

# The future of North American integration post-Bush

## NORTH AMERICA RUNNING OUT OF STEAM

North American integration is an economic, not political, challenge; no one wants to integrate the three countries into one. But since NAFTA-induced economic growth ran out of steam around 2000, political issues have taken the forefront, casting a new light on the future of this process. Since 2001, a series of bilateral security measures have taken root. To the degree that these local security agreements have an economic justification—keeping the US–Canadian and US–Mexican borders open to trade—they have been well received. However, any suggestion of support for Bush’s war in Iraq has already been rejected. Canada and Mexico are extremely wary of becoming too closely associated with the United States for fear of becoming surrogate targets for terrorism.

Yet George Bush’s departure isn’t enough to put North American integration back on track. If John McCain wins the presidency, as a supporter of the Iraq war he would be unable to provide the kind of leadership that could dissolve the hesitancy felt by other countries toward association with the United States. And even though the Democratic candidates’ anti-war stand is more palatable, they are unfortunately riding the anti-trade wave in the United States.

## HILLARY’S SPRINT

Hillary Clinton inherited economic advisers, such as ex-Treasury Secretary Robert Rubin and ex-Deputy Secretary Roger Altman, but she seems to be increasingly influenced by her additional consultations with AFL-CIO union officials. Hence, she began to promote “smart trade” and a “time out” before any new trade agreements are made, until these “can be made to raise the living-standards of average Americans.” Furthermore, as Senator, Clinton maintained that

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the United States should be just as protectionist as other countries. For example, with regard to Mexican long-haul trucking entering the United States, as agreed to under NAFTA, Clinton co-sponsored an amendment refusing to fund the pilot program that would attest to its safety. Were it just tough enforcement of environmental and labour regulations, it would be one thing, but violating the NAFTA agreement seems to preclude further regional integration. In the end, Clinton did not win the majority of delegates.

## OBAMA’S MARATHON

Barack Obama might be more in support of free trade, because his top economic adviser is Austin Goolsbee from the University of Chicago, who espouses the free movement of both capital and labour as the best means for promoting social justice. Hence, even when speaking before workers at the General Motors factory in Janesville, Wisconsin, Obama said, “I won’t stand here and tell you that we can—or should—stop free trade. We can’t stop every job from going overseas. ... I don’t know about a ‘time-out,’ but ... I will not sign another trade agreement unless it has protections for our environment and protections for American

workers. And I’ll pass the Patriot Employer Act that ... will end the tax breaks for companies who ship our jobs overseas.” Although it’s true that, as Senator, Obama defended the interests of the Illinois Corn Growers and Soybean associations, as president he has promised to “work with the leaders of Canada and Mexico to fix NAFTA so that it works for American workers,” which sounds more promising than having the three countries back out of the parts of the agreement that are disagreeable to their special interests.

## NAFTA CHALLENGES

The big question is whether fixing NAFTA means deepening North American integration or letting it stay at its present levels. As a regional agreement, NAFTA was originally intended to give certain preferences to its members; but the World Trade Organization, which was created one year afterward, extended most of the regional concessions to WTO member countries and at the same time put China and other countries on a schedule for WTO admission. In addition the United States has, since NAFTA, signed many other new bilateral trade agreements, forcing Canada and Mexico to follow suit. As a result, NAFTA has lost its specificity, changing from a regional to a globalizing free trade agreement. This hits Mexico especially hard because its place as the low-cost North American partner was quickly supplanted by newcomers to the WTO. Under NAFTA, the United States was expected to relocate a large share of its labour-intensive industrial processes in Mexico, as a result of which, industrial activity would increase to the extent where it could absorb the rural population displaced by increased agricultural imports. Even though there was significant maquiladora growth at the beginning of the NAFTA period, Mexico has

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in immigration, with about 50 percent favouring a decrease in the numbers allowed to enter the country.


## OPEN DOORS AND CLOSED MINDS?

Despite the consistent antipathy to immigration, and the intermittent rise of intensely hostile movements, politicians and policy-makers have kept the doors relatively open. How can this contradiction in a democracy be explained? Gary Freeman offers a model for the contemporary period that we think works admirably throughout American history. Freeman argues that the benefits of tolerant policy are highly concentrated: they accrue almost entirely to employers, to the immigrants and their co-ethnics, and to political parties who rely on these ethnic constituencies. The first two clients have good reason to pay the necessary costs to pressure politicians vigorously. The politicians who accede to their requests have good reason to expect cash from one and votes from the

## The costs of tolerant immigration policy are diffuse.

other. America's 18th-century founders refused to accept the possibility of permanent interest groups and so created a winner-take-all system and a national, elected executive. The combination consistently produces two national parties. Each competes for all votes, in a competition that has broadened the suffrage and has, except in unusual cases, prevented high barriers to immigration because parties are reluctant to antagonize business owners or alienate voters of immigrant origin.

The costs of tolerant immigration policy are diffuse, felt indirectly in lower wages for workers and increased taxes to pay for the public services that immigrants use, and directly by the cultural threat in every society into which im-

migrants arrive. The cultural reaction becomes intense only when the probability of encounter is high (when immigration levels rise rapidly) and the cultural distinctiveness acute (when ethnicities change). Both costs are felt locally, rather than nationally. However, not only is immigration policy set at the federal rather than the local level, but the American party system is vertically integrated. Parties must succeed at a national level in order to persist at a local level. National platforms and coordinated party efforts in Congress thus normally do not include immigration restriction. In the 1850s, the early 20th century, and the current period, anti-immigration sentiment and thought became unusually intense and widespread, and the two major parties were still reluctant to respond. The result in each era has been third-party movements, initiatives, and radical proposals that circumvent the party system. This may be the past waiting to happen again. 

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been having trouble keeping investors in the country since 2001, when China came aboard.

In theory, industrial salaries should also have risen as a result of NAFTA. Even though they did, slightly, in the maquiladora industry after 1994 when NAFTA went into effect, they started to drop again after 2001. In the manufacturing industry, salaries suffered sharp declines after the 1982 crisis, and again in 1995, never recovering their former levels. What this means for the United States and Canada is that, in lieu of growing industrial employment and salaries in Mexico, the excess population migrates north, competing directly with northern workers. There is, however, a solution to this regional conundrum that would benefit the entire region: returning to the original NAFTA proposal to create a regional subcontracting system that would go beyond the assembly of goods

in Mexico, helping certain branches of the Mexican manufacturing sector reconvert into producers of some of the parts for the maquiladora industry, thereby stimulating both employment growth and salary gains.

NAFTA discourages imports from non-member countries by charging tariffs on them, while allowing duty-free entry of North American goods. Under NAFTA rules, this was supposed to be the case in the maquiladora industry as well, but things changed. Mexico was supposed to start charging its general tariff on temporary imports from "third parties" for assembly in the maquiladoras and re-export to the United States. This would have represented a significant change from the old system in which maquiladoras imported duty-free and only paid duties in the United States when the final consumer goods were imported. The obligation to pay extra

tariffs could have stimulated production of intermediary goods in Mexico; however, the transition period before duties would have to be paid ended January 1, 2001. As it turned out, this was too short a time span for substitute production to get under way in Mexico, especially considering the context of Mexico's 1995 financial crisis, which dried up all credit and threw the manufacturing industry into a downward spiral.

Therefore, the maquiladora industry was faced with paying additional Mexican tariffs on imported "third-party" intermediary goods or with importing through the United States, where tariffs are low but additional transport costs would incur. The end result of either option compromised the industry's competitiveness, which led Mexico to a different strategy: reducing its general tariffs on all these "third-party" intermediary imports to the same level as the US tariff,

thereby making it feasible to import directly into the country of assembly with no extra duties on the way through. Hence, Mexico was able to keep its maquiladora industry but lost the opportunity it had bargained for under NAFTA to turn Mexico into the manufacturing hub of parts for the maquiladora industry. This is not just Mexico's misfortune; it is a North American problem to the degree it has caused the exodus of Mexican migrants fleeing the consequences of a failed NAFTA.

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### A POST-BUSH SOLUTION

The solution to this regional conundrum is to recreate the original NAFTA proposal. This could be accomplished by means of a combination of cooperative measures: for example, pledges on the part of companies to source their intermediary goods in North America; proactive regional industrial policies to promote regional production of intermediary goods; and time-frames within which Mexico would re-establish its general tariff on select "third-party" intermediary goods, which would not entail breaking any trade agreements because these tariffs were lowered unilaterally within the context of temporary programs. Taken as a whole, this would be a practical policy to solve a tandem of regional problems: production would be encouraged to return to North America, with Mexico as its preferred low-cost alternative site. Such a strategy would enable Mexican employment to grow to the point where, eventually, salaries for Mexico's hard-pressed millions would rise, and immigration would finally start to fall. There is no other logic that would address Mexico's deep-seated structural problems. ❁

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sectors that rely on undocumented labour will be affected, the incentives to migrate and the demand for cheap labour still exist. In other words, there are some US states, in real need of labour, considering temporary worker bills. In agriculture, for example, the Bush administration is now taking action to streamline the existing guest agricultural worker program, through H-2A visas. With respect to non-agricultural low-skilled labour, some lawmakers are under growing pressure to increase the supply of 66,000 seasonal-worker H-2B visas annually. Different local legislatures are working with employers to provide a legal mechanism to deal with labour shortages. Simultaneously and contradictorily, authorities are conducting violent raids in suspected workplaces in order to detect illegal immigrants. This situation reflects the inefficient program that exists for hiring agricultural guest workers and the need for more visas for non-agricultural low-skilled labour in construction, hotel and hospital services, agriculture, and mining industries, to name a few. Migrant labour with or without documents has been important for keeping these industries healthy and competitive.

### THE 2008 PRESIDENTIAL CAMPAIGN

Immigration has become a divisive issue in this year's presidential campaign. Nevertheless, the two main candidates support immigration reform with a path to legalization. Both of them seem to understand the urgency of reforming the immigration system. They also support the establishment of a verification system for employment. Individually, their positions are:

- Barack Obama promises to push for immigration reform during his first year in office. He is in favour of a guest worker program and is in favour of tougher worksite enforcement. He would like more visas for highly skilled workers, but

thinks family ties should remain the basis of legal immigration. He supports driver's licences for illegal immigrants.

- John McCain, the likely Republican presidential nominee and architect of the Senate's failed "McCain-Kennedy" Comprehensive Immigration Reform bill, has supported a guest worker program and a legalization process. Lately in his campaign, he has shifted the emphasis, promising to control the borders before implementing measures that were part of his reform bill.

### THE EMPOWERED HISPANIC VOTER

In the middle of this rancorous immigration debate and almost a year after the immigration reform failure, most lawmakers at Congress are discussing different measures to improve border security and the enforcement of immigration laws. Some are also concerned about business demands for more foreign workers. Few are working on the challenge of what to do with undocumented migrants already living in the country.

More than ever before, US citizens of Mexican origin have an opportunity to make their vote count and support a candidate who would try to really push comprehensive immigration reform, including more visas and a path to legalization. An increasingly institutionalized and organized Mexican American community must lobby—with the support of the Mexican government—local governments and legislatures, in order to diminish the anti-immigrant initiatives and change the growing harassment and negative sentiments toward Mexican migrants. ❁

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