

Obama's impossible North American agenda

You might think that, with all the excitement about Barack Obama transforming US and even global politics, the prospects for North America might be looking up. In fact, the North America that NAFTA created exactly 15 years ago is in deep trouble—a trouble that Obama is unlikely to alleviate.

THE NAFTA VISION

With the deepening of the Canada-US Free Trade Agreement's restrictions on government and the broadening of the old North America to include Mexico, NAFTA in 1994 was thought to be heralding the birth of a new global region. Almost identical in population and GNP to the then 15-member European Union, NAFTA's tariff elimination, limitations on governmental support for domestic firms, and various novel dispute settlement mechanisms were meant to create a continental marketplace that would increase investment within the region, stimulate growth through exports, and reduce the flow of Mexicans seeking work in the United States.

Indeed, exports did multiply, though in Canada's case, statistical double-counting grossly overstated their value, which was in any case due more to a deeply depreciated dollar than to modestly reduced tariffs. As the dollar recovered, Canadian manufactured exports plummeted, the balance of payments only being saved by increasing world prices for robust resource exports. In the United States, NAFTA's predicted "sucking sound" of job loss to Mexico did not materialize. The US economy was too large to notice its impact.

Mexico did receive proportionately more foreign direct investment, which accelerated growth in its northern states without having much impact on the economy's productivity. A flood of imports had predictable—but not predicted—consequences. Small and medium enterprises were wiped out by the thousands, increasing urban unemployment. Massive imports of Washington-

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subsidized corn caused two million campesinos to leave their villages. These two phenomena led to increased, not decreased, emigration pressures, with up to 500,000 Mexicans crossing the border annually to supply the insatiable demand for cheap labour in the US agriculture and service sectors.

President Vicente Fox had expected to cut an immigration deal with his friend George W. Bush, but Mexico's principled resistance in the Security Council to the United Nations authorizing a US attack on Iraq left the question to fester into an angry anti-Mexican backlash. As a result, North America's identity now has less to do with an integrated continental economy than with a physical wall being built along the United States' southern boundary and long wait lines at the Canada-US border, where passports are now required.

15 YEARS LATER

Exactly 15 years after NAFTA's implementation, it is a real question whether North America exists in any meaningful political-economic sense. Having served Washington's strategic interests in negotiating the World Trade Organization

(fears that NAFTA presaged a Fortress America protectionism helped bring the foot-dragging European Union to the table), Washington lost interest in North America as a regional power base. It pursued trade and investment agreements with other countries without consulting its two neighbours, sometimes even undermining their interests. Apart from a brief venture in the steel industry, no international negotiations were based on the three countries hammering out a common position *ex ante*.

With 9/11, the previous absence of a positive US commitment to supporting a new continental solidarity morphed into a distinctly negative distrust based on the fear that terrorists could enter the United States across either its northern or southern border. Security trumped trade even when the much ballyhooed Security and Prosperity Partnership and its big business brother, the North American Competitiveness Council, pushed for loosening security regulations that had increased border transit costs and decreased North American firms' competitiveness.

The North American project is teetering on the point of failure. However wretched their working conditions may be, Mexico's maquiladoras are losing out to China, which has taken over as the chief Third World exporter to the United States. Alberta's tar sands potential has faltered with the collapse of world oil prices and the threat that green legislation pushed by the US Congress will prohibit the US import of such an environmentally dirty fossil fuel.

OBAMA AND THE NORTH AMERICAN AGENDA

With "NAFTA" now a dirty word in American political discourse, the chances of the new president addressing this challenge in his first term are negligible. The decline in crime has created a more favourable climate, as has the decline of rural population, so there is

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little interest in US politics for draconian gun control. During his campaign, Barack Obama made comforting noises to assuage the National Rifle Association, so is unlikely to do anything about the gun-supply issue. If he has a solution that could de-criminalize and regulate the narcotics trade, he's kept it well hidden. His position on building a wall along the Mexican border doesn't differ from Bush's. Nor has he indicated any desire to challenge Washington's security paranoia. Indeed he has reinforced the Bush administration's anti-terrorism rhetoric by promising to dispatch more troops to Afghanistan where they are supposed to fight terrorists.

Diametrically opposed cross-border attitudes are not helping. Americans blame the influx of narcotics, border violence, and illegal immigrants on their neighbours. Quite apart from the NAFTA-exacerbated economic disparities between the United States and Mexico, Canadians and Mexicans find the root causes of these problems in an ever-growing US consumer market for narcotics and largely uncontrolled sales of US small arms to drug traffickers. This made Secretary of State Hillary Clinton's public acknowledgment that US consumers demand narcotics and the US manufactures and supplies small arms to the drug cartels a heartening omen for Mexico. An equally important and disheartening omen was Secretary of Homeland Security Napolitano's insistence that the US-Canada border must be treated in the same way as the US-Mexico border.

Not only has President Obama shown no interest in fixing what is patently wrong in North America. He has offered no positive vision for its future, perhaps because there is not much interest among key US economic actors in furthering North American integration. When he did mention North America, it was about the futile proposal to renegotiate NAFTA in a way that would have further hobbled Mexico.

What is needed is a generous continental solidarity program designed to do

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for Mexico what Brussels did for Portugal or what the Marshall Plan did for war-ravaged Europe—a Montezuma Plan to help Mexico build an effective and transparent welfare state, pull its economy up toward US and Canadian levels of prosperity, and construct a modern physical infrastructure.

In its own long-term interests, Canada should have proposed such a big-picture plan and started to implement it on its own, but neither Jean Chrétien, Paul Martin, or Stephen Harper have gone beyond mouthing platitudes about Latin America.

A BILATERAL FUTURE

Urged on by its business elite, Ottawa is quietly backpedalling on trilateralism and trying to distance itself from North American approaches in a nostalgic effort to reactivate the old "special relationship" with Washington. It hopes not to get sucked into the high tensions surrounding such "Mexican" issues as illegal immigration and the narcotics-cartel violence that is escalating in Mexico. Ottawa is telling Uncle Sam that his Canadian border problems are radically different from his Mexican ones and that he needs to deal one-on-one with his neighbour, the nascent energy superpower. Unfortunately, this will require a sea change at the Department of Homeland Security (DHS), which sees the terrorist threat as significant from the north as from the south. DHS also knows that Canada and Mexico together are the chief US supply routes of all the main natural and chemical narcotics.

The Canadian economy is so deeply integrated with the American that whatever good comes out of Obama's rescue


package will be good for Canada—at all levels, from the material (exports aka jobs) to the psychological (confidence about the present and optimism about the future). General happiness in Canada about Obama will help push Harper and Flaherty to act against their extremely conservative instincts and sing a Keynesian duet.

There are other global issues where Harper's conservatism will come up against Obama's liberalism. Harper has been as regressive as Bush on climate change, and so will be under heavy pressure to go green both in his environmental policies and in supporting the post-Bali negotiations of Kyoto II.

OIL SANDS: CANADA'S ENVIRONMENTAL HAZARD

This is also a domestic issue since, as an Albertan, Harper is a strong defender of his province's environmentally destructive tar sands interests. Extracting oil from these sands consumes huge volumes of water and natural gas while belching greenhouse gases. If Washington goes green, Canada's oil economy will turn blue unless it develops new technologies and new strategies.

So there is little reason to expect much progress among the three countries, though Can-Am relations should be little different than they are now.

Those looking for a revival of North America will have to wait for a second Obama term, trusting it may prove more conducive to continental construction and praying that, four years from now, it will not be too late. 

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