

# Task Force on the Future of North America

## Summary of the Toronto Meeting

### INTRODUCTION

The following is a confidential summary of the first meeting of the independent Task Force on the Future of North America, sponsored by the Canadian Council of Chief Executives, the Mexican Council on Foreign Relations, and the Council on Foreign Relations. This summary is intended to assist members of the Task Force in reviewing discussions to date, identifying areas of consensus, and flagging issues that require further deliberation.

The first section addresses the Task Force's overall mission, as set forth in the original scope paper and refined in Toronto. The second section focuses on security, and the third section addresses economic integration. The fourth section deals with topics that will be discussed in greater detail during subsequent meetings but that also surfaced in Toronto. Throughout this report, underlined sentences highlight the main points.

### SCOPE AND VISION

North American economic integration is so advanced that any return to the *status quo ante* would be extremely costly to all three countries. Task Force participants also felt that further integration on a number of fronts – economic, security, institutional, etc. – could provide significant additional benefits. Delays in integration thus entail significant opportunity costs.

Serious obstacles remain to deeper regional integration, and Task Force objectives must be argued rather than asserted. Nevertheless, Task Force members favored articulating a bold vision for regional integration, even if elements of that vision could not immediately be put into practice. Several participants divided their suggestions for more intensive cooperation into those that are politically feasible today and those that, while desirable, must be considered long-term goals. One implication of this approach is that no item – not Canadian water, not Mexican oil, not American anti-dumping laws – is “off the table”; rather, contentious or intractable issues will simply require more time to ripen politically.

The same principle of distinguishing between politically feasible, short-term recommendations and longer-term objectives also applied to differences between Mexico and its northern neighbors. Task Force Members from all three countries were well aware of the extent to which development issues in Mexico might constrain regional partnership. Nevertheless, participants stressed the value of articulating a single vision for North America, toward which all three countries might proceed at different paces, rather than two or three separate visions.

Several Members noted that one crucial challenge for the next decade will to be ensure that integration provides concrete benefits for ordinary people in all three countries. Not only must the economic fruits of integration be better distributed within each society, but advocates of deeper cooperation must also identify measures that demonstrate the tangible advantages of integration for average citizens. For instance, extending the NAFTA visa could be of great interest to American students and Canadian retirees. Other participants suggested that emphasizing the benefits of integration for the typical consumer is likely to pay political dividends for advocates of integration in all three countries.

One persistent theme of the discussions was the need to develop a North American “brand name” – a discourse and set of symbols designed to distinguish the region from the rest of the world. Suggestions ranged from the very general (such as portraying North America as a sort of club of privileged members), to the very specific (such as certifying goods as “Made in North America” or designing a new North American logo for travel documents and inspection areas). A number of Task Force Members emphasized the need to explicitly contrast “North America” with other regions (e.g., China). A common North American space – with lower barriers to the internal movement of goods, services, capital, ideas and some categories of people – would thus constitute a logical response to a less secure and more competitive world.

Task Force participants agreed that North America's goal should not be to copy the European Union. Rather, a North American partnership should draw upon the unique strengths of each nation, respecting their independence while building upon their inter-dependence. In other words, policy recommendations should focus on approaches that deliver benefits to each partner, the results of which are clearly superior to what any partner could achieve by acting alone. Certain policy changes will inevitably benefit some countries more than others. Nevertheless, several Task Force Members cautioned against presenting the agenda for partnership in terms of explicit bargains or *quid pro quos*. Rather, given extremely high levels of integration, policy choices must be understood in a context of mutual interest and common approaches to external threats.

In general, Task Force Members felt that deepening integration among Canada, Mexico, and the U.S.A. would not preclude broadening a North American partnership to include other countries in the hemisphere. Some Members expressed the view that North America could serve as a model toward which other countries in the region might aspire, particularly if negotiations toward a Free Trade Area of the Americas should break down.

## **SECURITY**

Any future North American partnership must convincingly address concerns about terrorism. Inattention to security will not only render further integration impractical, but it could also undermine the gains that have already been achieved. In this sense, security considerations trump other issues.

Although much of the emphasis on security has come from the United States, border closings or slow-downs by the U.S.A. in response to real or perceived threats could have a serious impact on all three NAFTA partners. Enlightened self-interest dictates that both Canada and Mexico fully address security concerns, both to protect themselves and to avoid the repercussions of U.S. actions. Most Task Force Members thus embraced the notion that North American security is indivisible.

Several participants expressed the conviction that the efficacy and credibility of the Task Force will be directly proportional to Members' success in dealing with security. Others suggested that, from a tactical perspective, security issues are decidedly more likely to capture the attention of U.S. policymakers than are issues of economic integration alone. Members generally agreed that Task Force recommendations will be taken most seriously to the extent that are placed in the context of heightened concern about security; for example, increasing regional cooperation on energy could be presented as addressing security-related concerns.

All three NAFTA signatories are democracies, and all three place a premium on civil liberties. Several Task Force participants stressed that North American governments must take care to balance their newfound emphasis on security with longstanding liberal-democratic traditions, especially as these traditions apply to citizens of their three countries. Perceived violations of legal protections in the name of cooperation against terrorism have provoked consternation in Canada, and failure to take such complaints seriously could jeopardize security cooperation in the future. Some Task Force participants argued that governments must explain and justify closer security relations if more intensive collaboration is to be sustainable over the long run.

The Task Force recognized that, for certain security issues, significant differences will persist between Canadian-American and Mexican-American relations. With regard to foreign policy coordination and military intervention in third countries (such as Afghanistan, where Canadian forces fight alongside American troops), these differences might continue indefinitely. Cooperation between Canada and the United States on aerospace defense and intelligence is also likely to remain deeper than U.S.-Mexican collaboration on these issues, at least for a time. Finally, the large flow of undocumented migrants and illegal drugs constitutes a serious obstacle to any "open border" in the south.

On most security-related issues, Task Force Members felt that cooperation should proceed according to the principle of "One Vision, Two Speeds" – in other words, the pace of convergence between the U.S.A.

and Canada might be more rapid in some areas than the pace of convergence between those two countries and Mexico. Canada and the United States have a much longer history of cooperation on defense-related matters, and both countries can count on substantially greater technical capacity. Since 9/11, the Canadian government has also moved more aggressively than has Mexico to develop an integrated threat assessment of its own and to undertake the sort of bureaucratic reorganization necessary for coordinated counterterrorist operations. For all of these reasons, certain measures aimed at enhancing regional security may have to be phased in more slowly in Mexico.

These differences in pace aside, the goal of trilateral cooperation should be the construction of a North American security perimeter. This perimeter would extend from Mexico's southern frontier to the Arctic Ocean, incorporating air, land, and sea boundaries. Some potential steps mentioned by Task Force participants that might be taken over the next several years include:

- Drawing up common exclusion lists for people from third countries, and providing sufficient training and oversight to ensure that such lists are enforced by all three governments;
- Creating joint lists of terrorist organizations and, presumably, common sets of legal responses;
- Creating parallel bureaucratic structures in all three countries to facilitate security collaboration and crisis response, with changes being especially important in Mexico (which does not have an equivalent of the U.S. Department of Homeland Security);
- Inviting Mexican officers to participate as observers in the North American Aerospace Defense Command (NORAD);
- Expanding cooperation in naval operations;
- Deploying new monitoring technologies, such as aerial radar (akin to Brazil's SIVAM) and possibly rad/nuke sensors, where necessary along the external defense perimeter;
- Incorporating Canada and Mexico into American contingency planning against a bioterrorist attack, presumably including plans for the supply and distribution of inoculants;
- Encouraging regular consultation, joint contingency planning, and joint training among "first responders" in border regions;
- Introducing new requirements and technologies that would permit the tracing of firearms, especially assault weapons exported from one country to another; creating common ballistics databases; and facilitating collaboration in background checks on weapons purchasers;
- Devising protocols for the rapid exchange of biometric information among law enforcement agencies (e.g., fingerprints);
- Developing a secure form of identification (e.g., a North American passport) that could be used by Canadian, Mexican, and American citizens when traveling within the region, and defining common standards of reliability for personal identification documents in all three countries at both the national and subnational levels;
- Developing common definitions of the powers that customs and immigration agents retain, without compromising existing search authority; and
- Ultimately, trilateralizing customs and immigration at airports, ports, and land borders.

In certain areas, security cooperation can be expanded or trilateralized almost immediately.

Potential opportunities that were mentioned include:

- Developing joint visa requirements for people from countries outside the region;
- Inviting Mexican officials to participate in the Permanent Joint Defense Board (PJDB), and trilateralizing other bilateral arrangements where possible;
- Trilateralizing the existing bilateral “Smart Border” action plans, and pursuing similar initiatives in a trilateral fashion wherever possible;
- Expanding programs such as NEXUS air and FAST Lanes that free up resources to investigate suspicious shipments or individuals;
- Deploying existing technologies that permit the identification of stolen vehicles at the border, and permitting authorities on both sides of the border to intercept such vehicles; and
- Immediately resolving all remaining bureaucratic obstacles to pre-clearance and rapid border transit at congested crossing points (e.g., Windsor-Detroit and Fort Erie-Buffalo).

Although longstanding Mexican sensitivities about security cooperation with the U.S.A. remain, many of the traditional barriers to greater defense cooperation do seem to be diminishing. For instance, increased participation by Mexican officers in American training programs has not provoked a furor in Mexico. Future security cooperation will be more politically palatable in Mexico to the extent that it is viewed as trilateral collaboration for protection against common external threats, rather than as bilateral defense cooperation with the U.S.A. For instance, Mexican officers may not be ready to join their Canadian counterparts in staffing NORAD at the invitation of the U.S. military, but they might be willing to participate as partners or observers in broader *North American* initiatives (including NORAD).

#### **ECONOMIC INTEGRATION**

In the eleven years since NAFTA took effect, economic integration in North America has increased dramatically. Trade and investment in the region have nearly tripled, leaving North America almost as economically integrated as Western Europe. As one participant pointed out, North American markets for goods like beef and automobiles are so interconnected that it makes little sense to speak of an “American” or “Canadian” market; actions taken or not taken by one government would trigger a cascade of reactions by producers and consumers on both sides of the border.

Most Members agreed that governance has not kept pace with economic realities and in many cases is preventing further integration. As one participant put it, NAFTA is a static agreement in an exceedingly dynamic economic context. The administrative costs imposed by rules of origins often exceed the tariffs that were eliminated, as evidenced by the fact that many corporations prefer to pay Most Favored Nation tariff rates than to avail themselves of opportunities created by NAFTA. Members also pointed out that differences in regulatory codes and procedures continue to retard trade and investment. Finally, as several participants noted, important sectors and factors of production (e.g., labor) remain excluded from NAFTA. Most Members acknowledged that these circumstances seriously detract from North America’s ability to compete globally.

For a number of regulatory and trade issues, several participants suggested that dropping trivial restrictions would be an intelligent first step. One Member pointed out that, on a range of goods, Canada and the United States could simply lower their tariff rates to the lower of the two existing levels. (In some sectors, such as certain peripheral electronics components, the two countries have already established what amounts to a custom unions.) Other issues in trade and regulation, however, are likely to remain contentious for several years. In the short run, convergence between Canada and the United States may be easier than convergence between those two countries and Mexico in certain areas. For instance, Mexico would presumably need to proceed more slowly toward a customs union than might the U.S. and Canada.

Most Members agreed that North America should move toward a common economic space that would make all three countries more prosperous and globally competitive. Specific measures that were proposed include:

- Eliminating NAFTA rules of origin and establishing a Common External Tariff (CET) over the next three to five years, with tariffs set at the lowest level among the participating countries for the bulk of goods;
- Phasing out tariffs on a very small number of contentious items over a longer period of time;
- Moving from the current *ad hoc* mechanism for resolving trade disputes to a permanent trade panel;
- Applying the principle of one inspection, one test, and one certification throughout North America;
- Treating all North American citizens as domestic investors in each country;
- Exempting fellow North American countries from countervailing and anti-dumping duties, with complaints of monopolistic or predatory pricing being handled either by local judiciaries or by a North American Competition Commission;
- Extending the North American visa to new categories of people, such as students, professionals, businessmen, and retirees; and
- Increasing consultation on monetary policy, with the understanding that some form of North American currency union could become feasible in the future;

The details of many of these arrangements remain to be defined. For instance, the Task Force did not decide whether anti-dumping duties imposed by one member-state against goods from a country outside the region could or should be assessed once a CET came into force. Nor did the Task Force explore the implications of a Customs Union for existing free trade agreements with non-NAFTA countries, especially Mexico's agreements with Japan and the European Union. Finally, the Task Force did not determine which specific regulations each country would consider essential for national distinctiveness, nor did it set a timetable for regulatory convergence. Task Force participants agreed that future discussions should identify concrete recommendations for immediately eliminating incompatible rules that simply do not make sense.

The Task Force also discussed a number of more contentious issues in economic integration. These include:

- Replacing anti-dumping and countervailing duties directed at third countries by each of the three member-states with a trinational approach (such as a North American Competition Commission);
- Eliminating current exemptions for certain sectors protected under NAFTA, including cultural industries and agriculture;
- Creating an integrated North American electrical grid that combined freer trade and investment with some form of joint oversight and regulation;
- Crafting a North American "resource pact" that would allow for greater intra-regional trade and investment in certain non-renewable natural resources, such as oil, gas, and fresh water; and
- Expanding labor mobility in at least some sectors, especially between the U.S.A. and Canada.

The group did not reach consensus on the desirability or feasibility of these proposals, nor were specific timelines for their possible implementation developed. Members pointed out that all of them are likely to meet with stiff resistance in at least one country: cultural industries and fresh water in Canada, energy in Mexico, and agriculture in all three countries. Task Force Members noted that certain natural resources – Mexican oil and Canadian water – are invested with greater emotion than are those same natural resources in other countries (and than other natural resources in those countries). In the case of petroleum in Mexico, the proceeds from which provide a substantial portion of the federal budget, several participants also pointed out that major fiscal reform would have to precede further opening in that sector. With regard to migration, Members agreed that it is far too early to contemplate a common market with full labor mobility between the three countries. Consequently, policy recommendations on these issues are best considered longer-term goals.

For both medium-run and long-run measures, participants identified incremental actions that could establish a foundation for further integration in the future. For instance, exemptions to anti-dumping and countervailing duties (either within the region or toward third countries) might begin on a sectoral basis. One successful precedent is the Canada-U.S. Auto Pact, which was extended on trilateral basis in a recent steel case. The next step would be more formal agreement on common policies and treatment, as was requested a year and a half ago by the steel industry in all three countries. Another example concerns the expansion of multiple service contracts in the Mexican oil industry, which could provide a short-term alternative to full-fledged reform in the energy sector. Finally, participants noted that there may be room to increase labor mobility in some sectors between all three countries, and between the U.S.A. and Canada in large number of sectors. Presumably, a migration agreement between the U.S.A. and Mexico would also be a key step on this front.

Improving the dispute resolution process could also occur incrementally. For instance, appointing a permanent panel or adjudicatory body under the existing framework could prove easier than creating a new institution. One participant suggested that avoiding terms like “international tribunal” or “court” could enhance the short-term palatability of such recommendations.

Some participants argued that transparency is important for future economic integration. Dispute resolution, for instance, must be clear and open for it to be credible. Other Members urged that efforts to harmonize regulatory policy include representatives of civil society. Presumably, any discussion of the particularly contentious issues mentioned above would require consultations with a range of social groups.

#### **OTHER TOPICS**

In addition to economic integration and security, several other issues surfaced in the Toronto meeting that are slated for discussion at future meetings.

A number of participants identified the development gap between Mexico and its northern neighbors as a significant barrier to deeper integration. Additional investment in infrastructure would help Mexico to become a full partner in North America; the absence of such investment would exacerbate regional inequalities within Mexico, encourage emigration, and potentially undermine North American cooperation. Participants also suggested that disbursements of trinational development funds should be linked to measurable structural reforms in Mexico, such as increases in tax collection.

At least two mechanisms – not necessarily mutually exclusive – were suggested as means of funneling new capital into Mexico to accelerate economic development there. One proposal envisioned a massive North American investment fund focused on building infrastructure and human capital in Mexico. Another proposal entailed issuing infrastructure bonds through the North American Development Bank, backed by national Treasuries, whose purchase would be financed at least partially by Mexican pension funds. Estimates of the additional investments needed to ensure sustained, broad-based economic development in Mexico ranged from a *minimum* of \$5 billion per year to several times that amount. In any case, participants agreed that regional development gaps were a crucial issue for all three countries and a key agenda item for future meetings.

Another subject touched upon in Toronto was the development of a shared North American identity. Participants agreed that progress on this front will require effort within the educational system and the mass media. One Member suggested launching a trinational education project that would develop internet-based learning modules on topics such as North American history. These supplements to the standard curriculum in each country could be reinforced through contests and events aimed at building relationships among young leaders across North America, and through a series of North American Centers in all three countries. (Task Force participants Robert Pastor and Thomas Axworthy offered to develop this proposal further.)

Discussions touched briefly on the dispute resolution mechanisms spelled out in NAFTA. One Member emphasized that North American integration had not, in fact, triggered a “race to the bottom” in environmental regulation. (Possible deficiencies in and replacements for NAFTA-era institutions will be discussed in greater detail at the Monterey meeting.)

Several participants emphasized the need for regular, frequent meetings among key individuals at all levels of government. Most Members argued that such meetings are crucial for advancing the policy agenda because the publicity that flows from them generates the need for specific policy measures. Comments by Members suggested that the desirability of trilateral meetings varies by level and by issue area. For instance, regular ministerial meetings on security are crucial, but trinational meetings may be unnecessary on economic integration, if ministers are already in regular contact on these issues. Task Force Members agreed, however, that annual presidential (or prime ministerial) summits would be crucial for moving the trilateral agenda forward. One way to make such summits more productive would be to create a North American commission that would report to leaders and make recommendations for deeper cooperation on areas of mutual interest. Several participants argued that the absence of such an institution had slowed progress toward North American integration.