



# Is Geography Destiny?

A Primer on North  
American Relations

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For Robert A. Pastor (1947–2014), a tireless advocate for a stronger North American community

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# Introduction: A Trilateral Lens

CHRISTOPHER WILSON

The North American Free Trade Agreement celebrates its twentieth anniversary in 2014. The natural temptation this year is to offer an evaluation of NAFTA, to look back at the original goals, promises and debates with the benefit of hindsight. We could refute Ross Perot's promise that NAFTA would cause a "giant sucking sound" of jobs leaving the United States for Mexico and the fear that Canada would lose its cultural identity in the flood of U.S. products heading north. We could just as easily call into question the assumptions made by leaders that NAFTA would automatically transform Mexico into a developed country, thereby solving the issue of unauthorized immigration. In short, the temptation is to judge NAFTA based on a context and debates that are now two decades old.

Instead of producing that report, we chose another approach. Ours is built on the premise that the world in 2014 is fundamentally different than the world in 1994. NAFTA itself drove some of this change. The depth of manufacturing integration across the continent that was spurred by NAFTA, for example, was largely unforeseen, but the fact that the three countries of North America now build products together rather than simply selling them to one another has profound policy implications.

The world has also changed North America and changed the way we must think about North America in the twenty-first century. The terrorist attacks of September 11, 2001, and the overall rise of non-state national security threats that they exemplify have created a new paradigm for North American security, an issue tackled directly by David Shirk and Kathryn Friedman in the report's security chapter, and in the context of border management by Andrew Finn in his chapter. The rise of China and other Asian economies, primarily as manufacturing competitors but also as dynamic economies with incredible potential as export markets, has similarly altered the state of North American economic integration and its outlook, as I described in my analysis of the regional economy. The list goes on. The development of new energy technologies that have increased production in Canada and the United States (see Duncan Wood's chapter on energy), the global recession of 2009, the manufacturing renaissance currently underway throughout the region, the democratization of Mexico and the subsequent rise of organized crime-related violence in parts of the country, as well as a number of other factors—have all led us to

a point in 2014 that was not only unimagined in 1994 but demands a new approach to questions regarding the value of regional cooperation and integration.

At a time when nearly all of the key issues facing North America are being understood and addressed either independently by the United States, Canada and Mexico, or within the dual-bilateral framework of U.S.-Mexico and U.S.-Canada relations, this report attempts to view these challenges and opportunities through a trilateral lens. This shift is simple but powerful. In fact, it means that this report, which was designed to be largely descriptive, has more than a dash of policy recommendations as well. Simply by taking North America as the unit of analysis, new policy options begin to percolate.

## **THE STATE OF NORTH AMERICAN INTEGRATION**

Long before the political will existed to intentionally deepen ties among the nations of North America, the simple logic of geography bound them together. Significant cross-border family and cultural ties have only deepened the connections through the years. Bilateral programs such as the Canada-United States Automotive Products Agreement (Auto Pact) and the Border Industrialization Program (Maquiladora Program), both instituted in 1965, increased those connections. It was not until 1994 when the NAFTA was implemented, however, that a clear decision was made to formalize and deepen trilateral integration.

As discussed in greater detail in the chapters that follow, trade, investment, and even the number of people crossing the northern and southern U.S. borders increased dramatically in the years following 1994. This process was especially evident in manufacturing, where diminished barriers at the border allowed for the creation of bi- and tri-national supply chains through which the countries of North America began to build products together. As a result, gains in productivity and competitiveness in one North American country have had important spillover effects, boosting the economies of its neighbors. On the other hand, in a lesson learned in a particularly harsh way during the recent recession, economic integration also means that a crash in one country will act as a brake on the economy of the others.

Gains go deeper than simple economic integration. Over time, the United States, Canada, and Mexico have acknowledged that there are deep continental ties in areas ranging from public health and natural resource management to public and national security; important cooperative efforts have been developed to address each of these issues, whether in a dual bilateral or trilateral fashion.

# SNAPSHOT: **North America**

**POPULATION:**

**470 million**

**GROSS DOMESTIC PRODUCT:**

**\$19.2 trillion  
U.S. dollars**

**PERCENT OF GLOBAL GDP:**

**26 percent**

**GDP PER CAPITA:**

**\$41,000 U.S. dollars**



**While nearly all of the key issues facing North American relations are being understood and addressed within the dual-bilateral framework, this report views these challenges and opportunities through a trilateral lens. This shift is simple but powerful.**

*Data for 2012 from World Bank, Data Bank, 2014. Jobs figures from Government of Canada and U.S. Chamber of Commerce.*

In recent years, however, a discussion has emerged regarding new trends in the state of North American integration, and the general diagnosis is not particularly positive. Several books on the subject, such as *Does North America Exist?* (2008), *Requiem or Revival* (2007) and *North America in Question* (2012), each call into doubt not only the future of North American integration but even its very existence.<sup>1</sup> In his recent book, *The North American Idea* (2011), Robert Pastor offers a more optimistic yet still sobering assessment, arguing that though NAFTA deepened regional integration during the 1990s, a new vision of North America will be needed to reverse the path of decline that began around the turn of the century.<sup>2</sup> Using one of the most common measures of economic integration, the percentage of a region's total trade that is intraregional, one can see the arc of integration and dis-integration quite clearly (see Figure 1). After rising from 41 percent of total trade in 1993 to 46 percent in 2000, intraregional trade fell to 40 percent in 2012. Compared to the European Union, where 61 percent of its trade was intraregional in 2012, North America appears even more disconnected.

Policy decisions made in North America certainly played an important role in this decline. The thickening of the United States' borders with additional security measures after 9/11 and the largely failed attempt to deepen regional integration while addressing post-9/11 security challenges through the Security and Prosperity Partnership (SPP) stand out as stumbling blocks and missed opportunities.<sup>3</sup> Some experts and government officials take issue with the characterization of the SPP as a failed initiative, pointing out that it laid the groundwork for much of the progress we are currently seeing in the Beyond the Border (United States-Canada) and 21st Century Border (United States-Mexico) initiatives. This is a fair point, as these and other bilateral efforts have produced important results in recent years, but at the same time it serves to underscore the way in which the North American relationship has fragmented into dual-bilateralism.

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1 Stephen Clarkson, *Does North America Exist: Governing the Continent After NAFTA and 9/11*, (Toronto: University of Toronto Press and Woodrow Wilson Center Press, 2008); Isabel Studer and Carol Wise, eds., *Requiem or Revival?: The Promise of North American Integration*, (Washington, DC: Brookings Institution Press, 2007); Jeffrey Ayres and Laura Macdonald, *North America in Question: Regional Integration in an Era of Economic Turbulence*, (Toronto: University of Toronto Press, 2012).

2 Robert A. Pastor, *The North American Idea: A Vision of a Continental Future*, (Oxford: Oxford University Press, 2011).

3 The Security and Prosperity Partnership was a 2005 initiative to deepen North American cooperation and integration. See Andrew Finn's chapter in Section 2 for greater detail on the effort.



## NORTH AMERICAN DIPLOMATIC RELATIONS

Duncan Wood

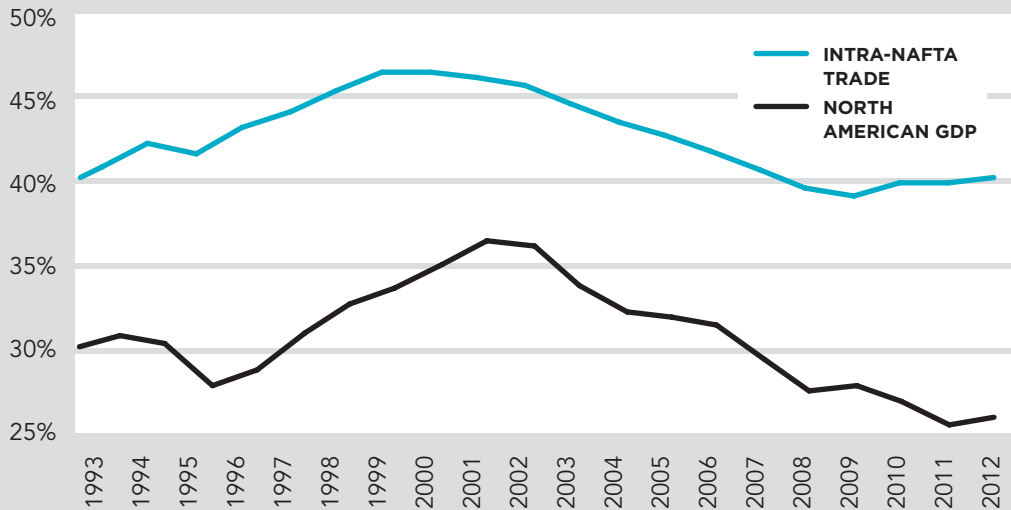
Recent years have seen a significant shift in relations among the three NAFTA governments. Beginning in 2007, the Felipe Calderón government in Mexico embarked upon an ambitious restructuring of its relations with the United States. Focusing heavily on the question of public security, drugs, and organized crime, the Calderón government negotiated the Mérida Initiative with the George W. Bush administration. The Mérida Initiative in particular, and Mexico's struggle against organized crime more generally, engendered a new interest in Washington for Mexico's internal affairs, and brought the two countries into a deepened partnership. At the same time, Canada appeared to be losing diplomatic ground in Washington, with a series of disagreements over trade issues marring the country's previously impeccable image in the White House, Congress, and Department of State.

This shift in favor of Mexico continued after the July 2012 election of Enrique Peña Nieto as president of Mexico. The Peña Nieto government's effort to transform Mexico's international image, and its shift in the conversation away from drugs and violence to legislative reforms and economic competitiveness was well received in Washington. Despite the ongoing uncertainties that have emerged in the security relationship between the United States and Mexico, it would be fair to say that the overall positive relationship stands in contrast to the uninspired nature of Canada-U.S. relations today. Partly due to ongoing disputes between the two countries, such as the Keystone XL Pipeline, intellectual property rights, various border disputes and environmental spats, and partly due to the absence of a strong personal connection between President Barack Obama and Prime Minister Stephen Harper, there is a feeling of "treading water" at the present time.

If the relations between the United States and Canada are far from scintillating, there is an even deeper ennui on the Mexico-Canada axis. With relations worsening steadily since the 2009 imposition of a visa requirement for Mexican citizens wishing to travel to Canada, the Peña Nieto government has adopted a more aggressive stance toward Ottawa, and has not shied away from directly confronting the Canadian government.

All of this is not to say that regional cooperation is in trouble. Personal relationships among the leaders, temporary disputes, and other irritants are relatively inconsequential when put in the context of the overwhelming importance of the economic relationship. But they offer us an insight into the changing dynamics of the North American family of states, and may help to explain the pace at which progress is made in the region.

**FIGURE 1.** North American Integration, GDP and Intra-NAFTA Trade (percent of World GDP; percent of NAFTA trade with the World)



Source: International Monetary Fund, *World Economic Outlook Database*, April 2013; and International Monetary Fund, *Direction of Trade Statistics database*, 2013.

**If bilateral efforts are advanced within the framework of a strategic vision for a stronger, more competitive North America, then bilateral relations take on a deeper purpose, becoming laboratories for cooperative efforts that can become best practices and, when appropriate, be trilateralized.**

Indeed, there are precious few trilateral forums left in which the federal governments of North America can develop cooperative approaches to regional issues. With the secretariat of the North American Commission for Labor Cooperation currently closed due to a lack of funding, the Commission for Environmental Cooperation for North America is the only remaining trilateral institution. This institutional void places a greater importance on trilateral ministerial meetings and especially the North American Leaders Summits (NALS).<sup>4</sup> After several annual summits, there was no meeting in either 2010, 2011, or 2013, which calls into question the commitment to North American cooperation at the highest levels. Importantly, the NALS is slated to occur in Toluca, Mexico, in 2014.

But before accepting the thesis of a North America in decline, three important factors should be considered. First, federal governments are not always in the lead. State and local governments are developing creative responses to border challenges every day, and occasionally organizations—for example, the Council of State Governments—bring together subnational leaders from across North America. The private sector, civil society and academia have also all engaged in interesting efforts to develop projects that span the continent.

Second, even dual-bilateral efforts, in the proper context, can play an important role in strengthening North America. They can, for example, serve to lower border transaction costs and thereby allow businesses to maintain intact their continental supply chains. Initiatives like the 21st Century Border, Beyond the Border, the U.S.-Mexico and U.S.-Canada Regulatory Cooperation Councils, as well as the creation of customs single windows, are not properly “North American” efforts since they are not trilateral in nature, but nonetheless are important efforts to incrementally address specific barriers, thereby helping hold together regional production and competitiveness. If bilateral efforts are advanced within a framework of a strategic vision for a stronger, more competitive North America, then bilateral relations take on a deeper purpose, becoming laboratories for cooperative efforts that can in the future become best practices and, when appropriate, be trilateralized.

Finally, North America does not exist in a vacuum, and the quick pace at which the global economy is being transformed and reshaped has an important impact on statistics used to measure regional integration. In Figure 1, we see how the percentage of North American trade within the region has been falling. The second line on the graph helps us understand why. It shows the percentage of global GDP belonging to the

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4 See Kathryn Friedman’s essay in Section 2 for more on an institutionalized versus networked approach to regional integration.

countries of North America. Since the growth of emerging markets around the world has outpaced that of developed markets (like the United States and Canada) over the last decade, it makes perfect sense that North America would trade more with these countries as they grow.

The key then is not to judge the pace of regional integration in comparison to globalization, but instead to judge North American cooperation and integration by the three countries' ability or inability to rise to the level of the challenges they face. From that perspective, North America must ensure that its manufacturing, service, agricultural, and energy sectors maintain and enhance their competitiveness in the face of rising global competition. The United States, Mexico, and Canada must find sustainable and inclusive ways to grow and find long-lasting solutions to challenges of public and national security. Judged from this perspective, this report finds a North America that is on the one hand among, if not *the*, strongest and most dynamic regions of the world, but on the other, a North America that lacks the level of trust and cooperation necessary to reach its full potential and fulfil the aspirations of its populations.



Section 1:

# The Economy

# North America: An Economic Bloc Born of Nature and Nurture

CHRISTOPHER WILSON

Geography, history, and economic complementarities among the nations of North America have long linked the economies of the United States, Canada, and Mexico. However, it was the conscious decision to nurture these natural ties, embodied in the signing of the North American Free Trade Agreement in 1993, that boosted regional trade and integration to its current level. Trade among the countries of North America is now nearly four times greater than its pre-NAFTA level, and the stock of foreign direct investment by the United States, Canada and Mexico in their North American partners is more than five times what it was 20 years ago.<sup>1</sup> Simply put, trade among the North American partners is massive, and each economy in the region relies significantly on this trade to create jobs, fuel growth, and strengthen its competitiveness.<sup>2</sup>

With its \$15.7 trillion economy and its geographic position between Canada and Mexico, the United States sits at the center of the North American economy.<sup>3</sup> Neighboring Canada and Mexico respectively form the United States' first and second largest export markets, buying a combined one-third of all U.S. exports. Canada and Mexico are deeply tied to the United States, and while the lack of a shared border and comparatively smaller size of each economy (\$1.8 trillion in GDP for Canada, \$1.2 trillion for Mexico) limit bilateral trade between Mexico and Canada, each is nonetheless an important trading partner for the other. The United States is by far Canada's top market, buying 75 percent of its exports, and Mexico is Canada's fifth largest market. Similarly, the United States buys 78 percent of Mexico's exports, while Canada is Mexico's third largest export market.

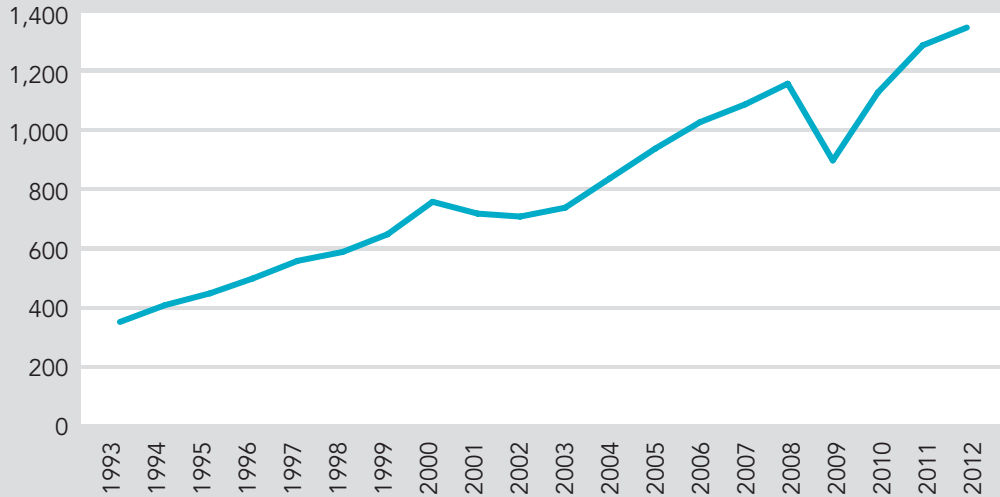
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1 Investment data from OECD International Direct Investment Database, 2013.

2 Except when specifically cited to another source, all trade data in this chapter comes from the International Monetary Fund's Direction of Trade Statistics database. The most recent figures cited refer to 2012 data.

3 GDP data from: International Monetary Fund, World Economic Outlook Database, April 2013.

**FIGURE 2.** Intra-NAFTA Trade in Goods and Services, 1993–2012  
(Billions of U.S. Dollars)



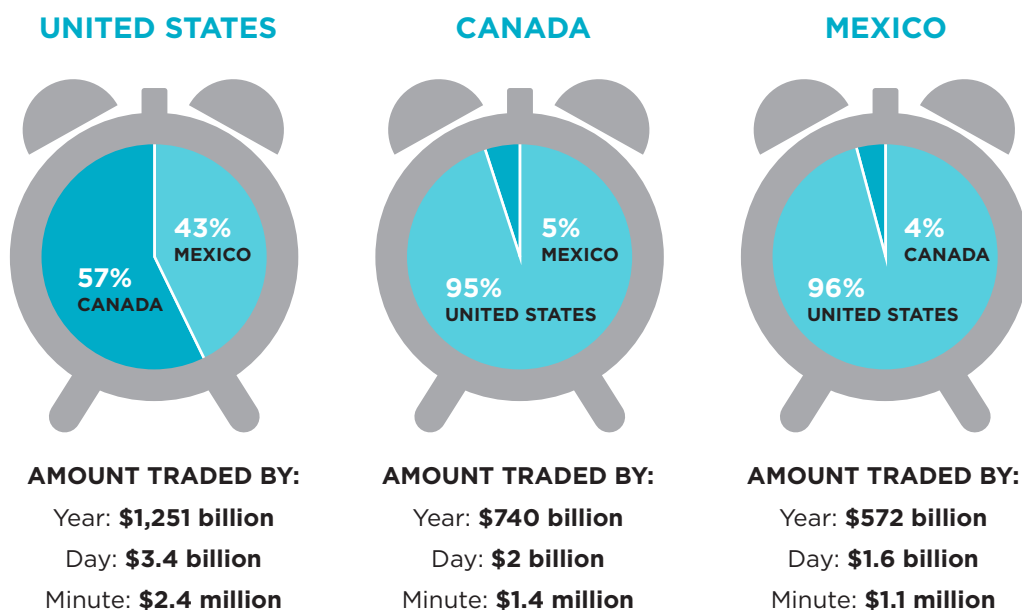
Sources: Merchandise trade data from International Monetary Fund, *Direction of Trade Statistics database*, 2013; Services trade data from U.S. Bureau of Economic Analysis and OECD, *Stat*, 2013.<sup>4</sup>

Note: Sum of U.S., Canadian and Mexican exports to NAFTA partners.

**The United States, Mexico and Canada do not simply trade finished products with one another; in a system known as production sharing, they actually build products together.**

<sup>4</sup> Note on services trade data: Because of data limitations, Mexican services exports to Canada are substituted with Canada's reported services imports from Mexico. Canada-Mexico services trade data was not available for 2011 and 2012; 2010 values are repeated for 2011 and 2012 to fill in those missing values.

**FIGURE 3.** By The Minute: Each Nation's Trade with Its NAFTA Partners



Sources: Merchandise trade data from International Monetary Fund, *Direction of Trade Statistics database*, 2013; Services trade data from U.S. Bureau of Economic Analysis and OECD, *Stat*, 2013.<sup>5</sup>

Note: Pie charts show the portion of the United States, Canada, and Mexico's intra-NAFTA trade (exports and imports) with each partner nation. The information below each clock shows the value of each country's trade with its NAFTA partners by the year, day, and minute in 2012.

## MADE IN NORTH AMERICA: AN INTEGRATED MANUFACTURING PRODUCTION PLATFORM

Trade among the countries of North America is of a different nature than trade with extra-continental partners. The United States, Mexico, and Canada do not simply trade finished products with one another; in a system known as production sharing, they actually build products together. That is, companies throughout North America send parts and materials back and forth across the U.S.-Canada and U.S.-Mexico borders, often multiple times, during the production process in order to take advantage of economies of scale and the comparative advantages of each country. This makes North American manufacturers more productive and more competitive than they would be without regional supply chains.

5 See footnote 4 above for details regarding services trade data.



One of the best measures of the depth of manufacturing integration is the value of domestic content in imports from a country's trading partners. When the United States imports a finished product from Mexico, that product contains, on average, 40 percent domestic U.S. content. That means for every dollar spent on goods from Mexico, 40 cents are directly supporting jobs and industry within the United States. American imports from Canada contain a similarly high 25 percent U.S. parts and materials. The same cannot be said for other countries. Imports from China have four percent U.S. content, while imports from the European Union and India each contain just two percent U.S. parts and materials.<sup>6</sup>

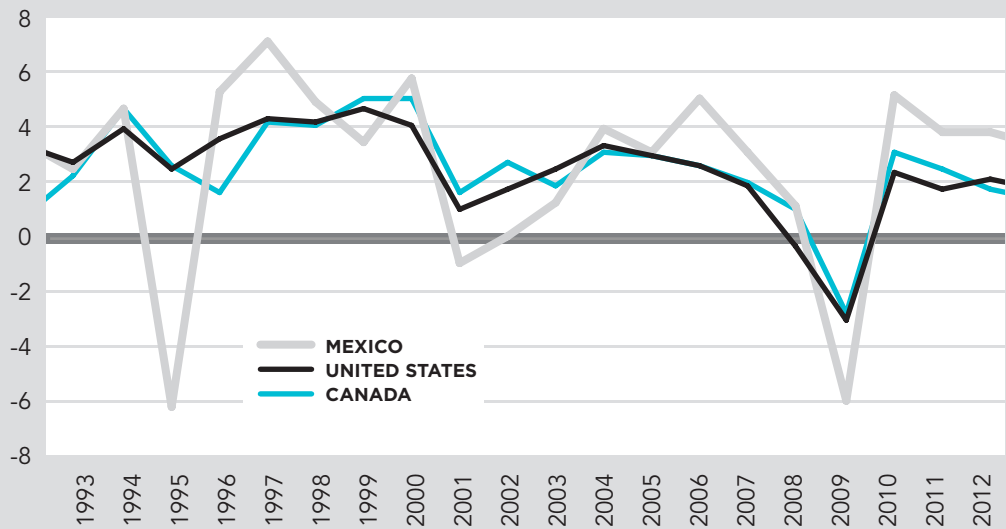
At times, policymakers have intentionally sought to incentivize the creation of regional value-added chains. In 1965, both the Canada-U.S. Auto Pact and the Maquiladora Program allowed for a deepening of manufacturing ties between the United States and its neighbors. In 1988, the Auto Pact was deepened into a full blown free trade agreement, which then was superseded in 1994 by NAFTA, the first truly North American integration effort. Since then, the private sector has driven a continued deepening of supply chain integration throughout the continent, but policymakers lag behind, having taken only small, incremental steps toward the reduction of barriers to trade and economic cooperation. At the same time, new barriers have been created (due largely to the thickening of the U.S. borders with additional security measures following 9/11), and global manufacturing competition increased with the rise of China and other emerging market nations.

Nonetheless, manufacturing integration in North America is profound, and it has two important consequences. First, since the mid-1990s, the economies of North America have become synchronized. As seen in Figure 4, they rise and fall together with a shared business cycle. The stability and growth of each country is of paramount importance to the other two since they jointly power the regional economy. But the economies of North America are not just linked together in the short term. Because we jointly produce goods that must be competitive on the global market, even our productivity and competitiveness are linked. Reforms that enhance productivity in any North American country, as well as measures that decrease barriers to regional trade, reduce the cost of producing goods in North America, making them more competitive for export around the world.

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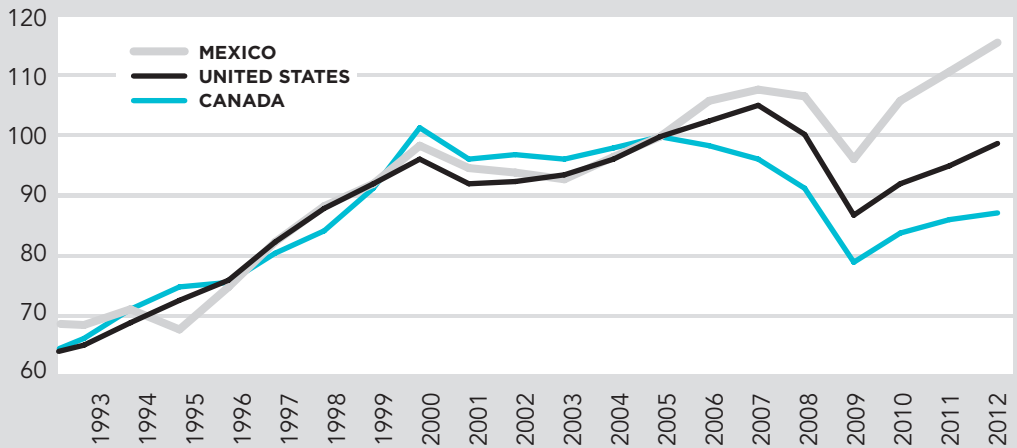
6 Source: Robert Koopman, William Powers, Zhi Wang and Shang-Jin Wei, "Give Credit Where Credit is Due: Tracing Value Added in Global Production Chains," National Bureau of Economic Research Working Paper No.16426, Cambridge, Massachusetts: September 2010, revised March 2011, p.38.

**FIGURE 4.** GDP Growth Rates (percent)



Source: International Monetary Fund, World Economic Outlook Database, April 2013.

**FIGURE 5.** Manufacturing Production Index (2005 = 100)



Source: Organization for Economic Cooperation and Development, OECD StatExtracts, "Production and Sales (MEI): Production in Total Manufacturing SA, 2005–100.

The second consequence of integrated manufacturing is the creation of a multiplier effect at the U.S.-Canada and U.S.-Mexico borders. With products crossing the borders multiple times during the course of production—as many as eight times in the case of the North American auto industry—the cost of long lines and inefficient procedures are magnified.<sup>7</sup> This means minor inefficiencies at the border can have major effects on the regional economy, but it also means that any steps taken to alleviate congestion and streamline processes (customs, security checks, safety inspections) will have magnified positive effects.

## NORTH AMERICAN COMPETITIVENESS: GLOBAL PRESSURES ON THE REGIONAL ECONOMY

The contours of the global economy have been shifting rapidly in recent years. Emerging economies, led especially by China, have been growing quickly, while the developed economies of Europe continue to experience slow growth or recession. Nonetheless, North America remains quite competitive. In fact, an averaging of the World Economic Forum's competitiveness rankings by region suggests North America is the most competitive region in the world.

In the early part of the new century, the winds of the global economy drove against North American manufacturers; globalization outpaced regionalization. Large multinational firms and more than a few of their smaller counterparts scoured the world in search of cheap wages in an effort to bring down manufacturing costs. A huge number of factories went to China, especially after it joined the WTO in 2001; this was truly a global phenomenon. Recession in North America and the cost of U.S. wars

**TABLE 1.** The Global Competitiveness Index 2013–2014

	2013–2014 GCI (1–7)
<b>North America</b>	5.01
United States	5.48
Canada	5.20
Mexico	4.34
<b>Europe (EU28)</b>	4.70
<b>Asia (RCEP)</b>	4.64

Source: World Economic Forum, Global Competitiveness Report 2013–2014, 2013.

Note: The regional GCI values are simple averages of the component countries. Europe includes the 28 countries of the European Union, and Asia includes the 16 countries committed to negotiating the Regional Comprehensive Economic Partnership, which are the 10 ASEAN members plus Australia, China, India, Japan, Korea and New Zealand.

7 Robert Pastor, “The Future of North America,” *Foreign Affairs*, July/August, 2008, 89.

abroad and increased security measures at home—especially at the borders—made these tough years for producers, as evidenced in Figure 5. Times improved around the middle of the decade only to crash during the Great Recession (2008–2009).

Fortunately, those headwinds to a large extent have become tailwinds, and manufacturers are now powering the recovery of the regional economy, especially in Mexico and the United States. Rising wages in China have brought its manufacturing labor costs close to, or according to some reports even above, those of Mexico.<sup>8</sup> Increases in transportation costs since the early 2000s have also served to incentivize nearby, regional manufacturing partnerships and disincentivize unrestrained global supply chains, especially for larger and more difficult to ship items such as cars and big screen televisions. The different paces of recovery among Canada, the United States, and Mexico seen in Figure 5 can largely be attributed to currency values. Viewed from within North America, the Canadian dollar strengthened significantly since 2000 vis-à-vis the U.S. dollar, while the peso has depreciated, making Mexican exports more competitive. Seen vis-à-vis the Chinese yuan, the changes are particularly revealing. The peso depreciated 48 percent between January 2000 and January 2014. The U.S. dollar also fell, less than the peso but still an important 27 percent. The Canadian dollar, on the other hand, stayed virtually on par with the yuan, falling just 1 percent.<sup>9</sup>

Technological developments in energy extraction, particularly the increasing use of hydraulic fracturing to extract natural gas and crude oil from shale formations, have significantly lowered electricity prices for manufacturers in the United States and Canada. In the United States, the price of natural gas for electricity generation was \$3.52 per thousand cubic feet, half the 2006 price.<sup>10</sup> Prices in Canada fell a similar amount since the energy markets of the United States and Canada are closely linked, but the same cannot be said for Mexico, where both natural gas and electricity prices remain much higher because of Mexico's lower production levels and minimal connections (via electricity and pipeline) to the U.S. market. Of course, Mexico did pass major energy reform legislation in December 2013, so it may have the opportunity to feel a similar boost from its energy sector in the years ahead (see the next chapter by Duncan Wood for more on North American energy).

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8 Herman Kamil and Jeremy Zook, "The Comeback," International Monetary Fund, March 2013, <http://www.imf.org/external/pubs/ft/fandd/2013/03/kamil.htm>; and Reuters, "UPDATE 1-Mexico hourly wages now lower than China's-study," *Reuters*, April 4, 2013, <http://www.reuters.com/article/2013/04/04/economy-mexico-wages-idUSL2N0CR1TY20130404>.

9 Author's calculations with data from the U.S. Federal Reserve, 2014.

10 U.S. Energy Information Administration, 2013, <http://www.eia.gov/dnav/ng/hist/n3045us3A.htm>.

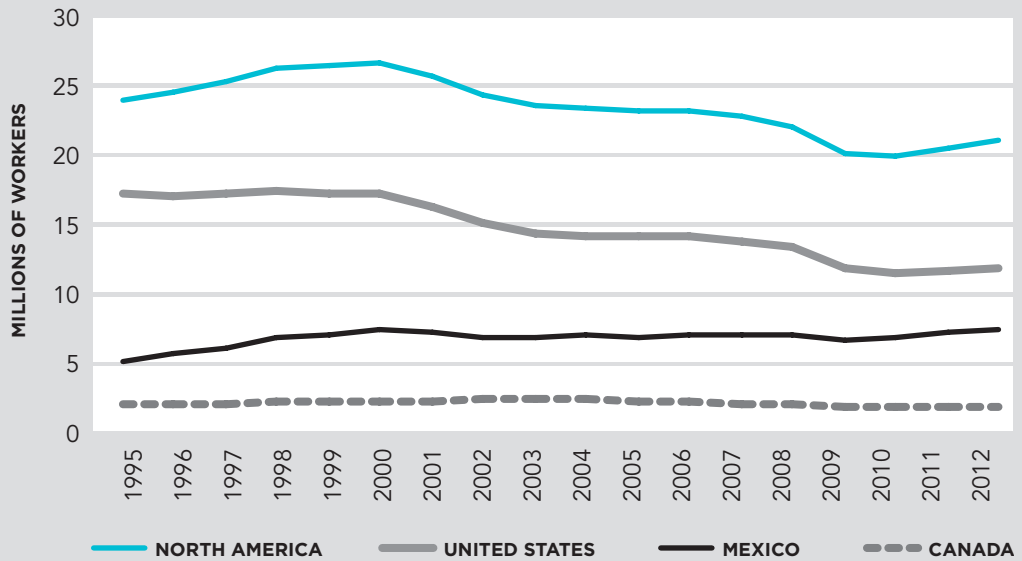
## THE JOBS CHALLENGE

As North America experiences a manufacturing renaissance and production levels rise, the number of people employed in the sector has recovered somewhat, rising from 20.2 million in 2009 to 21.2 million in 2012 (see Figure 6). Nonetheless, manufacturing employment is still down over the last two decades, largely due to the continuous stream of technological advances that allow each remaining worker to become more productive. In many ways, the slow emptying of our factories mimics the large-scale exodus from farms to urban areas that occurred over decades in each of the countries of North America.

There are two ways to respond to the jobs challenge, and both are important. First, it is important to focus on strengthening the competitiveness of the region's manufacturing sector. Making sure suppliers and original equipment manufacturers (OEMs) throughout the continent are connected with high quality infrastructure and low border and logistics costs is a key component to improved competitiveness, but so are domestic factors such as policies that support innovation and entrepreneurship. The second approach comes from the realization that the greatest number of new jobs created will be in the services sector. For someone moving out of manufacturing, the best option is a move upward into a higher paying service job, such as a medical equipment repair technician or employment in the IT industry. The unfortunate reality, however, is that many workers take a step backward into a lower-paying, lower-skill service job, perhaps in the retail or hospitality industries. The higher skill jobs have specific education and skill requirements, so making this upward transition is only possible with the right training and educational opportunities.

As there are fewer and fewer jobs that offer good pay for lower-skilled labor, a high-quality education system and workforce development programs become perhaps the most important policies a country can implement to create quality jobs. The importance of education is equally relevant for those who wish to stay in the manufacturing sector to program and run high-tech machines and robots, and for those seeking to migrate into good knowledge and innovation driven jobs in the services sector. Education and research partnerships among the countries of North America could be an important part of negotiating the jobs challenge. Of course, even with the best policies in place to build human capital, each society will continue to face tough decisions about the manner and extent of support available for unemployed workers who are either in transition to a new career or are unable to make such a transition.

**FIGURE 6.** Manufacturing Employment



Sources: *Statistic Canada*, (<http://www5.statcan.gc.ca/cansim/a34?lang=eng&id=2810024&searchTypeByValue=1&mode=tableSummary&p2=35>); *Bureau of Labor Statistics*, (<http://data.bls.gov/pdq/SurveyOutputServlet>); *Encuesta Nacional de Ocupación y Empleo STPS-INEGI* ([http://www.stps.gob.mx/bpl/secciones/conoce/areas\\_atencion/areas\\_atencion/web/menu\\_infector.html](http://www.stps.gob.mx/bpl/secciones/conoce/areas_atencion/areas_atencion/web/menu_infector.html))

## POLICY OPTION

**When possible, it makes sense for the countries of North America to negotiate trade agreements as a bloc.**



## **NORTH AMERICA AND THE EVOLVING ARCHITECTURE OF GLOBAL TRADE**

NAFTA was signed during the early stages of the era of bilateral and small regional free trade agreements, which reciprocally lowered tariffs among participating nations. This period coincided with the creation and expansion of the World Trade Organization (WTO), which lowered trade barriers among all member countries around the world. NAFTA was created during a period of simultaneous regionalization and globalization. North American integration was deepened, but so were each country's trading relationships with non-North American nations, especially China after its accession to the WTO in 2001.

During the first decade of the twenty-first century, the inability to conclude the Doha Round of WTO negotiations stalled progress on multilateral negotiations while bilateral agreements proliferated at a rate even faster than what was seen in the 1990s. The spaghetti bowl approach to international trade, an increasingly complex and entangled network of small trade agreements, each with its own rules, had until recently become the norm. While these free trade agreements were meant to liberalize trade and create clear rules of the game, their proliferation also created an ever-more complicated legal framework.

The combination of a lack of multilateral progress and a proliferation of bilateral agreements has brought about the emergence of a new phase in trade policy, the creation of super-regional trade agreements. The Trans-Pacific Partnership (TPP), which is being negotiated by the United States, Canada, Mexico, Japan, and eight other Pacific Rim countries (China not among them), is a prime example.<sup>11</sup> Another important example is the Transatlantic Trade and Investment Partnership (TTIP) being negotiated between the United States and the European Union. Each of these agreements would connect more than 35 percent of global GDP; if both the TPP and TTIP are implemented, they would form the world's two largest free trade areas. The super-regional accords are intended to lower transaction costs for international trade and investment, set a high standard for future multilateral agreements, and incentivize the handful of major economies that still have high trade barriers to join in or risk losing out; these agreements could provide member economies with a significant economic boost.

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<sup>11</sup> The Trans-Pacific Partnership is being negotiated by Australia, Brunei Darussalam, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam.

## POLICY OPTION

Only a move toward the establishment of a common external tariff could fully address the rules-of-origin problem while still promoting the use of regional supply chains



As key actors in building this evolving architecture of global trade, the countries of North America need to think strategically about the future of the region and the impact these super-regional agreements will have on the North American economies. There are two key issues, both of which suggest the importance of North America working together as an economic bloc as it engages the world. The first has to do with the treatment of co-manufactured goods. Trade agreements normally have rules of origin, which ensure that only products made within the FTA area receive preferential tariffs or treatment by the member countries. In the case of the TPP, which includes all the members of NAFTA, this presents no problem for products made with parts and materials sourced in North America. However, when the countries of North America do not all join together to negotiate, as in TTIP, there is the possibility that U.S. products with high levels of Mexican and Canadian content may not qualify for free-trade status (even though Mexico already has an FTA with the EU, and Canada is wrapping up its own), thus harming manufacturers throughout North America.

When possible, it makes sense for the countries of North America to negotiate agreements as a bloc. If this proves too difficult, at a minimum it is in the interest of each NAFTA country to coordinate with the others as it negotiates in order to maximize the advantage of FTAs for regional industry.

### **INCREASING REGIONAL COMPETITIVENESS THROUGH ECONOMIC COOPERATION AND INTEGRATION**

In addition to cooperation on global trade, there are a number of important steps that can be taken to minimize the transaction costs associated with trade, investment, and the



creation of economic partnerships within North America. By cutting these costs, firms operating in North America can become more competitive. As a result, the region would attract and retain greater levels of investment, become a more fertile ground for start-ups, and produce more employment opportunities.

The largest transaction costs occur at the border, most obviously in the form of congestion and long lines that individuals and shippers endure to cross the border. This congestion subtracts billions of dollars worth of economic output from the region each year.<sup>12</sup> As described in greater detail in Andrew Finn's chapter in Section 2, there are a number of steps that can be taken (many of which are moving, if slowly) to address this, including but not limited to:

- » Moderate investments in infrastructure and staffing at the land ports of entry
- » Strengthening and expanding trusted traveler programs
- » Improving coordination among government agencies, the private sector, and the public on both sides of the borders.

In order to encourage the creation of North American supply chains, NAFTA created a system of rules of origin, which essentially make sure that the benefits of NAFTA are available only for products produced with parts and materials sourced within the region. While there is a strong argument in favor of such an approach, the complicated documentation requirements needed to prove the origin of each component of a large product (such as an automobile or medical device) have added paperwork costs to traders and have unfortunately proved a disincentive to small businesses seeking to export. Additional costs come from the simple fact that customs information must make its way to several agencies in both the exporting and importing country. The full implementation of customs single windows and related internet-based systems for all documentation requirements could address the latter issue, but only a move toward the establishment of a common external tariff could fully address the rules-of-origin problem while still promoting the use of regional supply chains. As suggested by former U.S. Trade Representative Carla Hills, the most practical way to move toward a common external tariff is to have a process that harmonizes tariffs product by product

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12 Christopher Wilson and Erik Lee, "The State of Trade, Competitiveness and Economic Well-Being in the U.S.-Mexico Border Region," in *The State of the Border Report*, eds. Christopher Wilson and Erik Lee (Washington, DC: Border Research Partnership, 2013), 70.

## POLICY OPTIONS

**At some point regulatory cooperation efforts will need to be merged, because it is clearly impossible for the United States to harmonize its regulations with Canada, Mexico, and Europe in a deep way without all countries involved also harmonizing their own regulatory frameworks.**



rather than all at once.<sup>13</sup> This would push all customs (not security) inspections to the outer perimeter of North America.

Similar efforts are needed to harmonize the regulatory frameworks of the three countries of North America. Such harmonization could both eliminate the need to have separate lines of production in factories producing products for sale across the countries of North America and, perhaps more importantly, serve to stimulate services trade, which is particularly stymied by so-called behind-the-border regulatory issues. Two similar bodies currently exist to deal with this challenge in a dual-bilateral fashion: the United States-Canada Regulatory Cooperation Council (RCC) and the United States-Mexico High-level Regulatory Cooperation Council (HLRCC). The U.S.-Canada effort has made significantly more progress than its U.S.-Mexico counterpart, but both appear threatened to be overcome by progress made between the United States and Europe through the current TTIP negotiations. At some point, hopefully sooner rather than later, all of these efforts will need to be merged, because it is clearly impossible for the United States to harmonize its regulations with Canada, Mexico, and Europe in a deep way without all countries involved also harmonizing their own regulatory frameworks.

Economic frictions and transaction costs are not always so clearly seen as border effects, nor are they always obviously the result of policy decisions. For example, though Mexico

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<sup>13</sup> Carla Hills, “Working Together: Economic Ties between the United States and Mexico,” conference keynote address, Woodrow Wilson Center, Washington, D.C., February 14, 2012 ([www.wilsoncenter.org/event/north-american-integration-essential-to-renewed-us-manufacturing-prowess](http://www.wilsoncenter.org/event/north-american-integration-essential-to-renewed-us-manufacturing-prowess)).

To open space for a more ambitious agenda, the government-private sector coalition in North America must be reactivated and broadened to include a deeper participation from civil society.



is the United States' third largest trading partner in terms of merchandise, it is sixth in services trade (Canada is number two behind the United Kingdom).<sup>14</sup> One of the major limitations for greater services trade between Mexico and its North American partners is the lack of a common language and limitations in language, especially in Mexico and the United States. A mismatch between the qualifications employers are seeking and the skills of a country's labor force also creates a type of economic friction and a drag on competitiveness. The Hays Global Skill Index recently found significant difficulty in recruiting highly skilled labor in Canada, the United States and Mexico.<sup>15</sup> Much of this issue can only be addressed by strengthening national educational institutions, but immigration policies and educational exchange programs could help the countries of North America expand and improve their collective talent pool in order to minimize mismatches in specialized skills and available employment opportunities.

## THE POLITICS OF ECONOMIC COOPERATION

While each of the above proposals is, in the end, clearly beneficial for all three North American partners, the politics of cooperation remain difficult. They always have been. Indeed, NAFTA was only passed because of the construction of an unprecedented coalition of the political leaders and private sectors of each of the three countries to campaign together for the support of the people of North America. Public and congressional

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<sup>14</sup> U.S. Department of Commerce, Bureau of Economic Analysis, International Transactions data, 2013 (<http://www.bea.gov/iTable/iTable.cfm?ReqID=6&step=1#reqid=6&step=1&isuri=1>).

<sup>15</sup> Hays and Oxford Economics, "The Great Talent Mismatch: The Hays Global Skills Index 2013," 2013.

support was achieved, and the agreement was passed (with varying levels of support throughout the continent). Since then, in the absence of a single legislative issue around which to coalesce, the coalitions have dissolved and the advocates of North American cooperation have largely gone silent, even as political critics march on. Now, even though U.S. public opinion supports trade with Canada (76 percent to 14 percent) and Mexico (52 percent to 37 percent), it opposes NAFTA (35 percent to 44 percent).<sup>16</sup>

As a result, the governments of North America feel constrained, and big trilateral initiatives have been replaced with a quiet, incremental, dual-bilateral approach. To open space for a more ambitious agenda, the government-private sector coalition in North America must not only be reactivated but also broadened to include a deeper participation from civil society. Fortunately, the context has changed in important ways. Globalization is understood more as a fact of life than as a policy proposal waiting for an up or down vote. As a result, there is a great opportunity to present Canada, Mexico, and the United States as partners in manufacturing, and as partners that reinforce one another's competitiveness in the context of global competition.

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16 Pew Research Center for the People and the Press, "Americans Are of Two Minds on Trade," November 9, 2010 (<http://www.pewresearch.org/2010/11/09/americans-are-of-two-minds-on-trade/>).

# North America's Energy Bounty: New Resources and New Opportunities

DUNCAN WOOD

Following widespread fears about energy security, the debate in the United States in recent years has shifted to how the abundance of natural gas and significant new oil reserves are fundamentally altering North America's energy relationship with the world. North American energy independence is rapidly becoming a reality, with the United States now confident that it will be able to satisfy declining national demand for oil through a combination of domestic, Canadian, and Mexican supply, fuel efficiency measures, and a long-term shift from gasoline and diesel to natural gas-based transportation fuels.

It has become commonplace to talk of North America as the “new Middle East.” The abundance of conventional and unconventional energy sources in the region means that rather than worry about discovering new sources of supply, the challenge for both policymakers and industry now lies in siting, financing, and building the infrastructure needed to get energy to market and in making energy markets more efficient.

However, despite the revolution that has taken place in the hydrocarbons industry since 2008, the impressive steps that have been taken towards regional energy self-sufficiency, and meaningful reform of the Mexican energy sector, substantial challenges remain. Central to a resolution of these challenges is the need for enhanced regional planning in energy policy, institutionalized bilateral cooperation, spending on energy infrastructure, regulatory collaboration, and cross-border transmission.

In this section, we provide an overview of North America's energy resources and infrastructure and identify new trends in the development of the energy industry and energy policy. We will discuss the importance of the shale gas/tight oil revolution, the massive potential for Canadian oil production, and the changes that are currently taking place in Mexico's energy sector.

## **THE ENERGY PANORAMA**

North America is a region that is spectacularly blessed with energy resources. With abundant traditional hydrocarbons as well as substantial alternative and renewable energy

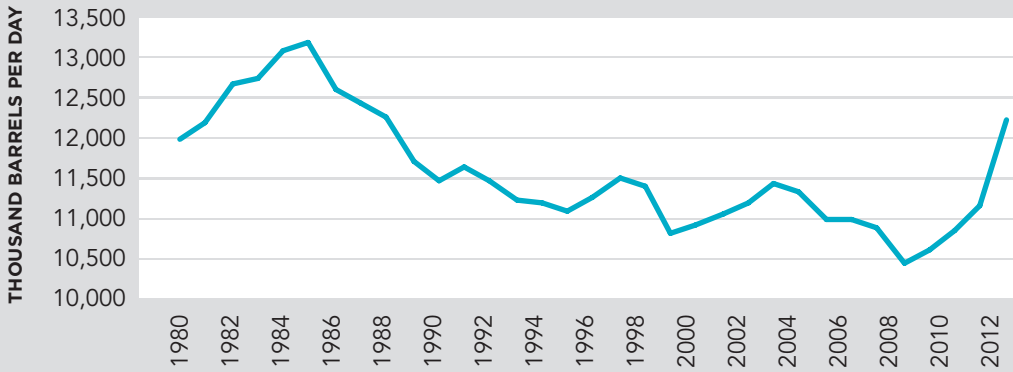
sources, if current trends continue, North America has the potential to no longer be dependent on energy imports. In fact, North America as a region may soon be exporting energy, and it is even predicted that the United States will need to export crude oil in the near future as Gulf Coast refineries reach capacity, raising the urgency of a national debate in the United States over crude exports. The oil sands, tight oil, and shale gas revolutions have already had a major impact on energy production, and with exciting changes afoot in Mexico (which has prospective reserves of 130 billion barrels of oil), the region will not only satisfy its own demand, but will be a major source of hydrocarbons for the world. However, in order to reach this potential, significant investments will have to continue in exploration, infrastructure, technological advances, and human capital.

The three areas of hydrocarbons potential driving change in the regional energy industry are the oil sands in Alberta, shale gas and tight oil, notably in Texas and North Dakota, and Mexico's remaining conventional and unconventional reserves. Alberta's enormous potential is rapidly being realized with total Canadian oil output projected to surge by 50 percent by 2020, according to the Canadian Association of Petroleum Producers (CAPP); it will more than double to 6.7 million barrels per day (bpd) by 2030. The impact of unconventional oil on Canadian oil production has already been dramatic, with a rise from just over 1.25 million bpd in 1982 to more than 3.1 million bpd in 2012 (see Figure 8).

The United States has also seen a dramatic increase in national oil production thanks to the widespread use of hydraulic fracturing techniques, adding almost 1.5 million bpd from tight oil and shale fields in the past five years. The "shale gale" that has revolutionized hydrocarbons production came about in the United States due largely to two factors: the ownership by private citizens of subsoil resources and the evolution of

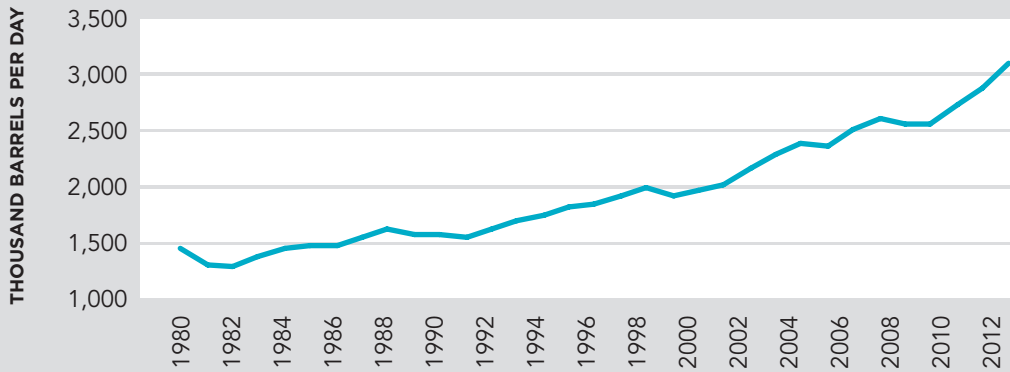
**The three areas of hydrocarbons potential driving change in the regional energy industry are the oil sands in Alberta, shale gas and tight oil, notably in Texas and North Dakota, and Mexico's remaining conventional and unconventional reserves.**

**FIGURE 7.** North America Crude Oil Production (1980–2012)



Source: U.S. Energy Information Administration, *International Energy Statistics*, 2014.

**FIGURE 8.** Canada Crude Oil Production (1980–2012)



Source: U.S. Energy Information Administration, *International Energy Statistics*, 2014.

hydraulic fracturing (fracking) technology. This technology has also been applied to tight oil formations in places such as North Dakota, where major new reserves are being exploited. The result has been record-low natural gas prices and significant new supplies of oil flooding onto US energy markets.

Between 2008 and the end of 2012, U.S. crude production rose from 5 million bpd to just under 6.5 million bpd (see Figure 9). This has meant that the United States now depends less on imported oil than it has for the previous four decades, with domestic production scheduled to hit 9.6 million bpd in the next five years, reaching a level not seen since 1970. The Energy Information Administration (EIA) projects that U.S. shale oil production will reach 4.8 million bpd in 2021. This rise in production brings with it a shift in U.S. foreign policy priorities and a growing belief that national energy security is within reach.

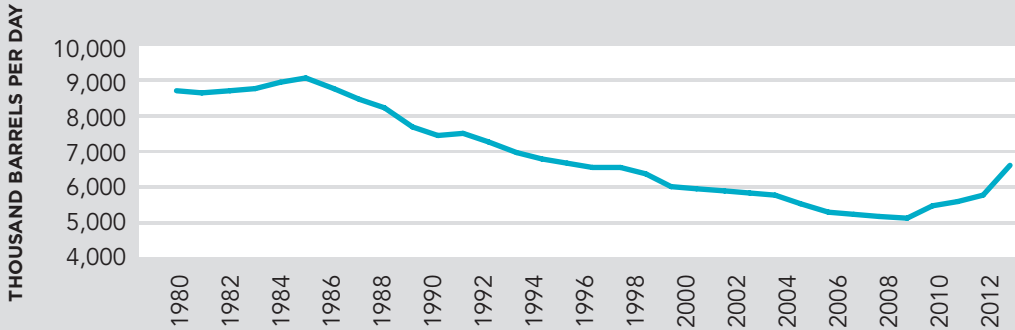
The boom in crude oil production, while impressive, pales beside the paradigm shift that has occurred in the natural gas sector. In the 1990s the North American region had some of the highest natural gas prices in the world due to depressed production and rising consumption. Thanks to fracking, however, since 2005 production in the United States has increased exponentially from just under 18,000 billion cubic feet (bcf) to more than 24,000 bcf in 2012. This abundance in natural gas has meant that for many parts of North America imported liquefied natural gas (LNG), an alternative to piped natural gas that became viable in the early 2000s, has been replaced by cheaper, domestic sources from shale. This has meant that the price per million British Thermal Units (BTUs) for natural gas in the United States has fallen from more than \$15 in 2006 to under \$2 in 2012. Although the price has risen somewhat since then to around \$4 per million BTUs, the North American price is amongst the lowest in the world. This, in turn, has had a highly beneficial impact on manufacturing competitiveness through lower prices for feedstock and electricity. In fact, Canada has replaced domestic production of natural gas with increased American imports in response to the low price in the United States.

Although it will prove more difficult to repeat this experience in other parts of the world where property rights are more complex, the natural gas industry has become a highly efficient and dynamic area of economic activity, and is looking for opportunities outside of the United States. The most obvious place for it to expand would be Mexico, given that the Eagle Ford Formation extends across the border from Texas into northern Mexico's Burgos Basin where it is known as the Boquillas Formation.

Like its southern counterpart, natural gas formations along the northern border, namely the Bakken and the Marcellus, straddle both countries. Canada is the fourth

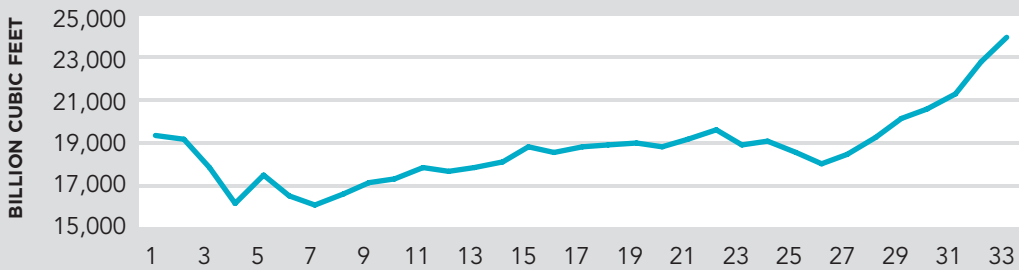


**FIGURE 9.** United States Crude Oil Production (1980–2012)



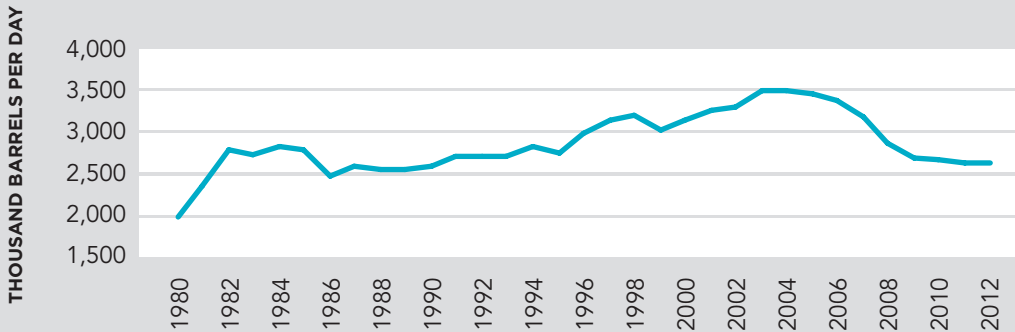
Source: U.S. Energy Information Administration, *International Energy Statistics*, 2014.

**FIGURE 10.** United States Natural Gas Production (1980–2012)



Source: U.S. Energy Information Administration, *International Energy Statistics*, 2014.

**FIGURE 11.** Mexico Crude Oil Production (1980–2012)



Source: U.S. Energy Information Administration, *International Energy Statistics*, 2014.

largest producer of natural gas in the world and remains an exporter to the United States. However, many of the lines that supplied the United States with Canadian natural gas are being reversed to ship American gas north. As this trend continues, Canadian gas production will decrease in the near term and only increase in the long term with new markets outside North America.<sup>1</sup>

Mexico's natural gas production in recent years has been hugely disappointing, as lower prices have eliminated the incentive for new discoveries and investment. In fact the country has experienced natural gas shortages as the pipeline infrastructure between Mexico and the United States has been insufficient to import enough gas to satisfy national demand.

Similarly, Mexico's oil production has been depressed in recent years, albeit for different reasons. Inadequate investment in the national oil company, Petróleos Mexicanos (Pemex), and that company's monopoly hold on hydrocarbons production in Mexico has meant that oil production fell between 2004 and 2012 from 3.4 million bpd to only 2.55 million bpd.

Although Pemex has had success in recent years in stabilizing production at this level, the outlook for the next few years is worrying as experts are predicting significant declines in the nation's two most productive fields, Ku Maloob Zaap and Cantarell, at even faster rates than those predicted by official sources. Declines at these fields could cut as much as half a million bpd from national production. The significance of the decline in production to date is a story that has been told many times: not only

**The approval of a major energy reform by the Mexican Congress in December of 2013 represents a historical watershed that promises to have a major impact on oil production.**

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1 Canadian Association of Petroleum Producers, "Canadian Production—Market Constrained Case and New Market Opportunity Case," <http://www.capp.ca/getdoc.aspx?DocId=224970&dt=NTV>.

does the extraction of less oil affect Pemex as a company, it hits national finances hard since oil revenues continue to account for approximately 30 percent of the federal government's income.

However, the approval of a major energy reform by the Mexican Congress in December of 2013 represents a historical watershed that promises to have a major impact on oil production. With private investment in the oil industry prohibited since the late 1950s, Mexico has been unable to turn its national oil production around over the past decade by solely relying on Pemex, the national oil company. With a new legal framework in place, Mexico hopes to attract billions of dollars in private and foreign investment, and to raise national oil production by more than a million barrels per day by 2030. If Mexico can also find the right legal and contractual model to attract investment into the shale gas sector, natural gas production will increase significantly and North American energy security will be ensured for the foreseeable future.

## **IMPACT**

The importance of these two elements—major new flows of oil and low-cost natural gas—lies in the advantage it gives to the national and regional economies of North America. Both the oil and gas sectors are major sources of technological innovation, economic growth, and well-paid employment. Cheap and abundant gas means that fuel costs remain low, electricity prices fall, and the competitiveness of a wide range of businesses is dramatically improved. The return of manufacturing from China (and other countries) to the United States and Mexico over the past few years is a direct reflection of energy-based competitiveness.

## **POLICY CHALLENGES**

Despite the enormous optimism that exists over energy production in North America, significant challenges remain and will be exacerbated by the increased production. Just discovering and producing the energy is not enough. Getting the energy to market will require major investments in infrastructure, in particular in pipelines and electricity transmission lines. Of crucial importance will be the ability to bring new Canadian oil production to the U.S. market, and the ongoing discussions about the Keystone XL Pipeline are central to resolving that question. At the same time there will need to be significant investments in building oil pipelines to bring new tight oil production from wells to refineries. At the present time much of the North Dakota light crude is being transported by rail, which adds cost and raises safety concerns because of its volatility.

## POLICY OPTION

**With aging refineries across the region and millions of barrels of new production coming from Canada, Mexico, and the United States, policy makers must consider significant new investments in refits, upgrades, and additional refining capacity.**



In the short term, new gas pipelines need to be built at the U.S.-Mexico border to bring cheap shale gas to the Mexican market, at least until production in Mexico increases to meet national demand.

Secondly, there is an urgent need to build new cross-border electricity transmission capacity between Mexico and the United States. At the eastern end of the border, capacity is needed to bring cheaper electricity from Texas into Mexico to satisfy demand there and lower manufacturing costs. In the west at the California-Baja California border, new transmission lines are essential in providing capacity to allow electricity from renewable energy projects in northern Baja California to reach the market in California, where a state-level Renewable Portfolio Standard (RPS) of 30 percent cannot be satisfied from sources within the state.

There is also an urgent need to consider the shortfall that will emerge on a regional basis in the refinery business. With millions of barrels of new production coming from Canada, Mexico, and the United States, and with no new refineries having been built in the past two decades, a failure to build new plants will result in a zero-sum contest for access to refining facilities and a need to export crude and re-import refined product. Mexico appears to be particularly vulnerable in this regard, with concerns over access to the U.S. Gulf Coast refineries that process heavy crude due to the arrival of cheaper Canadian crude. Total refinery capacity in North America currently sits at around 22.5 million bpd. With North American oil production estimated to rise to around 19 million bpd in the next 10 years, and with heavy oil from countries such as Venezuela continuing to be refined in the United States, any reduction in capacity will be keenly felt. With many aging refineries across the region, policy makers must consider significant new investments in refits, upgrades, and new capacity.

**TABLE 2.** Refineries in North America

	Number of refineries	Total capacity (million bpd)
<b>Canada</b>	19	2.14
<b>USA</b>	143	17.82
<b>Mexico</b>	6	1.54

Sources: Canadian Fuels Association; U.S. Energy Information Administration; and *Petróleos Mexicanos, PEMEX Refinación, 2013.*

Given the continuing shift in the United States towards cleaner energy and increases in energy efficiency (much of which has been driven by the shale revolution), it is possible that the United States will be able to meet Kyoto-style emissions targets within the next few years. At the state level, with California at the cutting edge, we are seeing the development of not only renewable portfolio standards for electricity generation, but also the emergence of cap and trade schemes. In 2014, Quebec linked its carbon market with that of California in order to attract more investment and improve liquidity. This type of bi-national cooperation could become a model for other subnational governments to explore in the future.

Energy efficiency has also become an important issue. The United States has taken great strides in this regard in recent years and Mexico has begun to implement energy efficiency measures in residential applications and for transportation, partly through collaboration with U.S. authorities. Similar cooperation, at a higher level, has taken place between Canada and the United States. Close technical collaboration and the harmonization of standards would be of enormous benefit for the North American market. As the United States moves towards its own low-carbon future, and the potential for national cap-and-trade or carbon-tax systems becomes a reality, it is vital that the region be prepared for such a contingency. If a carbon tax in the United States might be feasible in the long term, it would make sense for the three countries to coordinate their approaches.

There is also a need to hold discussions among the NAFTA partners on how to address the issue of climate change in a coordinated fashion. The Mexican Congress passed legislation in 2013 creating a national carbon tax on fossil fuels; Mexico's financial exchange and the Bolsa Mexicana de Valores (BMV) are finalizing the launch of the first carbon offset credit exchange in the Latin American region. In the United States, the Environmental Protection Agency (EPA) has only begun to regulate carbon emissions

## POLICY OPTION

**There is a need to hold discussions between the NAFTA partners on how to address the issue of climate change in a coordinated fashion.**



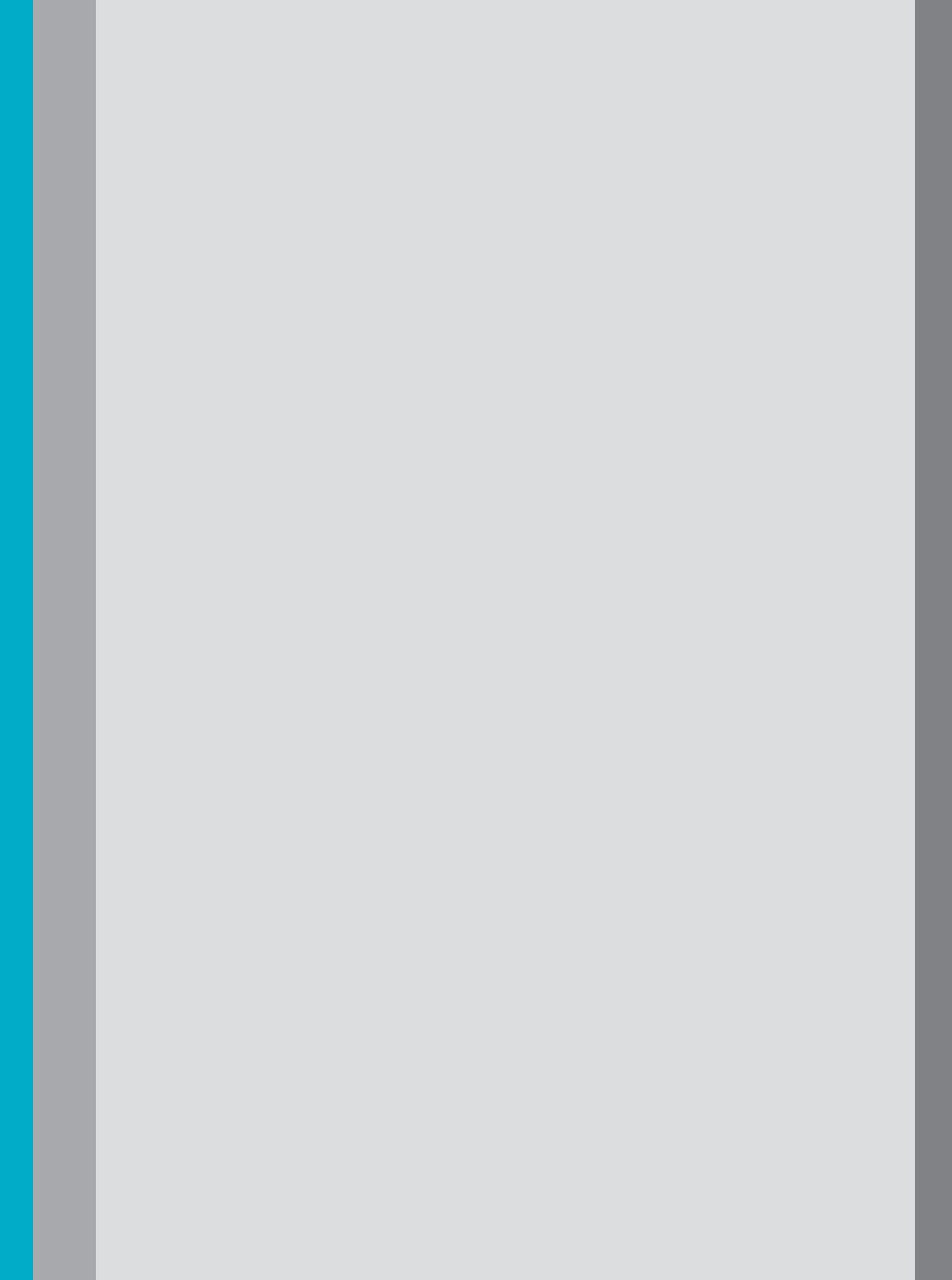
as a pollutant. These divergent approaches to the question of limiting carbon reflect national political realities but also highlight the need for bilateral and regional conversations among policymakers on the future of climate change mitigation.

Similarly, the future of the renewable energy sector long ago ceased to be a purely national question. Renewable energy regions, such as the U.S. Southwest/Mexican Northwest, frequently cross national borders. Canada has for years been exporting hydroelectric power to the United States, and has benefited from engagement with U.S. energy planners. At the sub-federal level, states should encourage more Canadian hydro electricity production through revamped Renewable Portfolio Standards (RPS). This will encourage additional investment in Canadian energy and diminish the continent's carbon footprint. Similar strategic engagement between U.S. and Mexican policymakers would do much to improve planning across their shared border.

For all of these reasons, it is therefore imperative that the three NAFTA countries engage in a collaborative planning process for regional energy needs. During the presidency of George W. Bush, the North American Energy Working Group (NAEWG) was formed to engage in focused discussions about the shared energy challenges in North America. From 2001 to 2007 the NAEWG brought together energy policy officials from Natural Resources Canada, the U.S. Department of Energy, and Mexico's Secretaría de Energía to discuss themes such as natural gas, nuclear energy, regulatory cooperation, infrastructure, energy statistics, energy efficiency, science and technology, and unconventional oil. The NAEWG was a source of important policy and statistical documents and its loss after 2007 has been deleterious to the region. It would be highly beneficial to create a new incarnation of the NAEWG, with a private sector counterpart created as a feed-in mechanism for the discussions.

## **CONCLUSION**

North America's energy outlook is very positive. The transformation that has occurred since 2005 has been nothing short of stunning, and the potential exists to carry that change forward. Higher production levels in oil and gas, as well as advances in energy efficiency and carbon emissions, mean that the future of the energy sector is radically different from its recent past. Energy security is within reach for U.S. policy makers, and this will have far-reaching consequences for relations with the region, and beyond.







Section 2:

# Borders and Security

# North American Security Cooperation

CHRISTOPHER WILSON

Threats to the national security of the United States, Canada, and Mexico traditionally came from other nation states, many of them far-away global powers but also occasionally from one another. Though the shadow of the U.S.-Mexico War of 1846 still affects, to some extent, efforts to enhance U.S.-Mexico security cooperation, the threat of invasion by a neighboring country has faded into history for the nations of North America, allowing the development of the robust and deep commercial ties that now characterize the relationship among the three countries. Indeed, the threat of invasion of the North American continent by any foreign power seems unlikely for the foreseeable future.

However, since the fall of the Berlin Wall and the implementation of NAFTA, North America faces a greatly increased set of threats posed by non-state actors, namely terrorism and organized crime. The terrorist attacks against the United States on September 11, 2001 heightened the threat of terrorism, and the increase in the number, scope, and violence of organized crime groups in Mexico has had deleterious effects on the national, public, and economic security of North America. The effects of both terrorism and organized crime transcend the borders of any single North American nation, albeit often in asymmetric ways..

In the case of organized crime, Canada, the United States, and Mexico are all linked together through the supply chains of drug trafficking organizations, and each faces a set of public security challenges stemming from drug consumption, drug trafficking, and the presence of international organized crime. Changes in consumption patterns, law enforcement strategies, and intra-criminal group dynamics in one country in North America are likely to have an impact on the nature of the organized crime and public security challenges in the other two. The transnational and interdependent nature of the challenges presented by drug trafficking and organized crime demand a cohesive, North American strategy. What is more, transnational criminal groups seek to exploit weaknesses in security cooperation and multiple jurisdictions with their ability to oftentimes cross borders more nimbly than law enforcement officials. Transnational threats to North

## The transnational and interdependent nature of the challenges presented by drug trafficking and organized crime demand a cohesive, North American strategy.

American security have placed an increased importance on coordinated and cooperative regional responses. Such threats force us to depend on our neighbors to provide citizens with public and national security, a situation which presents both challenges and opportunities. The principal challenges stem from sensitivities regarding sovereignty and limits to cross-border understanding and trust among law enforcement and national security officials. A framework to protect the security of the region based on shared responsibility (with an understanding that the contours of each nation's efforts will also reflect its particular circumstances) has the best chance of engendering cooperation of the type needed to respond to transnational challenges.

In the two following sections, Wilson Center Global Fellows Kathryn Friedman (Canada Institute) and David A. Shirk (Mexico Institute) look at the development and future of U.S.-Canada, U.S.-Mexico, and North American security cooperation. Friedman focuses on the challenges inherent in the current institution-lite approach to regional cooperation and governance, suggesting that a framework of networks and relationships can not only better explain current cooperation but also offers a better path toward deepened North American integration. Shirk describes the development of U.S.-Mexico security cooperation in the context of NAFTA, finding that while serious challenges remain, there has been important progress toward the establishment of a strong regional security community.

## **CYBER SECURITY IN NORTH AMERICA, AN EMERGING ISSUE**

Duncan Wood

An emerging issue in the security affairs of all three NAFTA states concerns the integrity of computer systems, data protection, privacy, and IT infrastructure, broadly defined as cyber-security. Attention is generally focused on the potential for economic disruption, specifically of financial systems, credit card records, and shipping systems vulnerable to attack from organized crime, terrorist groups, and cyber-activists. We have only recently begun to think about the potential for cyber-attacks on economic infrastructure involving energy facilities and computerized manufacturing and logistics, potentially involving losses totaling billions of dollars if electrical grids are taken down, pipelines are compromised, assembly lines become jammed, and integrated production systems are disrupted.

In North America these issues naturally acquire a transnational significance due to the highly integrated nature of the economies and societies. A disruption in one country would cause a spillover effect in the others, a possibility highlighted by power outages in recent years that have had a transborder impact. Throughout NAFTA's history we have witnessed the highly disruptive impact of strikes and border delays on integrated production. It would therefore be important for the three countries to undertake discussions about the prevention of cyber-attacks originating from within and outside the North American space, and to develop protocols for responding to such attacks if and when they occur.

These economic issues have been joined in the post-Snowden era by deep concerns surrounding privacy and data protection. All three North American states have different standards and regulations governing data collection, storage and protection, and it would be timely for their governments to begin to develop common standards in this area. A trilateral "cyber-compact" that creates minimum standards for transparency in data collection and storage, rules for sharing information, and minimization procedures, for example, would help all three governments improve their data protection standards, would help to ease concerns in the aftermath of the NSA spying scandals, and would set an example to the world of how best practices can be established to protect citizen privacy and economic interests.

## **BETWEEN A ROCK AND A HARD PLACE? NORTH AMERICAN SECURITY IN THE TWENTY-FIRST CENTURY**

Kathryn Friedman

Enhancing North American security should top the foreign policy agenda of leadership in the United States, Canada, and Mexico. In particular, at a time when regions throughout the world are breaking down barriers to the free flow of goods, services, and people, U.S. officials must think creatively about enhancing security—defined broadly to include smart immigration policy, clean water, a coherent energy strategy, and a vibrant twenty-first century economy. Officials must rethink policies that build fences, inhibit highly skilled and qualified people from contributing to the innovation economy, and move at a molasses pace on vital issues such as regulatory cooperation and northern border security.

How to get there, though, remains a challenge. Some advocate a North American community of the United States, Canada, and Mexico as partners, with institutions established on a continental scale. Others have advocated for the United States to adopt a bifurcated approach, with institutions, such as a Joint Border Commission (modeled on the International Joint Commission), to handle issues at the northern border, and separate institutions to tackle security concerns at the southern border.

While ideal in theory, traditional international mechanisms, such as the establishment of international institutions to further deepen security cooperation either in a bifurcated or more unified manner are unlikely for a host of different reasons, not the least of which are lack of political will, insufficient resources, political gridlock, and domestic legal obstacles. An alternative school of thought has emerged in international legal circles, led by Anne-Marie Slaughter and Kal Raustiala (among others), who contend that contemporary international cooperation is not rooted in international institutions and

**The level of economic integration among Canada, Mexico and the United States has reached the point now where a new governance and security framework is required to further shape the contours of North American security and competitiveness.**

## POLICY OPTION

**Federal officials should generally privilege approaches that empower state, local and nongovernmental efforts to resolve joint challenges rather than impose top-down solutions.**



treaties; rather, it occurs among discrete, specialized networks in the executive, legislative and/or judicial branches of government.<sup>1</sup> It is these networks, in Raustiala's words, that offer promise as the "blueprint for the international architecture of the 21st century." However, some "top down" attempts at creating this kind of continent-wide network, such as the ill-fated Security and Prosperity Partnership (SPP), left many scratching their heads. Policymakers, then, seem to be faced with governance models that are, on the one hand, politically and legally infeasible, and, on the other hand, ineffective. There remains an inclination—even urgency in some quarters—to deepen security integration. But how do we move forward? Are contemporary policymakers stuck between the proverbial rock and a hard place when it comes to North American security?

The key to strengthening North American cooperation lies in thinking of transgovernmental networks as strategic tools of statecraft, notwithstanding the shortcomings of the SPP. Rather than create these networks from Washington (or Ottawa, or Mexico City, for that matter) in a top-down manner, the United States should leverage the fact that North American security, broadly defined, is in fact a policy system characterized by flexibility, ambiguity, many actors, and complexity. Although the idea of North America serves as a unifying idea for some, it is in fact a highly decentralized system. Leaders should leverage the network's fluidity and multiplicity of actors (many of whom change frequently) to allow for nimble strategic action. In other words, as pointed out in *The Starfish and the*

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1 Anne-Marie Slaughter, *A New World Order* (2004); Kathryn Bryk Friedman, "Symposium: The Four Societies Conference: "Through the Looking Glass? Implications of Canada-US Transgovernmental Networks for Democratic Theory, International Law and the Future of North American Governance," 46 *Alberta Law Review* 1081 (2009). Kal Raustiala, "The Architecture of International Cooperation: Transgovernmental Networks and the Future of International Law," 43 *Va. J. Int'l L.* 1 (2002).

*Spider* (Brafman and Beckstrom, 2008), the absence of structure and formal organization should be viewed as *significant assets* that can make North American security more resilient.<sup>2</sup> As these authors note, the harder you fight a decentralized network, the stronger it becomes. The more chaotic it seems, the more resilient it is. The more you try to control it, the more unpredictable it becomes to its enemies. The rules have changed in our post 9/11, internet-driven “flat” world.<sup>3</sup>

This makes sense for a number of reasons: first, North American integration is patently different from counterparts like the European Union. The process in North America has been characterized as occurring from the bottom-up by scholars across myriad disciplines, driven primarily by the market and decentralized in nature. The Canadian government, too, has documented this reality, having conducted extensive research outlining the plethora of networks (economic and security) that exist between it and the United States at the federal-federal, state-provincial, and regional levels. The Canadian inventory, in fact, not only demonstrates that these networks exist (thus validating scholars like Slaughter), but also that they penetrate deeper into North American nation-states, far beyond federal-federal networks. As transgovernmental and public-private networks are the defining feature of North American integration, they should be part of the calculus used to devise a North American security strategy that deepens security and enhances economic competitiveness.

Some consider these networks to be a disadvantage, and indeed, some like the SPP no doubt belong in the waste bin of history. Others, however, can be leveraged or retooled to pave the way to a meaningful partnership in the absence of international institutions and treaties. Rather than ignore these phenomena when considering future policy options, policymakers in Canada, Mexico, and the United States should embrace them. Raustiala’s hypotheses regarding the promise of transgovernmental networks, applied in a North American context, suggest that policymakers have three distinct ways to further international collaboration. First, transgovernmental networks may be used to foster cooperation and facilitate convergence, thus paving the way for the negotiation of an enhanced NAFTA. Second, transgovernmental networks may be used to act as gap-fillers where treaties are politically precluded, building capacity, and ultimately enhancing the possibility for future NAFTA negotiations and/or security

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2 O. Brafman, R.A. Beckstrom. *The Starfish and the Spider: The Unstoppable Power of Leaderless Organizations*. New York: Portfolio Trade, 2008.

3 Thomas L. Friedman. *The World is Flat: A Brief History of the Twenty-First Century* (3rd ed.). New York: Picador, 2007.

institution-building at the continental scale. Third, transgovernmental networks may be used as a substitute for NAFTA or continent-wide security in the areas in which a treaty is the least favorable option.

The level of economic integration among Canada, Mexico, and the United States has reached the point now where a new governance and security framework is required to further shape the contours of North American security and competitiveness. North American leaders should reframe this complexity and consider networks as a strategic, viable governance option for strengthening collaboration with Canada and Mexico in traditional areas of security, but also in immigration, economic, and environmental realms. To do so, federal officials should generally privilege approaches that empower state, local, and nongovernmental efforts to resolve joint challenges rather than impose top-down solutions. A focus solely on traditional international mechanisms will deplete political capital on an architecture that is out of sync with the reality of the twenty-first century networked North America.

## **NAFTA SECURITY AT TWENTY**

David A. Shirk

When the North American Free Trade Agreement came into force in 1994, U.S. and Mexican analysts largely agreed that there was no “security community” between their two countries. Generally speaking, government officials from either side of the border did not share common security goals or priorities. Military and law-enforcement agencies did not work together through sensitive intelligence sharing and operational assistance. If anything, an atmosphere of distrust and mutual recrimination pervaded security relations between the United States and Mexico at the outset of NAFTA.

Of course, Mexican preoccupations about U.S. intervention and unilateralism date as far back as the 1846–48 U.S.-Mexico War, known less affectionately in Mexico as the “War of North American Invasion.” Subsequent U.S. encroachments on Mexican sovereignty in the late nineteenth and early twentieth century further irritated Mexico’s sense of national pride, and have significantly shaped its outlook on security matters. Mexico’s response was a doctrine of non-alignment that prevented the country from participating in some Cold War era international security frameworks, such as NATO, and a general tendency to minimize military-to-military cooperation.

Meanwhile, the very idea of NAFTA provoked U.S. fears that hordes of drug traffickers and undocumented immigrants would overrun the border and destroy the fabric of life



**Despite national sensibilities and major underlying challenges, there has been important progress in establishing a sense of cooperation and collaboration between the United States and Mexico on security matters, particularly in recent years.**

in the United States. In the 1980s and early 1990s, Mexico was an important source and transit point for illicit drugs, and efforts to work bi-nationally on counter-drug operations resulted in frequent disappointments, setbacks, and controversies. Major setbacks in counter drug efforts in the late 1990s—including revelations of high-level corruption in Mexico, like the arrest of drug czar Jesus Gutierrez Rebollo, and unwelcome U.S. encroachments south of the border such as Operation Casa Blanca—produced significant frustrations in both countries in NAFTA’s first half decade.

At the same time, immigration presented—and remains—a major unresolved irritant between both countries. The economic turbulence from the 1970s to the 1990s, including the peso devaluation and economic restructuring that accompanied the NAFTA agreement, resulted in a significant increase in outbound migration from Mexico to the United States. Hence, the U.S. deployment of concentrated border security initiatives—with operation names like “Hold the Line” and “Gatekeeper”—and the erection of massive, costly border fortifications belied a deep-seated and perhaps understandable sense of insecurity on the part of the United States about immigration and the overall process of economic integration and trade liberalization with Mexico.

Ironically, such heightened border security measures also became one of the most significant drags on the massive NAFTA economy, accounting for several billion dollars of lost trade and commerce every year due to lengthy border wait times for northbound commercial and passenger vehicles at U.S. ports of entry. Moreover—and tragically—tougher U.S. immigration controls have also resulted in tens of thousands of families divided by deportation, hundreds of migrant deaths each year in the harrowing journey north, and an unacceptable increase in human rights abuses against immigrants by U.S. border security personnel.

## POLICY OPTION

**The United States and Mexico might be well advised to focus future bilateral security cooperation on disaster relief efforts, given the rising incidence of catastrophic events over the last two decades. Indeed, the Mexican Navy’s support of U.S. disaster relief efforts in 2005 was a novel and very welcome precedent for future cooperation of this sort.**



With the turn of the century, the 9/11 terrorist attacks only deepened U.S. resolve to strengthen border security controls, and the United States subsequently introduced new institutions and frameworks for managing its southern border with Mexico. Shortly after the attacks, the bilateral 22 Point Smart Border Agreement emphasized the need for both countries to cooperate to ensure “secure border infrastructure,” “secure flows of goods,” and “secure flows of people” along the border. The U.S. Homeland Security Act of 2002 combined several separate agencies and more than 180,000 employees to create a new Department of Homeland Security, the largest governmental reorganization since 1949.

To some extent, the U.S. preoccupation with security issues over the last decade created opportunities to move beyond a security paradigm that focused mainly on “reducing cross-border interagency irritants and misunderstandings” to develop longer standing mechanisms and goals for cooperation. As Mexico’s own domestic security situation worsened in the mid-2000s, the two countries found common purpose in the fight against organized crime groups and, as early as 2007, began to construct a stronger framework for cooperation that eventually materialized as the “Mérida Initiative.” The initial agreement proposed by President Felipe Calderón included \$1.7 billion in U.S. assistance for combating organized crime groups that present a shared threat, bolstering Mexico’s criminal justice sector, and strengthening border controls in both countries. Under Presidents Calderón and Barack Obama, the agreement continued and evolved to include a fourth “pillar”: social development programs for communities affected

by violence. Despite initial U.S. concerns that Mexican President Enrique Peña Nieto would dramatically scale back collaboration, the Mérida framework remains intact and both countries have continued to work together on shared priorities.

In short, despite national sensibilities and major underlying challenges, there has been important progress in establishing a sense of cooperation and collaboration between the United States and Mexico on security matters, particularly in recent years. Two decades into the North American Free Trade Agreement, both countries arguably have a different perspective on the relationship and a better appreciation of one another than was the case at the outset of the agreement. To be sure, even in recent years, both countries have weathered set-backs and scandals that would have once been seen as egregious and unforgivable: the ATF “gun-walking” operations into Mexican territory between 2006 and 2011, the murder of ICE agent Jaime Zapata in 2011, the assault on CIA operatives by Mexican federal police in 2012, the 2013 release of drug lord Rafael Caro Quintero, and the recent use of NSA spy tactics against Mexico’s leaders. Such occurrences are arguably signs of an all too imperfect security relationship. However, what stands out about U.S. and Mexican security cooperation in recent years is the degree to which the United States and Mexico have tried to move beyond such potentially explosive incidents to focus on the larger horizon and the overall benefits of forging a stronger bi-national security community.

The question that follows all of this of course is, “what next?” It is fair to say that few in 1994 would have imagined the level of security cooperation that has occurred to date. Is there the possibility and inclination for both countries to continue the trajectory of the past decade or two toward a stronger bi-national security community? In recent years, Mexico’s military—and particularly its Navy—has shown some interest in closer cooperation with the U.S. Department of Defense. While this sort of cooperation has focused primarily on possible collaboration in counter-drug efforts, the two countries might be well advised to focus future bilateral security cooperation on joint disaster relief efforts, given the rising incidence of catastrophic events over the last two decades. Indeed, the Mexican Navy’s support of U.S. disaster relief efforts in 2005 was a novel and very welcome precedent for future cooperation of this sort. Such cooperation could provide a path toward a North American security regime in which Mexico is an integral player, along with Canada, by 2040.

# Secure and Competitive Borders for North America

ANDREW FINN

The U.S. land borders with Mexico and Canada are among the busiest and largest land borders in the world. This presents enormous difficulties for border officials who are charged with creating a border that is at once safe, secure and efficient, while endeavoring to create a seamless frontier for legitimate traffic and an impenetrable barrier for illicit traffic. Though the northern border is more than twice the length of its southern counterpart, the U.S. border with Mexico occupies the majority of political and intellectual thought in the United States. Congressional hearings and stump speeches aimed at “fixing the border” are generally concerned with the southern. However, significant challenges remain with some common to all three nations and others unique to one bilateral relationship. To move forward, U.S., Canadian, and Mexican officials must acknowledge differences in attitudes and circumstance while embracing and emphasizing the positives of a trilateral relationship that remains one of the most productive on the planet.

The North American Free Trade Agreement (NAFTA) is the logical jumping off point for any contemporary discussion of the two borders. NAFTA had the inarguable effect of increasing border traffic continent-wide. New trade flows and policies brought new pressure and complications for border enforcement agencies attempting to interdict contraband and keep the member countries safe.

The attacks of September 11, 2001 strongly shifted the focus of the border security apparatus in North America. Previously, border inspection agents were primarily concerned with intercepting contraband and unauthorized immigration between the points of entry. Today, the top priority has become keeping dangerous individuals out in order to prevent terrorist attacks. The reorganization of the U.S. border agencies (and eventually their Canadian equivalents) reflects this new focus. The threat of terrorists penetrating the United States has also led to increased staffing at the borders. In 2000, there were 9,212 Border Patrol agents throughout the United States. In 2011, there were 21,444.<sup>1</sup>

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1 “Border Patrol Agent Staffing by Fiscal Year (Oct. 1st through Sept. 30th),” United States Border Patrol. Last modified 2013.

## To move forward, U.S., Canadian, and Mexican officials must acknowledge differences in attitudes and circumstance while embracing and emphasizing the positives of a trilateral relationship that remains one of the most productive on the planet.

Increased staffing, a focus on identifying individuals, and additional security measures to screen out hazardous materials all contributed to the “thickening” of the border. This caused border wait times to spike after the attacks and climb throughout the decade until the economic crash of 2008 slowed commerce and eased congestion.<sup>2</sup>

Initiatives such as the Western Hemisphere Travel Initiative (WHTI), which tightened rules on identification documents needed for travel, were direct results of the Final Report of the National Commission on the Terrorist Attacks upon the United States (the 9/11 Commission Report) and the Intelligence Reform and Terrorism Prevention Act of 2004 (IRTPA), and led to complications in the movement of people and goods among all the countries of North America. Canadians, who were accustomed to a very open border policy, may have felt these changes in a particularly acute manner. After 2009, Canadians entering the United States and Americans returning from Canada needed new identification to prove their citizenship.<sup>3</sup> Mexicans had already been required to travel with a passport or similar document, though U.S. citizens had been able to cross with a basic ID (and were often granted admission after simply declaring their U.S. citizenship). After 2001, each person’s identity had to be verified before being granted admission, significantly slowing down the border crossing process and causing the buildup of long lines. Similarly, many of the informal border crossings that had been tolerated for decades along the southern border were shut down.

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2 Bill Anderson, “The Border and the Ontario Economy,” The University of Windsor Cross-Border Transportation Centre, 2012, accessed February 5, 2014.

3 “Get You Home,” United States Customs and Border Protection, [http://www.getyouhome.gov/html/eng\\_map.html](http://www.getyouhome.gov/html/eng_map.html).

## POLICY OPTION

**The stark differences in supply and demand vectors between the northern and southern borders may signal the need for dual bilateral agreements to combat drug smuggling, but the regional nature of drug flows through the Americas also suggests that trilateral and international cooperation are essential.**



Often lost in the discussion of the thickening of the borders is the fact that there were real and important security gains from several of the post-9/11 reforms. Initially, the efficiency costs and inconvenience of implementation were quite high, but, as described throughout this section, the societies and governments of North America have to a large degree successfully adapted.

As the shift toward security continued, North American leaders realized that something had to be done to mitigate the drag on continental trade and tourism. In 2001 and 2002, both Mexico and Canada signed bilateral “Smart Border” accords with the United States, which were the first efforts to institutionalize an approach to borders that boosted security without sacrificing too much in the way of efficiency. In 2005, the three countries trilateralized the discussion by creating the Security and Prosperity Partnership of North America (SPP). The SPP was designed as a supplement to currently existing agreements to facilitate trade while increasing security. However, as work continued on the SPP, resistance to the project began to pick up steam. Critics argued that the SPP would infringe on the sovereignty of all three countries and that the mechanisms for change were not transparent enough. In 2009, the SPP was shut down. While only a few tangible results of the SPP came to fruition, the discussions between the agencies of all three countries laid some of the groundwork for the upcoming initiatives, like Beyond the Border, intended to make the border more efficient.

## ISSUES

The range of issues, challenges, and risks that must be addressed in the process of border management is immense. Everything from food safety to tax collection to terrorism prevention is, in part, done at the border. As such, it would be impossible to cover all the issues relevant to North American border management in a report of this size. Instead, this section looks at just three, drug trafficking, weapons trafficking and immigration, both because of their political relevance and because they each offer important lessons about the potential and limitations of a trilateral approach to border management.

### *Drug Trafficking*

In the late 1980s and early 1990s, the United States began focusing its resources on shutting down the drug routes through the Caribbean, forcing many of the Colombian cartels to search for easier ways to export drugs into the United States. These pressures, coupled with the opportunities presented by the increased volume of cross-border flows due to NAFTA, made land routes through Mexico more inviting than ever.

Today, 96 percent of imported marijuana, 80 percent of methamphetamine, 64 percent of cocaine, and 56 percent of heroin is seized is at the U.S.-Mexico border.<sup>4</sup> Mexico is also the largest grower of opium in the Americas.<sup>5</sup> All of these numbers have increased significantly over the last two decades.<sup>6</sup> Despite increased interdiction efforts, only a small portion of drug flows are stopped at the borders. For example, less than 2 percent of cocaine that moved across the southern border was seized in 2012.<sup>7</sup>

While most drug traffic through Mexico goes in one direction, the northern border sees the drug trade flow in both directions. Canada exports more Ecstasy (MDMA) to

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4 U.S. Department of Justice National Drug Intelligence Center, "National Drug Threat Assessment 2011," last modified August 2011, accessed February 5, 2014, <http://www.justice.gov/archive/ndic/pubs44/44849/44849p.pdf>.

5 United Nations Office on Drugs and Crime, "World Drug Report 2013," last modified May 2013, accessed February 5, 2014, [https://www.unodc.org/unodc/secured/wdr/wdr2013/World\\_Drug\\_Report\\_2013.pdf](https://www.unodc.org/unodc/secured/wdr/wdr2013/World_Drug_Report_2013.pdf).

6 Ryan Grim, "NAFTA And The Drug Cartels: 'A Deal Made In Narco Heaven,'" *Huffington Post*, July 1, 2009, [http://www.huffingtonpost.com/ryan-grim/nafta-and-the-drug-cartel\\_b\\_223705.html](http://www.huffingtonpost.com/ryan-grim/nafta-and-the-drug-cartel_b_223705.html).

7 United States Department of State Bureau for International Narcotics and Law Enforcement Affairs, "International Narcotics Control Strategy Report Volume I Drug and Chemical Control," last modified May 2013, accessed February 5, 2014, <http://www.state.gov/documents/organization/204265.pdf>.

## POLICY OPTION

**Due to similarities in illicit firearm flows from the United States to Canada and Mexico, a trilateral framework may work best for combating the scourge of illegal firearms.**



the United States than any other country and is a significant provider of marijuana. Much of the production and distribution occurs on Canada's west coast and is also sent across the Pacific to Japan, Australia, and New Zealand. Conversely, most of the cocaine consumed in Canada comes through the United States after being shipped through Mexico.<sup>8</sup> While more than half of the United States' imported heroin comes through Mexico,<sup>9</sup> Canada has its own import streams, which are generally routed directly from Asia into the country.<sup>10</sup>

While production and transshipment continue to be major issues in Mexico, drug consumption has also been on the rise. The transfer of drug trafficking routes from the Caribbean and the increase of U.S. border security (raising the cost of moving drugs north and cash south) are often cited as factors in contributing to the increased availability and use of illegal drugs in Mexico.

As one of the world's largest consumers of recreational drugs,<sup>11</sup> the United States continues to import great quantities of narcotics from both of its North American neighbors,

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8 "Drugs increasingly being smuggled into Canada by truckers," *CBC News*, sec, Toronto, March 26, 2013, <http://www.cbc.ca/news/canada/toronto/drugs-increasingly-being-smuggled-into-canada-bytruckers-1.1401468>.

9 U.S. Department of Justice National Drug Intelligence Center, "National Drug Threat Assessment 2011," last modified August 2011, accessed February 5, 2014, <http://www.justice.gov/archive/ndic/pubs44/44849/44849p.pdf>.

10 United Nations Office on Drugs and Crime, "World Drug Report 2013," last modified May 2013, accessed February 5, 2014, [https://www.unodc.org/unodc/secured/wdr/wdr2013/World\\_Drug\\_Report\\_2013.pdf](https://www.unodc.org/unodc/secured/wdr/wdr2013/World_Drug_Report_2013.pdf).

11 "U.S. Leads the World in Illegal Drug Use," *CBS News*, July 1, 2008, <http://www.cbsnews.com/news/us-leads-the-world-in-illegal-drug-use>.



which puts incredible pressure not only on the U.S. Department of Homeland Security (DHS), but the Canada Border Services Agency (CBSA) and especially the government of Mexico. The stark differences in supply and demand vectors between the northern and southern borders may signal the need for dual bilateral agreements to combat drug smuggling, but the regional nature of drug flows through the Americas also suggests that trilateral and international cooperation are essential. Of course, major efforts are also needed in each country to reduce demand. New approaches to drug policy throughout the Americas will add a new degree of dynamism to the issue of combatting drug trafficking.

### **Firearms Smuggling**

While the United States remains a massive importer of narcotics, it is also the world's leading exporter of illegal weapons, principally to its two neighbors, each of whom has stricter firearm laws than the United States. There are more than 129,817 federally licensed firearms dealers in the United States including 51,438 retail gun stores.<sup>12</sup> In Canada, there are less than a thousand<sup>13</sup> and in Mexico there is only one.<sup>14</sup>

While all Mexicans have a constitutional right to own a firearm, there are multiple restrictions on their use and sale. As a result, many of the guns used in Mexico are imported from the United States: approximately 70 percent of the firearms recovered by Mexican authorities and submitted for tracing have been found to have originated from the United States.<sup>15</sup> The proliferation of firearms has led to U.S. programs like Project Gunrunner, which attempts to track and stop the weapons flow from the United States to Mexico.<sup>16</sup> The project and indeed the entire Bureau of Alcohol, Tobacco, Firearms and Explosives has come under increased scrutiny since the discovery that its Operation Fast

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12 "Guns in America, a Statistical Look." *ABC News*, August 25, 2012, <http://abcnews.go.com/blogs/headlines/2012/08/guns-in-america-a-statistical-look>.

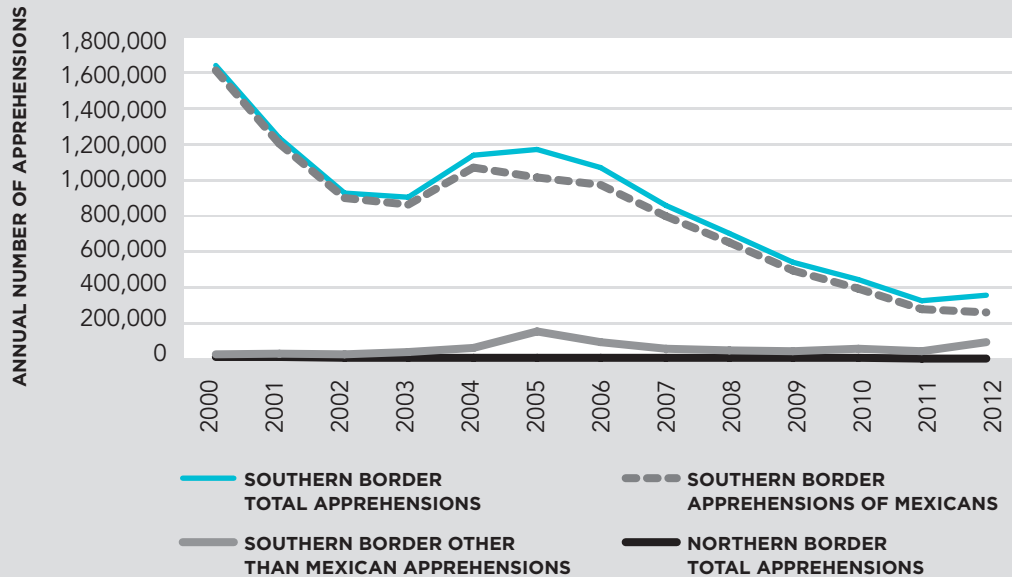
13 Firearms Canada, "Gun Dealers," accessed February 5, 2014, <http://www.firearmscanada.com/resources/gun-dealers>.

14 Damien Cave, "At a Nation's Only Gun Shop, Looking North in Disbelief," *New York Times*, July 24, 2012, [http://www.nytimes.com/2012/07/25/world/americas/in-mexico-a-restrictive-approach-to-gunlaws.html?\\_r=1&](http://www.nytimes.com/2012/07/25/world/americas/in-mexico-a-restrictive-approach-to-gunlaws.html?_r=1&).

15 Department of Justice Bureau of Alcohol Tobacco Firearms and Explosives Office of Strategic Intelligence and Information, "Mexico Trace Data," last modified March 12, 2013, accessed February 5, 2014, <https://www.atf.gov/sites/default/files/assets/pdf-files/2007-2012-mexico-trace-data.pdf>.

16 U.S. Department of Justice Bureau of Alcohol, Tobacco, Firearms and Explosives Office of Field Operations, "Project Gunrunner: A Cartel Focused Strategy," last modified September 2010, accessed February 5, 2014, [http://msnbcmedia.msn.com/i/msnbc/sections/news/Cartel\\_Strategy.pdf](http://msnbcmedia.msn.com/i/msnbc/sections/news/Cartel_Strategy.pdf).

**FIGURE 12.** Border Patrol Apprehensions 2000–2012



Source: U.S. Department of Homeland Security, Customs and Border Protection, 2014.

## POLICY OPTION

The integrated nature of the North American economy suggests many issues of labor supply and demand may be best addressed regionally. The NAFTA countries should consider creating and/or strengthening immigration preferences available for employment-based migration within North America.



and Furious and Operation Wide Receiver allowed some weapons to fall into the hands of Mexican organized crime.<sup>17</sup>

Canada's firearms policies reflect those of its southern neighbor, but tend to be more restrictive. Until 2012, all firearms in Canada had to be registered. In February of that year, Bill C-19 abolished the long-gun registry.<sup>18</sup> Prohibitions have made it nearly impossible for private citizens to legally carry handguns, but handguns are nonetheless used in 65% of gun homicides in Canada.<sup>19</sup> Experts estimate that nearly two-thirds of guns used to commit crimes in Canada have their origins in the United States.<sup>20</sup>

Though the scale of gun deaths in Mexico and Canada are quite different, the ratio of gun deaths committed using weapons purchased in the United States is remarkably similar. Due to similarities in illicit firearm flows from the United States to Canada and Mexico, a trilateral framework may work best for combating the scourge of illegal firearms.

### ***Migration, Travel and Border Enforcement***

Cultural, family, and business ties among the countries of North America run deep, creating a need for a certain amount of migration among the countries in order to keep families together and to facilitate business. For the above reasons, and simply because of the natural and cultural attractions in each country, travel and tourism among the countries of North America is robust. Canada (23 million) and Mexico (15 million) are by far the largest sources of tourists entering the United States each year.<sup>21</sup> The United States and Canada send the largest numbers of tourists to Mexico, and the U.S. travelers are the largest group visiting Canada (Mexico is in the top ten). Because of their status as neighbors, a large proportion of the migration and travel between the countries happens at the land borders.

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17 Charlie Savage, "Agent Who Supervised Gun-Trafficking Operation Testifies on His Failings," *New York Times*, July 26, 2011, [http://www.nytimes.com/2011/07/27/us/politics/27guns.html?\\_r=0&adxnnl=1&adxnnlx=1391630657-RjVcrzjvhhLFyd9kA7vF5Q](http://www.nytimes.com/2011/07/27/us/politics/27guns.html?_r=0&adxnnl=1&adxnnlx=1391630657-RjVcrzjvhhLFyd9kA7vF5Q).

18 Open Parliament, "Bill C-19." Accessed February 5, 2014. <http://openparliament.ca/bills/41-1/C-19>.

19 Statistics Canada, "Homicide in Canada, 2012," last modified December 19, 2013, accessed February 5, 2014, <http://www.statcan.gc.ca/pub/85-002-x/2013001/article/11882-eng.pdf>.

20 Bob Weber, "Smuggled U.S. guns responsible for most Canadian armed crime: report," *Winnipeg Free Press*, July 29, 2009, [http://www.winnipegfreepress.com/breakingnews/Smuggled-U\\_S\\_-gunsresponsible-for-most-Canadian-armed-crime\\_-report-51952987.html](http://www.winnipegfreepress.com/breakingnews/Smuggled-U_S_-gunsresponsible-for-most-Canadian-armed-crime_-report-51952987.html).

21 U.S. Department of Commerce, International Trade Administration, Office of Travel and Tourism, "Top 10 International Markets: 2012 Visitation and Spending," 2013, <http://travel.trade.gov/pdf/2012-Top-10-Markets.pdf>.

Recognizing the importance of mobility and migration to commerce, the United States created a special NAFTA professional (TN) visa. The use of the TN and other work-related visas by Canadian and Mexicans to enter the United States has increased significantly over the past two decades, but in the case of Mexico, the supply of visas has not met the demands of the U.S. labor market, and large (albeit declining) numbers of Mexicans continue to migrate to the United States each year, both with and without legal authorization.<sup>22</sup> The huge volume of legitimate traffic at the borders and the significant, though much smaller, volume of unauthorized movement of people makes managing the borders challenging.

While there are many issues common to both borders, undocumented immigration is a much larger issue at the southern border, making the management of the U.S.-Mexico border unique. A full 99 percent of Border Patrol apprehensions occur at the southern border, and best estimates indicate that 6.5 million, or 58 percent, of unauthorized immigrants in the United States are Mexican.<sup>23</sup> Conversely, estimates peg the percentage of unauthorized immigrants from Canada in the United States at well below five percent,<sup>24</sup> perhaps as low as one percent of the total.<sup>25</sup> In fact, of those apprehended, the United States was the number one source of unauthorized foreign workers in Canada in 2011 and 2012.<sup>26</sup> To keep better track of migrants and travelers from third-party nations along the northern border, DHS and CBSA completed a pilot project which tracks the aliens into one country, and counts it as an exit from the other.<sup>27</sup>

The nature of unauthorized immigration and enforcement along the southern U.S. border has changed dramatically over the past decade. On the one hand, the border is more

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- 22 Miguel Jimenez, "Labor Market Integration with the NAFTA Region," presentation at the Woodrow Wilson International Center for Scholars on August 27, 2013, <http://www.wilsoncenter.org/event/labor-market-integration-within-the-nafta-region>.
  - 23 Pew Hispanic Center, "Unauthorized Immigrant Population: National and State Trends, 2010," last modified February 01, 2011, accessed February 5, 2014, <http://www.pewhispanic.org/files/reports/133.pdf>.
  - 24 Jeffrey Passel, Randy Capps, and Michael Fix, Urban Institute Immigration Studies Program, "Undocumented Immigrants: Facts and Figures," last modified January 12, 2004, accessed February 5, 2014, [http://www.urban.org/UploadedPDF/1000587\\_undoc\\_immigrants\\_facts.pdf](http://www.urban.org/UploadedPDF/1000587_undoc_immigrants_facts.pdf).
  - 25 Beth Slovic, "He's an... Illegal Eh-lien." *Willamette Week*, February 20, 2008, [http://www.wweek.com/portland/article-8470-herss\\_an\\_illegal\\_eh\\_lien.html](http://www.wweek.com/portland/article-8470-herss_an_illegal_eh_lien.html).
  - 26 Rebecca Lindell and Rebecca Lau, "Americans top the list of illegal foreign workers caught by CBSA," *Global News*, March 14, 2013, <http://globalnews.ca/news/364043/americans-top-the-list-of-illegalforeign-workers-caught-by-cbsa>.
  - 27 Canadian Border Services Agency, "Entry/Exit Information System Phase I Joint Canada-United States Report," last modified May 18, 2013, accessed February 5, 2014, <http://www.cbsa-asfc.gc.ca/btb-pdf/eeis-ponerep-sdes-rappun-eng.html>.

secure than ever, with law enforcement presence at an all-time high and unauthorized migrant apprehensions remaining near their 40 year low. Due to increased border security, the relatively weak U.S. economy, demographic changes in Mexico, and improving economic prospects at home, Mexico is slowly letting go of its status as a major migrant sending country. As the uptick in “Other Than Mexican” apprehensions shows, the number of Central Americans passing through Mexico is on the rise, making up around half of all apprehensions in some sectors of the southern border (see Figure 12).

While unauthorized migration occurs at both borders, the balance is clearly tilted to the southern, and as a result it makes sense that strategies to deal with the issue stay largely out of the trilateral agenda. New dynamics in migration patterns do, however, suggest the United States and Mexico will need to work together bilaterally (or regionally, including Central America) to address the growing number of Central American migrants using Mexico as a pass-through country en-route to the United States. Legal travel and migration, on the other hand, are issues with important North American dimensions. The integrated nature of the North American economy suggests many issues of labor supply and demand may be best addressed regionally. The NAFTA countries should consider creating and/or strengthening immigration preferences available for employment-based migration within North America.

## **RESPONSE TO SECURITY AND EFFICIENCY CHALLENGES**

In December 2011, Prime Minister Stephen Harper and President Barack Obama announced the Beyond the Border Action Plan (Beyond the Border) a bilateral successor to the SPP. Beyond the Border emphasized the need to address threats early, facilitate trade, integrate law enforcement, and upgrade both nations’ shared cybersecurity infrastructure. The Prime Minister’s Office and the White House manage the implementation of these programs. Now into its third year, Beyond the Border is beginning to bear fruit.

**Now into its third year, Beyond the Border is beginning to bear fruit. Pilot programs are being made permanent and new opportunities for cooperation are being implemented that speed trade while ensuring increased security for the region.**

# POLICY OPTIONS

**The success of IBETs along the northern border suggests the United States and Mexico should examine the program to determine if it could be applied along the U.S.-Mexico border, now or in the future.**



Pilot programs are being made permanent and new opportunities for cooperation are being implemented that speed trade while ensuring increased security for the region.

Beyond the Border has made addressing threats early and jointly a priority. Both governments have used the agreement to implement new programs to integrate and share equipment, intelligence, and methods for screening potentially hazardous cargo and dangerous passengers. Much of their efforts can be described as a “once inspected, twice cleared” perimeter approach to security, which aims to ensure that goods entering Canada meet the same rigorous clearance procedures as they would entering the United States, and vice versa. Air cargo inspection regimes were the first to be harmonized. Today, pilot programs in Prince Rupert, British Columbia, and in Montreal, Quebec, inspect cargo upon entry into the North American perimeter, which can then be transported to the United States by rail or truck without an additional inspection at the U.S.-Canada border.

Canada and the United States are also aligning requirements for inspection regimes such as the Customs-Trade Partnership Against Terrorism (C-TPAT) and Partners in Protection (PIP) while expanding the benefits of and access to NEXUS for expedited border crossings. During the summer of 2013, DHS and CBSA implemented a biographic entry/exit pilot program to track land-border departures of third party nationals between the two countries. The system worked by recording entry into one country as an exit from the other. This program, considered a success by the implementing team, is currently in widespread use across the northern border.

In addition to moving threats away from the physical borders, Beyond the Border also calls for an integrated approach to law enforcement. There are four programs working

## U.S. and Mexican officials must find a way to resolve the pending issues and fully implement the three current preclearance pilot projects.



to deepen cooperation between U.S. and Canadian law enforcement officers. The first, Border Enforcement Security Taskforces (BEST), allows U.S.-led law enforcement teams to collaborate with their Canadian and Mexican counterparts. Integrated Border Enforcement Teams (IBETs) work more closely than BESTs and allow Canadian agencies to take more of a leadership position. IBETs only include Canadian and U.S. personnel from the Royal Canadian Mounted Police (RCMP), Canada Border Services Agency (CBSA), U.S. Customs and Border Protection (CBP), U.S. Immigration and Customs Enforcement (ICE), and the U.S. Coast Guard (USCG). The success of this initiative along the northern border suggests the United States and Mexico should examine the IBETs program to determine if it could be applied along the U.S.-Mexico border, now or in the future.

Shiprider, more formally known as Integrated Cross-border Maritime Law Enforcement Operations (ICMLEO) represents the most comprehensive cooperative enforcement program to date. Shiprider began as a pilot project prior to Super Bowl XL in Detroit in 2005 and was finalized in Beyond the Border. It allows RCMP and USCG officers to conduct operations on both sides of the maritime border. RCMP officers take command of U.S. vessels in Canadian waters and enforce Canada's laws using U.S. personnel. The same applies for USCG officers onboard RCMP vessels. This example of a coherent law enforcement initiative enhances both countries' ability to apprehend criminals and keep national borders secure. The Beyond the Border action plan also calls for "Next Generation" teams that take the Shiprider concept and move it onto land. These face significant hurdles regarding sovereignty, firearm access, and funding.

While lagging behind Canadian and American cooperation, Mexico and the United States continue to work closely on protecting the border. In the summer of 2013, DHS and the Mexican Federal Police Force held their first coordinated patrols. This came

## **The 21st Century Border initiative, outlined in a declaration by the U.S. and Mexican presidents in 2010, codified the notion that security gains do not have to come at the expense of efficiency and prosperity.**

shortly before then-DHS Secretary Janet Napolitano signed a Declaration of Principles Regarding Coordinated Operations, intended to enhance law enforcement capabilities on the southern border.

The 21st Century Border initiative, outlined in a declaration by the U.S. and Mexican presidents in 2010, codified the notion that security gains do not have to come at the expense of efficiency and economics. The initiative has built on the earlier idea of Smart Borders to promote the implementation of creative policy options to simultaneously make the border safer and more efficient, which include trusted traveler programs and customs preclearance.

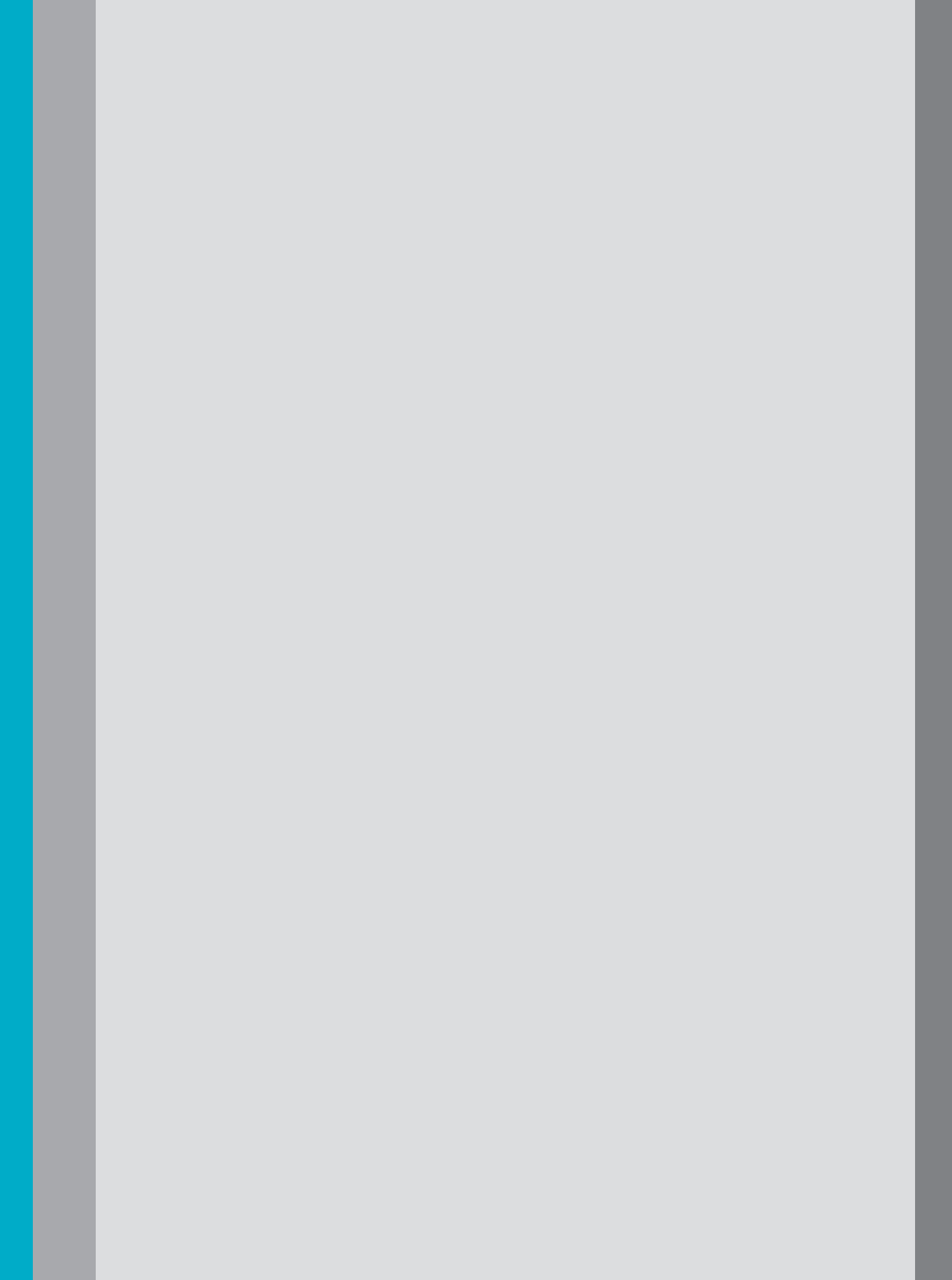
Trusted Traveler and shipper programs (SENTRI and FAST along the southern border) allow vetted, low-risk individuals and shipments expedited passage across the border. For cargo to get the same expedited treatment, companies must also enroll in C-TPAT, implementing special procedures and equipment to secure their supply chains. These programs are a win-win, reducing the time and cost involved in crossing the border while also strengthening security by segmenting risk, allowing border officials to focus more of their attention on people and cargo representing an unknown or higher level of risk.

Border preclearance, which involves placing customs processing centers or agents within another country, can, when properly implemented, improve safety, efficiency and binational coordination by identifying potentially dangerous cargo away from crowded ports of entry, allowing pre-cleared shipments quick passage through border lines, and allowing customs officers to work side by side with their foreign counterparts. Several Canadian airports have for years housed U.S. border officials, allowing passengers to enter the United States as a domestic flight and thereby opening access to non-international airports. Three preclearance pilot projects have been created



between the United States and Mexico, including one that is operational for cargo flights departing the Laredo, Texas, airport for Mexico. The other two, in Tijuana, Baja California, and San Jerónimo, Chihuahua, have yet to be implemented due to security and sovereignty concerns regarding the presence of armed CBP agents working in Mexico. U.S. and Mexican officials must find a way to resolve the pending issues and fully implement the three preclearance pilot projects.

Lastly, the 21st Century Border agreement included a restructuring of the U.S. and Mexican bureaucracies for border management. Three binational, interagency subcommittees were created to facilitate cooperation and coordination of infrastructure planning, border security between ports of entry, and security and efficiency at the ports of entry. These subcommittees each report up to committees at the presidential level, which is an important mechanism to ensure interagency cooperation. The 21st Century Border concept was incorporated into broader U.S.-Mexico security cooperation as one of the four pillars of the Merida Initiative, which is discussed in greater detail in David Shirk's essay.





Conclusion:  
**Trilateral  
When Possible**

# Conclusion: Trilateral When Possible

CHRISTOPHER WILSON

In recent years, the prevailing dual-bilateral approach has both led to and been caused by a “North America when necessary, but not necessarily North America” mindset.<sup>1</sup> The findings of this report suggest a simple and slight modification is needed: “North America when possible, but possibly not always North America.”

The deep connections among the nations of North America mean that what happens in one country will almost always have important repercussions among the others. In section one, Wilson and Wood examine the construction and implications of regional markets. The huge volume of commerce and the creation of a regional manufacturing platform is the strongest example of North American integration. As a result, the impetus for trilateral coordination and action is especially strong on issues of trade and competitiveness. Regional energy markets, notes Wood, are undergoing a period of rapid transformation, with oil and natural gas production on the rise. The U.S. and Canadian energy markets are especially integrated, with a shared electric grid and substantial flows of hydrocarbons across the border. Despite important transborder energy resources—both traditional and renewable—and sizable hydrocarbon trade between Mexico and the United States, Mexico has traditionally limited its energy cooperation with its North American partners. However, with energy reform in Mexico just passed, expanding hydrocarbon production in Canada and the United States, and joint opportunities in renewables and issues regarding climate change, the moment is right to restart trilateral dialogue on energy.

North American cooperation on economic issues is best understood as an enormous opportunity for development and prosperity. Cooperation on security and border management may be better understood as a necessity. In order to be safe from terrorism and transnational organized crime, phenomena with little respect for international boundaries, the three countries of North America simply must work together. Kathryn Friedman recommends that North American governance respond in kind, developing transnational and multinational networks (made of federal, state, and local officials as well as representatives of private

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1 Laura Dawson, Christopher Sands, and Duncan Wood, “North American Competitiveness: The San Diego Agenda,” (Woodrow Wilson International Center for Scholars, Dawson Strategic, Hudson Institute, Institute of the Americas: November 2013), 19; and John Herd Thompson, Stephen J. Randall, *Canada and the United States: Ambivalent Allies* (Athens, GA: University of Georgia Press, 2008), 285.

industry and civil society) to address the security and economic challenges the region faces. David Shirk and Andrew Finn detail many of the important advances that have been made between both the United States and Mexico and the United States and Canada towards greater trust and cooperation on security and border issues, though neither suggests that the improvements are satisfactory. Finn goes on to note that many border security challenges, even those generally understood as U.S.-Mexico issues like drug and weapons trafficking, are of significant concern along the northern border as well. He finds other issues, like unauthorized immigration, largely unique to the southern border. As such, he suggests that a range of policy approaches, some trilateral and some bilateral, would be appropriate.

It is certainly correct that not all U.S.-Mexico, U.S.-Canada and Canada-Mexico issues would be better addressed in a trilateral fashion. There are particularities in each of the three bilateral relationships that require unique approaches, and there are indeed areas in which two countries can advance further and faster than three. Nonetheless, there is a compelling case that, in the long run, the security and prosperity of each North American country depends to a large degree on the security and prosperity of its neighbors. As a result, there is a pressing need for a strategic vision for North America, for a map laying out what is trying to be achieved. In the absence of such a vision, dual-bilateral approaches threaten to diverge, to slowly pull apart what geography and NAFTA have put together. However, with a vision based on strategic partnership in place, and coordinating mechanisms to ensure trilateral communication along the way, bilateral and even local efforts can become the laboratory for North American cooperation and integration. With a vision in place, advances and successes in the bilateral relationships cease to be causes of jealousy and instead become best practices meant to be replicated and integrated. Bilateral and trilateral approaches become complementary. By simply seeing things through a trilateral lens, the pathway to our shared North American future begins to become clear.

**In recent years, the prevailing dual-bilateral approach has both led to and been caused by a “North America when necessary, but not necessarily North America” mindset. The findings of this report suggest a simple and slight modification is needed: “North America when possible, but possibly not always North America.”**

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