resist full implementation of NAFTA. These pressures are likely to grow if the United States is not seen as adhering to its part of the agreement. A similar backlash could arise in Canada if the future trade disputes emerge over issues other than the export of Canadian lumber and wheat to the United States. (A possible trade conflict with Canada and Mexico over steel was muted when the Bush administration decided in March 2001 to exempt exports from those countries from the safeguard tariffs it imposed on steel imported from most other countries.)

One suggestion for minimizing future conflict over NAFTA-related issues, advocated by Robert Pastor, might be to establish a permanent North American Court on Trade and Investment, which would replace the current ad hoc tribunals provided for under the agreement. The rulings of this court would be binding, as is the case now for the ad hoc tribunals. In addition, a permanent court could avoid the conflicts of interest that are becoming prevalent because of the difficulty of finding judges on a temporary basis, and it would permit the accumulation of precedent and thus the development of a more stable framework for trade and investment. The court's proceedings should be transparent: Its hearings should be open to the public, and opportunities should exist for interested parties from all countries to present briefs on disputes that come before the tribunal.

Moving beyond NAFTA

Designing and implementing additional integration measures beyond NAFTA will be difficult, if not impossible, until policymakers and citizens reach broad agreement on medium- and longer-run objectives. The effort will be complicated by the fragmentation inherent in the political systems of all three countries—embodied in separation of powers between different branches of government at the national level and in federalism between national and provincial or state governments. Three possible broad paths toward greater integration show the long-run choices with respect to integration that each nation confronts.

1. A NAFTA-plus arrangement would be limited to additional trade and investment measures that might lead to a full-fledged customs union with a common external tariff.

2. Deeper integration would seek accords on other subjects in which there are cross-border impacts, including migration, energy and water management, transportation and infrastructure, security arrangements, and foreign policy consultations.

3. A supranational institutions option could involve modest arrangements to deal with specific issues or sectors, or it could be as ambitious as entailing EU-style intergovernmental executive and legislative functions.

These are not mutually exclusive paths. Leaders and citizens of the three countries could agree on an eclectic policy framework that contains elements of each of these broad models.

NAFTA-Plus

A NAFTA-plus arrangement would build on NAFTA, but the focus of any new integration effort would be kept on trade and investment. This approach, for example, might turn NAFTA from a free trade agreement into a full-fledged customs union with a common external tariff. Over the longer run, it could also contemplate the strengthening and deepening of economic coordination generally—for instance, through increased harmonization of regulations and macroeconomic policy. Policy harmonization might eventually aim toward a common currency (although a consensus at the December Brookings meeting was that talk of a common currency is premature and that flexible exchange rates so far have worked relatively well to smooth out each country's adjustments to macroeconomic shocks).

Other nontrade measures could also facilitate trade. One example would be an integrated continental plan for improving transportation between the three countries by, among other things, establishing common vehicle safety standards and eliminating restrictions against domestic carriage by foreign providers (airlines in particular). If appropriate security measures could be agreed upon, a North American open-skies arrangement could be contemplated. The many different subnational and national transportation regulatory standards make harmonization an extremely ambitious goal, however. Seeking the adoption of minimal standards coupled with mutual recognition of standards across countries (an approach to standards adopted by the EU) might be more feasible.

Consideration could also be given to widening—instead of deepening—NAFTA to incorporate other neighboring countries such as those of Central America and the Caribbean. President Bush has endorsed such an option by announcing his intention to begin negotiations for a free trade arrangement with the Central American and Caribbean region. In addition, Canada and Mexico already have bilateral agreements with many of the countries in the two regions. Some argue, however, that widening NAFTA to include these additional countries may weaken the original agreement and detract from the potentially larger benefits of achieving deeper integration among just the three NAFTA partners.

Deeper Integration

Another direction for integration would be to develop more formal cooperative arrangements in other critical areas outside trade and investment. The most important of these would be security, migration, and labor movement. Others might include energy and water management, infrastructure development, and even foreign policy.

The events following September 11 pushed the United States to cooperate more closely with both Canada and Mexico in border management. Both countries have agreed to expand efforts to check trucks and other vehicles destined for the United States. Various participants at the December Brookings conference suggested the countries take more ambitious steps, ranging from further improvements in coordination of customs and immigration procedures of the three countries to a merger of these functions into a single North American Customs and Immigration Service.

The terrorist attacks had the opposite effect, at least so far, on migration issues. Just before those events, the United States seemed open to considering a major guest worker program for Mexican citizens. The momentum behind that idea has since cooled, but the problems posed by illegal immigration from Mexico to the United States will not go away. The participants at the December conference did not explicitly discuss how to move forward from here.

While energy trade is vigorous among the three countries, various impediments stand in the way of any expansion. The Mexican government, for example, imposes high taxes on Pemex, its state-owned oil company, to meet its revenue requirements. This policy discourages investment in the country's oil sector. The idea that Pemex be privatized remains a politically charged issue in Mexico. Canadian governments, federal and provincial, maintain some controls over the export of electricity and water. Meanwhile, from the Canadian and Mexican perspective, the United States lacks a well-defined national energy policy. Given these constraints, the short-run prospects of removing impediments to energy and resource trade between the countries are slim—even as a tripartite working group has been meeting to discuss national and subnational policies on energy.

EU-Style Supranational Institutions

The most ambitious approach would be to adopt something like the EU model. The notion of an EU-style arrangement for North America—in which some governmental functions are devolved to a regional authority—seems politically unrealistic at the present time when even NAFTA remains controversial. Moreover, there are many differences between the EU and North America. The major members in the EU are more equal in size, whereas NAFTA is defined by its asymmetry. The members of the EU were driven to form a regional framework in large part as a way to secure peace on the continent. While the United States fought Canada and Mexico in the early part of the nineteenth century, the borders have been peaceful for more than one hundred years, and the incentives for integration have been primarily economic.

Nonetheless, the EU's fifty years of experience integrating fifteen diverse countries may provide some lessons and ideas that could be relevant to a different North American model. The EU experience might serve as a useful framework for political leaders and citizens in all three countries as they consider the depth and nature of further integration efforts. In some sense, the North American region is already more integrated than the EU. Despite the freedom of movement across European borders contemplated by the Schengen agreement, cross-border movement—especially out-migration from the poorer countries (Greece, Portugal, and Spain) to the richer countries in the EU—so far has been surprisingly small. Some analysts believe this is one of the consequences of a very successful cohesion policy by the EU that has narrowed the disparities between rich and poor countries. If migration between Mexico and the United States is to be reduced, similar policies may be needed.

Building North American Institutions

As of the spring of 2002, no strong consensus had emerged in the three nations—reflected as well as during the December 2001 conference held at Brookings—for NAFTA-plus, deeper integration, or supranational institutions. Nonetheless, the interests of citizens of all three countries would be served by launching more systematic processes aimed at developing some measure of consensus around a longerterm vision of a North American project. This is especially important because, notwithstanding NAFTA, the primary focus of each country has been on its bilateral relationships with the other two countries. Trilateral institutions are weak, and they are largely limited to NAFTA commissions and dispute resolution panels. Several ideas for strengthening trilateral institutions were discussed at the December conference, but it was recognized that the role and characteristics of any new institutions will depend on how much the countries want to accelerate integration efforts and their common vision of how those efforts should proceed.

Robert Pastor suggests that the governments should establish a new North American Commission that, on an ongoing basis, would seek input from citizens, experts, and opinion leaders in the three countries and provide advice to the three national governments—and possibly certain state and provincial governments—about the preparation and implementation of a "North American agenda."[3] Such an agenda could include but is not limited to the following policy subjects: trade and investment, infrastructure development, security and immigration cooperation, and further integration of resource trade among the countries. The commission could provide its advice either informally or at semiannual or annual summits of leaders of the three countries.

A related proposal that Pastor advances would be to transform the two existing legislative consultative groups, U.S.-

Mexican and U.S.-Canadian, into a North American Parliamentary Group. This group would provide a significant forum for legislators from the three countries to exchange views regularly on issues of common interest. There may be benefits as well to providing a more formal structure to the ongoing meetings of governors and premiers from the border states.

Whether or not these intergovernmental consultative mechanisms are established, more exchanges of experts and citizens should occur between the three countries. These efforts could generate ideas that ultimately affect public attitudes and government policies in the three countries. More such efforts should be encouraged, perhaps aimed at fleshing out integration proposals for specific sectors or policy initiatives.

Pursuing Integration

The experience of NAFTA suggests that all three countries have gained economically from the expansion in trade and investment. This suggests that further integration will contribute to rising incomes and productivity in the three nations. At the same time, deeper integration—especially that entailing some degree of shared governance—challenges traditional notions of sovereignty. Moreover, to the degree that further integration involves additional competitive challenges to certain industries or groups in the three countries—low-skilled American workers, for example—it is likely to arouse political opposition even in the best of circumstances.

For all these reasons, the benefits and costs of further integration need to be weighed against each other, and their impacts on different groups within each of the societies assessed carefully. Additional steps toward integration beyond the closer ties that are likely to deepen naturally, while they may be mutually beneficial, must be managed and explained to the peoples of the countries to gain support.

Mexico has the greatest stake in building closer and denser economic ties because, in per capita terms, its economy lags so substantially behind those of Canada and the United States. The huge size of the U.S. and Canadian economies, combined more than twenty times that of the Mexican economy, provides a continually expanding demand for Mexican products and a ready source of investment capital for the country—all of which should accelerate Mexico's growth prospects and help it converge toward Canadian and U.S. income levels. In turn, an economically thriving Mexico serves important U.S. and Canadian interests. Economic development in Mexico will contribute to stability and democracy within the country, making it more attractive for foreign direct investment and an expanding market for exports from both northern neighbors.

The United States, Mexico, and Canada also should all gain from an integration strategy that leads to the more effective management of migration issues, which may be the source of the greatest tension between Mexico and its two northern neighbors. Ironically, past U.S.-Mexican migration created the cultural and social roots for greater integration between the two countries. That migration has also increased the political motivation in the United States for integration with Mexico in particular, as the number of Mexican American voters steadfastly expands and they gain expanding political influence.

All three countries also are in a position to gain from more systematic collaboration in dealing with a range of other problems, including criminal drug trafficking, environmental protection, energy and water management, and transportation, communications, and other infrastructure development.

Hard Decisions and Hard Work Ahead

There is no easy path to greater integration for the three nations of North America. In each country, sizable groups, perhaps even majorities, remain unhappy about NAFTA and its results, and substantial political resistance exists to further integration from those who are convinced they will lose more than they will gain. They include workers who are afraid of losing their jobs, firms fearing competition or worried about having to sell out to foreign owners, politicians and citizens who are concerned about diminished sovereign authority, and groups that worry about changes in social policies and institutions and the dilution of national cultures.

The main roadblock to integration, however, is the huge disparity in income and wealth between Mexico and its two NAFTA partners. Mexico's per capita income is roughly one-sixth of that of the United States and a quarter of that of Canada. Living standards—measured by wages, education levels, housing quality, health statistics, mortality rates, and public services of all kinds—reflect these enormous differences, which are far greater than ever existed between any two members of the EU. Meanwhile, the difference in per capita income between the United States and Canada has widened considerably in the past decade, as the U.S. per capita GDP grew by more than 50 percent and Canada's growth was less than 10 percent. The U.S.-Canadian income gap is large by European standards, but it does not appear to be a major impediment to enhanced integration, in part because Canada continues to perform better on a number of key quality of life indicators. A growing productivity differential between the two nations may be more of an obstacle.

In addition, the sharp income and wealth differences between Mexico and its northern neighbors cannot be ignored, because they interfere directly with the solution of so many shared problems. The most important of these are migration and labor flows, which are largely driven by wage differentials and cannot be controlled without sharply diminishing the gap. As long as the wage difference is so massive, it will be difficult ever to shake American and Canadian workers of their belief that industries and jobs will consistently move toward Mexico in search of cheap labor—the core of their opposition to NAFTA and its expansion. Moreover, along with other poor countries, Mexico confronts serious problems of corruption, which make cooperation in antidrug campaigns and other law enforcement efforts difficult. Even without corruption, Mexico would lack the resources to be a good partner in combating terrorism, drugs, or environmental deterioration, among other common threats.

There is no simple or rapid way to reduce the income gap. Mexico simply has to expand its economy at a significantly faster rate than either the United States or Canada. Even if the Mexican economy were to grow 3 percent a year faster than either of its NAFTA partners, the country would need more than twenty years to reach one-half of Canada's GDP per capita and more than thirty years to attain one-half of the United States' GDP per capita.

But the long-term nature of the project should not be an excuse for pessimism. Just one generation ago, the nations of Southeast Asia were among the poorest in the world. Today, many residents in that region enjoy living standards that will soon approach those of developed economies.

The pace at which the income gap between Mexico and its northern neighbors will narrow is mainly up to the policymakers and citizens of Mexico, who will have to sustain appropriate fiscally disciplined, growth-oriented policies; maintain the confidence of external investors; complete their economic reform agenda; and invest substantial domestic resources in infrastructure and human capital.

The United States and Canada, however, will also have to decide how much, if anything, they are prepared to do to help bridge the income gap between themselves and Mexico. The World Bank, for example, estimates that Mexico will need in the coming decade $20 billion more financing for infrastructure development than it is likely to secure from currently available sources, public or private.[4]

Where could such additional monies come from? One possibility is a new fund managed by the World Bank or Inter-American Development Bank or both. Another idea is to enlarge the North American Development Bank, which could raise funds on the capital markets based on pledges from the United States and Canada. The Andean Development Corporation also has shown the productive contribution a regional development bank can make. Although all five of its core member countries are poorer than Mexico (let alone the United States or Canada), the Andean Development Corporation has been consistently able to secure private capital at investment-grade interest rates. A North American bank should be able to do as well.

A considerable difference of opinion exists, however, about the potential efficacy and political feasibility of having the two richer partners transfer substantial resources to Mexico in the mold of the social cohesion funds of the EU. The gap between the richer and poorer countries in the EU has been significantly reduced in the last decades, but views differ as to the exact contribution of the EU's social cohesion funds, as opposed to private investment and freer trade.

In addition to the economic gap, Mexico's institutional problems make its integration with the United States and Canada more difficult. For ordinary U.S. and Canadian citizens and their representatives in Washington and Ottawa, Mexico is a less desirable partner because of corruption, as well as the shortcomings of its justice and law enforcement systems. The election of Vicente Fox, the first opposition candidate to take power peacefully in Mexico's history, demonstrated Mexico's important progress toward democracy—and was widely welcomed in the United States and Canada. As part of the effort to promote North American integration, Mexico, however, still needs to meet the continuing challenge of strengthening its democratic institutions and become a more open and just society.

All three countries also will have to confront issues of sovereignty and basic nationalism in deciding how much more integration to pursue. Virtually by definition, multilateral cooperation leads to the loss of sovereign decisionmaking power. In exchange for expected benefits, NAFTA has required the United States, Mexico, and Canada to substitute mutually agreed upon rules and joint dispute resolution procedures for what had previously been national decisions. Deeper North American integration will introduce more common rules and regulations, more joint decisionmaking, and perhaps even new trilateral institutions. These changes will provoke opposition among groups in all three countries that will use traditional conceptions of sovereignty as their defense.

At first blush, it would seem that Canada and Mexico—because they are smaller and less powerful—would gain most from the development of joint procedures, rules, and institutions, which could restrain the more powerful United States and make it harder for the United States to get its own way. However, the two smaller nations are concerned on at least two counts. First, the United States, because of its size and power, may dominate any trilateral arrangements that are established. Second, even if such arrangements do help restrain the United States, further integration itself will lead to U.S. dominance. Canadians in particular also are worried about the dilution of their culture and the potential that their country's safety nets and other social policies will inevitably be watered down. Mexicans, for their part, worry about increasing U.S. control of their industries, displacing important elements of their culture, and American corporations taking command of the nation's natural resources.

Another key challenge that all three countries must confront as they consider further steps toward integration is how to avoid weakening ongoing global and regional trade negotiations, including the new World Trade Organization (WTO) round and the Free Trade Area of the Americas (FTAA). The political energy devoted to cementing a North American arrangement may divert attention from these broader initiatives. Yet, by pursuing a deeper North American agenda, all three countries might be able to develop a common front in such negotiations, thus enhancing their bargaining leverage.

Finally, whatever efforts are made to join their economies together, all three countries will become even more vulnerable to the economic decisions and performances of their partners. A booming economy in one nation will enhance economic prospects in the others. Similarly, the consequences of an economic recession or crisis will be transmitted across an integrated North America. Mexico and Canada are far more vulnerable to U.S. economic vicissitudes than vice versa. After all, the economy of Mexico is one-twentieth and the economy of Canada is one-tenth the size of the economy of the United States, and both are heavily reliant on trade with and investment from the United States. But they will also benefit a good deal more from a prospering United States than the United States will gain from a prospering Canada or Mexico.

Conclusion

Even if the three governments take no further steps, the economies, societies, cultures, and institutions of three countries should continue to integrate on their own accord. The three countries now face a decision of whether and how they should seek to accelerate, smooth, and institutionalize this integration process. This will not be a simple challenge. Much more dialogue between the three governments and their citizens will be required to reach consensus on the broad goals and specific policies that any such further integration may entail. The major objective of this volume and of the North American project is to begin this dialogue and the search for ways to develop "win-win-win" strategies for all three countries and their citizens.

Notes

1. Robert A. Pastor, *Toward a North American Community: Lessons from the Old World for the New* (Washington: Institute for International Economics, 2001).

2. The organizations are the Brookings Institution, Inter-American Dialogue, Mexican Council on Foreign Relations, National Policy Association, Policy Research Initiative of the Canadian Government, the Conference Board of Canada, Public Policy Forum of Canada, and Technological Institute of Mexico.

3. Pastor, *Toward a North American Community*.

4. In addition, some efficiencies could be realized from the existing infrastructure system through such marketlike devices as congestion pricing.