

Panel on "Future of North America: Deepening or Widening?"

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Does 'NAFTA Plus' Have a Common Denominator? The Prospects for Mexico and Canada
Achieving a Joint Position on Deepening North America

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Does ‘NAFTA Plus’ Have a Common Denominator? The Prospects for Mexico and Canada Achieving a Joint Position on Deepening North America Introduction¹

Introduction

In the summer of 2000, Mexico’s President-elect Vicente Fox traveled to Ottawa and Washington to unveil “his idea for a deepening and widening of NAFTA into something resembling the European Union”—with freer cross-border movement of labor, policy coordination, transfer funds for Mexico, a customs union, and supranational political institutions to govern the trilateral relationship.² His Vision 20/20, greeted with profound skepticism in the United States, was dismissed out of hand by Canadian government which had no intention of trilateralizing (read: complicating or diluting) its special bilateral relationship with Uncle Sam. In 2000, Ottawa was in competition with Mexico City for Washington’s attention. NAFTA formalized a common economic space in North America, but it had done so without fostering a sense of common political interest on its periphery.

It took Al Qaida’s catastrophic coup on September 11, 2001 for Canada and Mexico to recognize that they “[shared] important interests and branding problems vis-à-vis the United States, and should therefore work on strengthening their relationship...where consensus on the need for more co-operation and harmonization exists.”³ The U.S. response to the terrorist attacks was a complete reordering of its continental and global policies, as the Republican administration of George W. Bush quickly moved to bolster the police powers of the American state, declare war on terrorism, engage in regime change in rogue states, and—of particular salience for this study—redefine its territorial borders in North America. The neo-militarist security doctrine announced by Washington engendered consternation in its continental neighbours, whose interests could be seriously compromised by U.S. anti-terrorist measures. The new context in which “security trumps trade” left both peripheries feeling vulnerable. The northern periphery saw a direct risk to its short- and long-term economic security. The southern periphery too felt that trade-liberalization, as the necessary

¹ The research for this chapter was accomplished in large part thanks to the support of the Dean of Arts and Science, University of Toronto, the Woodrow Wilson Center, and the Social Sciences and Humanities Research Council of Canada. It is based on twenty-six interviews in Washington, D.C., and twelve in Mexico City, carried out in April 2003.

² Pamela K. Starr, “U.S.-Mexico Relations,” *CSIS Hemisphere Focus*. Vol. XII, Issue 2 (January 9, 2004) CSIS; Robert Pastor, *Towards a North American Community* (Washington: Institute for International Economics, 2001); Starr adds that the Fox/Castañeda foreign policy vision for Mexico’s relationship with the U.S. of two core components: “The deepening and widening of NAFTA into a more European Union-like arrangement and transforming the U.S. perception of Mexico from a passive and often unreliable partner in international affairs to an active and responsible ally” (Starr, “U.S.-Mexico Relations”); Donald Barry, “Managing Canada-U.S. Relations in the Post 9-11 Era: Do We Need A Big Idea?” *CSIS Policy Paper on the Americas*, Vol. XIV, Study 11 (November 2003).

³ “Rethinking North American Integration: Conference Report,” *Public Policy Forum* (October 29-30, 2003) at http://www.ppforum.com/ow/NA_Outcomes_final.pdf.

ingredient to further its social-development, had been jeopardized because counter-terrorism had “shifted U.S. attention away from North America.”⁴

To the North, since Ottawa felt threatened less by Osama Bin Laden’s *jihad* than by the Bush administration’s concern with future terrorist incursions across its northern boundary, the Canadian government’s policy responses focused on short- and medium-term policies designed to reassure Washington that the transborder flow of goods and people was as secure as public policies and technological wizardry could make possible.

But the government’s attempts at alleviating Uncle Sam’s chronic security anxieties did not *ipso facto* calm the nerves of the Canadian business community. The spectre haunting its boardrooms once Washington lifted the initial border stoppage on September 11 was not just the possibility of another blockade. The worry was that new investment would now pre-emptively locate in the United States rather than in Canada for fear that another terrorist exploit, in which Canada was implicated, would provoke further border constrictions. Because vulnerability to American security reflexes had already made Canada unattractive for new investment in its NAFTA-framed position in the U.S. market, many business advocates proposed a radical change in Canada’s American relationship in order finally to eliminate the economic barrier still separating the two countries.

To the South, almost the reverse was true. It was the federal government of President Vicente Fox and not the private sector that took the lead in Mexico on rethinking North America. And the high-point of the main proposals was *before* not after September 11. President Fox’s expansive vision became in fact “one of the first casualties”⁵ of Uncle Sam’s global crusade against terror.

Despite their shared American predicament, the two peripheries have developed their ideas entirely out of synch with each other. This has meant that the origins, content, and logic of the various proposals to achieve fuller economic integration as a definitive solution to the vulnerability caused by the U.S. focus on terrorism have been remarkably different in Canada and in Mexico.

Since in Canada business organizations and business-funded think-tanks took the lead in generating these proposals, our study necessarily looks at the role played by market capital in setting the nation’s public policy agenda. In the absence of a post-September 11 integrationist agenda either in the academia or the private sector, we will review Mexico’s contribution to the larger debate on the future of North America primarily in terms of the Fox Vision 20/20 and some of his government’s more recent initiatives.

This proposal-based approach will enable us to determine in what specific categories, if any, there is some hope of Canada and Mexico making common cause for deepening NAFTA into a NAFTA Plus. Given the mismatch of their interests, a united Can-Mex front should not be expected in the near future—at least for as long as the Canadian economic elites are still dreaming of narrowing not widening NAFTA’s scope by returning to some golden age dream of Canadian-American community.

I Context: The Political Economic Conjunction from 1994

Although the Canadian business community had pressed for the bilateral Canada-United States Free Trade Agreement (CUFTA, 1989) and had supported Canada’s inclusion into the U.S.-Mexico trade negotiations that eventually led to the North American Free Trade Agreement (NAFTA, 1994), its subsequent triumphalism at vanquishing its nationalist opponents in the battle to achieve these two accords was tempered by disappointments in policy as well as in practice. On the policy side, “free”

⁴ Gary Hufbauer and Gustavo Vega-Canovas, “Whither NAFTA: A Common Frontier,” *Institute for International Economics*, www.iie.org.

⁵ Stephen Flynn, “The False Conundrum: Continental Integration versus Homeland Security,” in Peter Andreas and Thomas J. Briersteker, eds., *The Rebordering of North America? Integration and Exclusion in a New Security Context* (New York: Routledge, 2003): 110-127.

trade had not abolished U.S. harassment of Canadian exporters by anti-dumping and countervailing duties (AD/CVD), so genuinely secure access to the American market remained a mirage. While truck volumes had increased 10 percent per annum since 1989, the same transportation infrastructure and, nominally, the same number of customs and immigration officials serviced the Canada-U.S. border in 2001 as in 1980—although in fact one-third of American border enforcement agents had been seconded to the Mexican border in the 1990s.⁶ By July 2001, the cost of transportation delays at the Fort Erie crossing had reached an estimated \$2.5-million a day.⁷ As a result of these concerns, business on both sides of the border organized to propose both immediate and longer-term solutions for their governments to implement.

Perceived governmental inaction in the face of a growing need for faster border procedures prompted an effort to transcend immediate border issues and “update” the Canada-United States partnership. As the CME President Perrin Beatty described it, leadership on issues of continental integration since the implementation of NAFTA had shifted to the private sector.⁸ For instance, the CCCE had launched *Canada Global Leadership Initiative* in 2000 because the “bilateral trade, investment, regulatory, security and institutional relationship did not reflect the advanced level of integration between the two countries.” It argued, “visionary leadership on both sides of the border was needed to move the partnership to a 21st century footing,”⁹ although most of its specific recommendations were couched almost exclusively in economic terms—fiscal and monetary policy, human capital, productivity, internal barriers to trade, R&D¹⁰—without any overarching political or integrative vision.

The CME linked with other business groups in Canada and the U.S. through the CAN/AM Border Trade Alliance to raise awareness in customs agencies and governments about the problems caused by complex regulations and resulting border congestion. A Joint Working Group on Border Issues was struck with the American National Association of Manufacturers (NAM) in August 2001 to press for trade facilitation and border management improvements¹¹ and urge the two governments to strengthen their commitment to a shared border agreement, which would lead to the development of a “*common perimeter approach to customs, immigration, and security at first points of entry for goods and people in North America.*”¹²

The two capitals responded to these proposals by creating a series of bilateral fora on the common border in the late 1990s. Between 1997 and 1999, Canada and the U.S. established a Border Vision Initiative to address immigration and smuggling, a Cross-Border Crime Forum to focus on law enforcement cooperation, and a broader Canada-U.S. Partnership (CUSP) to examine the future of Canada-U.S. border management.¹³ Early success of the CME’s active lobbying of the federal and provincial governments for improvements in customs administration and transportation infrastructure through its Standing Committee on Customs and Market Access could be seen in Ottawa’s unilateral

⁶ Perrin Beatty, *Presentation at the Ontario-Michigan Economic Summit*, Detroit Michigan (14 June 2002).

⁷ Perrin Beatty, *Panel presentation at the Global Business Forum*, (“Safe and Smart Borders” Session), Banff, Alberta (26 September 2002).

⁸ Perrin Beatty, “Isolation or Integration: Canada in North America,” *Notes for a Presentation to the Brookings Institution*, Washington (D.C.), (December 6, 2001): 8.

⁹ Thomas D’Aquino, “Security and Prosperity. The Dynamics of a New Canada-United States Partnership in North America,” *Presentation to the Annual General Meeting of the Canadian Council of Chief Executives* (14 January 2003).

¹⁰ Thomas D’Aquino, “Global Champion or Falling Star? The Choice Canada Must Make” (A statement at the CEO Summit 2000 by the BCNI; Toronto, 5 April 2000).

¹¹ Beatty, *Presentation at the Ontario-Michigan Economic Summit*.

¹² Beatty, *Panel Presentation “Perspective from Different Trade-Related Organizations on the Various Challenges that NAFTA has Presented”* (to businesses) at the Border Trade Alliance Conference *Canada and Key NAFTA Issues* (Toronto, July 30, 2001) (emphasis added).

¹³ Senate Standing Committee on Foreign Affairs and International Trade (SCFAIT), *Partners in North America: Advancing Canada’s Relations with the United States and Mexico* (December 2002): 164-5.

decisions to set up the CANPASS and NEXUS systems, as well as the Customs Self-Assessment program which it helped design.¹⁴

None of this produced significant change. Whether visionary or simply practical, most business ideas were never translated into actual action. Because of high levels of integration and similarity in their corporate structures and legal systems, American business groups had little incentive to expend their energies on Canada or engage in lobbying their local politicians in the northern border states. They paid far more attention to other countries, such as Brazil, where U.S. firms faced constant harassment. The bilateral American-Canadian Business Council of the U.S. Chamber of Commerce shut its doors in the early 1990s due to a lack of interest.¹⁵

The impact of government measures on the practical issue of border management was negligible. By mid-2001 no headway had been made on what seemed too radical, unnecessary and, politically costly, leaving the border in a state of benign neglect. Washington's lack of interest was explained by its focus on the southern border where concerns about illegal immigration and narco-trafficking made the infrastructural inadequacies along the 49th parallel pale in comparison.¹⁶ "Overburdened and congested highways, lengthy delays at border inspection stations, deteriorating and inadequate infrastructure, and the looming threat of gridlock in our major trade corridors,"¹⁷ proved not just that the system was "broken long before 9/11, but [that Canada and the U.S.] lacked the political will...to fix it."¹⁸

In contrast to the world's longest putatively undefended border along the 49th parallel, America's Mexican border has been a thorn in Washington's side for all of its history.¹⁹ The U.S. distrust of the Mexican authorities' capacity to root out corruption and curb crime meant that the United States militarized its 1,989-mile-frontier and often infringed on Mexico's sovereignty while pursuing unilateral law enforcement to reduce the perennial security risks from drug trafficking to illegal immigration.

Mexico's membership in the exclusive North American free-trade club thus did not alter the basic reality of a Third-World country in which economic liberalization was a means to the far more urgent end of social development and democratization. Fox had won the 2000 elections not on a commitment to free trade (in whose aftermath Mexico suffered its most serious recession) but to comprehensive reforms. For Fox and the U.S.-trained technocrats in the Secretaria del Comercio y Fomento Industrial (SECOFI), NAFTA was "the right vehicle for new agreements on energy, immigration, and border management."²⁰ But for many Mexicans, it was instead a Trojan horse designed to limit Mexico's sovereignty.²¹ To resolve the tension between the necessity and the unpopularity of economic integration, Fox and his Foreign Minister, Jorge Castañeda, enthusiastically endorsed Robert Pastor's proposals to correct NAFTA's institutional deficit while fostering Mexico's development by creating a [North American community among the three countries and campaigned on the Vision 20/20.](#)^{22 23}

¹⁴ Beatty, *Panel Presentation* "Perspective from Different Trade-Related Organizations."

¹⁵ Confidential interview.

¹⁶ George Haynal, "Interdependence, Globalization and North American Borders," prepared for presentation at the *Symposium on Governance and Public Security*, Campbell Public Affairs Institute, Maxwell School, Syracuse University (18 January 2002): 14.

¹⁷ Beatty, *Panel Presentation* "Perspective from Different Trade-Related Organizations."

¹⁸ Beatty, *Panel presentation at the Global Business Forum*.

¹⁹ For an overview of the two plans and their differences: Christina Gabriel, Jimena Jimenez, and Laura Macdonald, "The Politics of the North American Security Perimeter: Convergence or Divergence in Border Control Politics," Ottawa: Carleton University (2003).

²⁰ Hufbauer and Vega-Canovas, "Whither NAFTA: A Common Frontier."

²¹ Monica Serrano, "Bordering the impossible: U.S.-Mexico security relations after 9-11," in Andreas and Bierstecker eds., *Re-Bordering North America?*: 50.

²² Robert Pastor, *Towards a North American Community* (Washington: Institute for International Economics, 2001); Starr, "U.S.-Mexico Relations."

²³ Barry, "Managing Canada-U.S. Relations."

When Fox presented the scheme to Chrétien in Ottawa the month following his election, the Prime Minister made Canada's position clear: "We have the United States, which is enormous, and two countries that are much smaller on either side. [I don't think] we can apply European rules."²⁴

But Fox's plan for Mexico's revival did not founder in Ottawa. The outcome of the Florida ballot count in November 2000 that brought George W. Bush to American presidency became Fox's main trump-card, which made his program for a "NAFTA Plus" seem surprisingly viable. Rejected by Canadians, Fox found a willing listener in the new U.S. President's who, despite his abject lack of interest in all matters foreign, had a particular affinity for Mexico, the one foreign country about which he knew something. At the end of their meeting in February 2001, Bush and Fox released a statement indicating their interest to work with Canada "to consolidate a North American economic community" that would include a common approach to energy resources—a matter of special interest to the Bush administration.²⁵ The final communiqué proposed a North American economic community and closer cooperation to fight drug trafficking. Most importantly, it announced the initiation of high-level talks on migration.

Despite the communiqué's rhetoric, Fox's grand design for North America was too ambitious to be feasible in the short-run. As a result, he adopted a more incremental approach and focused on migration instead.²⁶ The migration agreement was the Holy Grail for the Fox government, into the negotiation of which he and Castañeda invested a significant political capital. The "whole enchilada," the Mexican migration proposal, included guest workers and legalization, plus regional development programs, border security measures, and visa revisions for Mexicans. It thus went beyond the traditional migration agenda to "a pilot program for development assistance."²⁷ A proposal for a special visa category to give priority to Mexicans and Canadians over other migrants amounted to a freer cross-border movement of labor within the North American region.²⁸ As the CSIS policy brief points out, "the Mexicans did not merely set the bilateral migration agenda at Guanajuato, they infused it with baby steps toward the eventual creation of a North American Community despite obvious U.S. discomfort with this idea. As Jorge Castañeda later put it: "We pushed them to where they ultimately were not willing to go."²⁹ And so the "whole enchilada" came down to nothing even before September 11, but the idea of a NAFTA-Plus remained a priority for President Fox.

The Fox "Vision 20/20" thus seemed to have captured the Mexico-U.S.—if not the continental—agenda in 2001. Bureaucratic opposition and a lack of concern in the U.S. to facilitate crossings stifled progress along the northern border,³⁰ but continuous U.S. concerns powered action on the southern border, symbolized by the announcement of a migration/labour deal on September 6, 2001. But, by the date of Fox's apparent triumph in the American capital, Osama bin Laden had already set in motion a scheme so traumatizing that it would overturn Washington's priorities placing Canada and Mexico in the same context once again.

²⁴ Barry, "Managing Canada-U.S. Relations."

²⁵ The White House, Office of the Press Secretary, "Joint Statement by President George Bush and President Vicente Fox towards a Partnership for Prosperity" (February 16, 2001).

²⁶ Rogelio Ramirez de la O, "Mexico: NAFTA and the Prospects for North American Integration," *Commentary – Border Papers* No. 172 (Ottawa: C.D. Howe Institute, October 2002): 13; Juan Rebolledo Gout, "En búsqueda de un entendimiento con Estados Unidos," in Rosio Vargas, Remedio Gomez Arnau and Julian Castro Rea, coords., *Las Relaciones de México con Estados Unidos y Canadá: Una Mirada al Nuevo Milenio* (México: UNAM, CISAN, 2001): 29-55.

²⁷ Starr, "U.S.-Mexico Relations."

²⁸ Starr, "U.S.-Mexico Relations."

²⁹ Starr, "U.S.-Mexico Relations."

³⁰ Canada opposed U.S. plans for customs/immigration controls coordination that would have required joint staffing in border facilities or the sharing of passenger lists on commercial flights. Letting American officers carry weapons in Niagara Falls alongside their RCMP colleagues was unimaginable; providing the U.S. with passenger lists was said to violate the Charter (Confidential Interview, April 2003).

After the Shock – Fall 2001

The shock of September 11 that torpedoed the Mexican agenda galvanized Canada's corporate and academic community into launching a new round of long-term proposals for fixing Canada-U.S. relations. Because September 11 tied together the previously separate questions of economic and territorial security into one indivisible problem, it revealed the hidden potential for continental governance by triggering transnational corporate cooperation faster than governments could coordinate their policies.

Provoked by the crisis, business immediately moved into action, rapidly presenting government with proposals, many of which were implemented. When, in the aftermath of the attacks, a near-desperate corporate community worked together within and across boundaries, governments heeded their pressure. BC lumber exporters may have had little in common with Ontario's automobile producers, but they concurred on the fundamental need to keep the border open. For the first time in decades, import- and export-based Canadian businesses "came together in... immediate solidarity on a critical issue."³¹

Having already established countrywide industry associations and interest groups, Canadian businesses had long lobbied the federal government for trade-facilitating measures. The most prominent players in the post-September 11 policy debates included

- the Canadian Chamber of Commerce (CCC);
- the Council of Canadian Chief Executives (CCCE)—the former Business Council on National Issues (BCNI), still led by Thomas D'Aquino;
- the Canadian Council for International Business (CCIB);
- the Canadian Federation of Independent Business (CFIB);
- the Canadian Manufacturers & Exporters (CME), previously known as the Alliance of Manufacturers & Exporters Canada until October 2000, which had been formed from a merger of the Canadian Manufacturers' Association (CMA) and the Canadian Exporters' Association (CEA) in 1996 and was presided by the former Mulroney government Minister of Defence, Perrin Beatty;
- and the Coalition for Secure and Trade-Efficient Borders (CSTEB), an umbrella conglomeration of some forty business associations and businesses formed in direct response to September 11.

Beyond the immediate measures it proposed to prevent illegal entry of people and goods and to facilitate the passage of low-risk goods and people across Canada's borders,³² the CSTEB recommended ways to strengthen Canadian security and intelligence, immigration and refugee determination, border processing, and civil emergency preparedness. It also explored a continental perimeter approach to security and raised the longer-term question of re-institutionalizing Canada's military.

While all of the major business associations in Canada released statements on the trade-security problematic, some also took concrete steps to lobby the decision-makers in Ottawa. The CME formed a policy/strategy task force of its members, re-established a joint working group on key border issues with the National Association of Manufacturers, and combined senior representatives

³¹ Beatty, *Panel presentation at the Global Business Forum*.

³² Beatty, "CME Presentation by the Hon. Perrin Beatty."

of business associations and firms into CSTEBA—to address these issues.³³ (In Canada, the hurriedly mobilized business associations responded predictably to the two federal governments’ new set of costly user fees.³⁴ Rejecting the neoconservative principles of the new public management school when applied to itself, the corporate community demanded that “costs are *shared equitably* [read: offloaded on the public] rather than downloaded onto business”³⁵).

Business activism in Canada was also seen in a limited mobilization of Canadian companies in the United States, where few Canadian groups had made the necessary political investment to develop a standing presence in Washington’s corridors of power.³⁶ A number of these participants in the U.S. market, such as the Canadian-American Business Council, the Canadian-American Border Trade Alliance, and the Chamber of Commerce of Canada, joined their American counterparts in the “Americans for Better Borders” to lobby Washington on security-trade issues.³⁷

Canadians were not alone in lobbying on the Capitol. Mexican business groups, such as U.S. Hispanic Chamber of Commerce and U.S.-Mexico Chamber of Commerce, also had a long presence in the United States and many had teamed up with American business associations, especially in the southern border states, in the “Americans for Better Borders.”³⁸ But beyond these superficial similarities, there were also substantial differences in the corporate responses to 9/11 north and south of the U.S. There was no evidence of Mexican businesses lobbying for “Big Idea” proposals. Furthermore, with an activist government, there was no reason for a greater role of the corporate actors. Unlike its Canadian counterparts, the Mexican Embassy and its 42 consulates across the United States invested generously into professional lobbying efforts to insulate Mexico from U.S. unilateralism.

Relatively modest policy initiatives for further economic integration in North America were brought forth by the Minister for International Trade, Pierre Pettigrew, and the House of Commons Standing Committee for Foreign Affairs and International Trade (SCFAIT)³⁹ that presented its recommendations after extensive public hearings with the main participants in the public policy debate, such as the government-supported Foundation for the Americas (FOCAL) and the IRPP.

Various more radical schemes loosely referred to as NAFTA-Plus emerged from numerous studies and conferences focusing on establishing a regulatory framework for the continent-wide regime of capital accumulation that had emerged from integrated supply chains, cross-border intra-industry trade, U.S. corporate investment in Canada, Canadian corporate investment in the United States, and transnational border alliances.

The business elite’s interest in new grand schemes, articulated most boldly by Wendy Dobson’s “Big Idea” (2002)⁴⁰ was joined by proposals for a single market (Michael Hart and Bill Dymond), “a community of law” (Allan Gotlieb 2002), a common currency (Courchene and Harris), a “resource security pact” (Tom d’Aquino 2003), and a constitution or treaty for North America (Hugh Segal 2002).⁴¹ Business-funded think-tanks such as the C.D. Howe Institute, the Conference Board of Canada, and the Public Policy Forum advocated one version or another of the integrationist agenda

³³ Beatty, “CME Presentation by the Hon. Perrin Beatty to the Sub-Committee on International Trade, Trade Disputes and Investment of the Standing Committee on Foreign Affairs and International Trade” (Ottawa, 18 October 2001).

³⁴ Beatty, *Panel presentation at the Global Business Forum*.

³⁵ Beatty, *Presentation at the Ontario-Michigan Economic Summit*.

³⁶ Confidential interview.

³⁷ See “Members of Americans for Better Borders” at <http://www.uschamber.com/coalitions/abb/abmmembers.htm>.

³⁸ See “Members of Americans for Better Borders” at <http://www.uschamber.com/coalitions/abb/abmmembers.htm>.

³⁹ “The North American Linkages Project: Focusing the Research Agenda,” *Policy Research Initiative*.

⁴⁰ Wendy Dobson, “Shaping the Future of the North American Economic Space: A Framework for Action,” *C.D. Howe Institute Commentary*, no. 162 (April 2002).

and supplied the analytical details that were largely absent from the business proposals, adding substance to the Canadian corporate vision.

Several recurring themes run through those integrationist proposals whose risk-management approach revealed that nothing short of political integration could erase the economic border:

- The Canada-U.S. economic integration is as irreversible as it is desirable.
- As a vital membrane for the Canadian economy, the Canada-U.S. border must enable low-risk people and goods to pass unimpeded.
- Under the proposed border management, policing resources must focus on high-risk travellers and cargo.
- The Canadian government must take the lead in redefining Canada's place in North America's institutional structures.

Since most measures for immediate improvement in border management had been set in motion by 2004, we will proceed to review the more ambitious ideas advanced to achieve a more fundamental transformation of the still real economic border.

II Proposals for a New Continental Architecture

Following the common assumption that "NAFTA set us down a road, but it did not give us a map,"⁴¹ the integrationist proposals fell into two broad categories. On the one hand were the various schemes for a NAFTA-Plus economic and institutional integration. On the other hand, two bolder thrusts related to the enhanced threat of terrorist attacks: homeland security integration (a common security perimeter and harmonized immigration controls) and military integration (Northern Command and NMD).

A. Economic and institutional integration

Most proposals focused on one or other of five main elements of the vision for an integrated North America. If fully implemented, NAFTA-Plus would include a trade tribunal, an energy pact, a common external tariff, a single labour market, and monetary union. We will briefly pass each of these issues in review.

1. Trade Tribunal

Because of North America's vast power asymmetries, the peripheries are at a distinct disadvantage whenever they dealt with the United States outside a rules-based infrastructure, so the two countries' best protection arguably lay in "continental, rules-based solutions and institutions."⁴³ NAFTA had provided them with a dispute settlement system that "[was] only partly rules-based. Some of the rules [left] open the possibility of political intervention, such that Canada [and Mexico were] still susceptible to the adverse effects of U.S. political decisions and power."⁴⁴ By maintaining national systems of anti-dumping and countervail, NAFTA had also failed to develop a common North American competition regime.

Since over 80 per cent of the NAFTA disputes were taken up with AD/CVD, they fell under the provisions of Chapter 19's *binational* panel processes. As a result, the *three* sets of domestic

⁴¹ Robert Wolfe, "See You in Washington? A Pluralist Perspective on North American Institutions," *Choices* (April 2003) at <http://www.irpp.org/pol>.

⁴² Jeff Faux, quoted in *Toward a North American Community? (Conference Report)*, Wilson International Center for Scholars (June 2002): 27.

⁴³ Recommendation 15 (SCFAIT, *Partners in North America*).

⁴⁴ "The Prevention and Resolution of Trade Disputes" (Chapter 4: Key Issues in Managing and Advancing the North American Economic Relationship), *Partners in North America*.

AD/CVD jurisprudence in Canada, the U.S., and Mexico made the panel rulings opaque and inconsistent and the process unpredictable even to the governments' trade experts. Moreover, the panels were susceptible to political manipulation. The procedure under Chapter 20 for resolving general disputes was equally subject to a power-based resolution of conflicts. Chapter 11's international tribunals for arbitrating TNC claims against governments were a still more contentious feature of NAFTA's dispute settlement procedure.

The manifest inadequacy of these judicial mechanisms⁴⁵ made a permanent NAFTA arbitration court a common element among a number of proposals.⁴⁶ Given the difficulty experienced in finding panellists with the necessary expertise but without conflicts of interest, a court with permanently sitting judges was the most feasible candidate for any future bilateral or trilateral agreement. Full-time judges would be more likely to render rulings that did not conflict with earlier panel determinations.

The attractiveness of a permanent panel system and uniform NAFTA jurisprudence *in lieu* of the present *ad hocery*, should generate widespread support in Canada and Mexico for an improved adjudication mechanism. Since "lesser powers" have an inherent interest in tying down the hegemon to predictable, mutually-accepted, and enforceable rules, a permanent court unmistakably carries the potential of Canadian-Mexican cooperation.

2. A Continental Energy Deal

America's energy security is one of the rare areas where Washington is dependent on its continental neighbours. President Bush entered White House in 2000 with a plan to renew the U.S. energy strategy, a commitment that in the spring of 2001 produced the *Cheney Report*—a comprehensive national energy policy that recognized Canada and Mexico's importance as energy partners. The attacks of September 11 further validated the vital priority of energy security for the Bush Administration: "Through all the immediate challenges of the war on terrorism and our military actions in Afghanistan and Iraq, ...North America not only can be, but must be, more secure in energy terms."

Undersecretary of State Alan Larson testified before the U.S. Senate Foreign Relations Subcommittee in April 2003 that energy cooperation with Canada and Mexico was a top priority of Washington's energy security policy. The North American Energy Working Group (established in April 2001) prompted the three countries to look at North America's energy market as a unified whole, adding that more important than their geographic closeness was "the rule of law and predictable investment conditions created by NAFTA, integrated pipeline networks, close cooperation between our governments and energy companies, and long-term reliable supply relationships." But the America's unambiguous interest in deepening this framework has found a mixed reception in Canada and a negative one in Mexico.⁴⁷

In Canada's view, for instance, NAFTA had made even a continental energy policy unnecessary, although Chrétien did agree to the creation of the Energy Working Group to explore ways of facilitating North American energy trade.⁴⁸ Striking a bilateral energy deal was nonetheless the primary candidate in several Canadian proposals as integrationists dissatisfied with the continental market in oil, natural gas, and electricity pushed for a formal North American energy pact. FOCAL, for

⁴⁵ See William A. Kerr, "Greener Multilateral Pastures for Canada and Mexico: Dispute Settlement in North American Trade Agreements," *Journal of World Trade* 35 (December 2001).

⁴⁶ See the C.D. Howe publications, SCFAIT ("Recommendation 24" in *Partners in North America*), Lawrence Herman's "Thoughts on Market Access and Resolving Disputes in Canada-U.S. Relations" (Feb. 4, 2003), and the pre-Bin Laden study used by Vicente Fox, Robert Pastor's *Towards a North American Community* (Washington: IIE, 2001).

⁴⁷ Paul Cellucci, "Remarks to the Canadian Energy Pipeline Association," (Calgary, May 08, 2003).

⁴⁸ Barry, "Managing Canada-U.S. Relations."

instance, proposed energy cooperation as the first functional sector to be explored. The CCCE suggested the creation of a resource security pact as a key element in a new North American partnership, based on the two principles of open markets and regulatory framework compatibility.⁴⁹ The federal government reserved judgement, but Premier Klein's government in Alberta "has worked quietly and steadily" toward greater integration with the U.S.⁵⁰

That a partially Can-Am continental market already existed in electricity on a north-south and not east-west basis became obvious with the massive blackout on 14 August 2003 in the north-eastern U.S. states and Ontario but not in the neighbouring provinces. Following the California brownouts, Enron's collapse, and Ontario's failed deregulation, the attractiveness of the CCCE's proposed energy pact dimmed at the same time as the war on terror guaranteed that Washington's interest in further continental energy integration would go unabated. Formalizing or intensifying integration in some energy markets was easier said than done. Electricity can be further integrated across national boundaries, but, as Quebeckers were reminded on August 14, there are considerable advantages to sovereignty-association when it comes to semi-autonomous provincial hydro system.

The greatest hurdles, however, are political: petroleum can hardly be integrated while Mexico defends its constitution's Article 27 which keeps oil, natural gas, and electricity in the public domain. For as long as Pemex is identified closely with national sovereignty, a truly continental energy market will remain out of sight.⁵¹

3. Customs Union

Rules of origin that specify in excruciating detail how much value must be added domestically or regionally to qualify for tariff-free treatment at the border have exposed Canadian and Mexican producers to occasional bullying from U.S. authorities. A Honda assembly plant in Oshawa was a case in point: because its finished cars destined for the American market employed Japanese parts that entered Canada under low barriers, U.S. customs authorities rejected Honda's claim that it complied with CUFTA's 50 per cent value-added requirement. Costly and cumbersome, this rules-of-origin process could be replaced by a common external tariff (CET) which would erase the border as a trade boundary.

As advocated by the C.D. Howe Institute and a number of business associations, the CET was the basic pre-requisite for a limited or full-fledged customs union that would finally achieve a North America without borders for the movement of goods. Its negotiation would involve harmonization of tariffs, customs procedures, and such unrelated issues as sanitary and phyto-sanitary standards for what kinds of products constitute acceptable imports.

Yet the proponents' basic argument was administrative: while Canadian and American external tariffs generally fell in the same range, even slight differences required complex rules of origin detailing what kind of local content was necessary for goods produced in one NAFTA country to pass duty free to another.⁵² The cost of administering the certificates of origin was estimated at 2 to 3 per cent of the total NAFTA GDP. With over a trillion-dollar economy in Canada, this alone could result in estimated savings of up to \$30 billion a year for the Canadian economy.⁵³

⁴⁹ D'Aquino, "Security and Prosperity."

⁵⁰ Cellucci, "Remarks to the Canadian Energy Pipeline Association."

⁵¹ For an elaboration of the political obstacles to Mexico's participation in a continental petroleum market, see [Jean Gérald Cadet](#), « Le pétrole mexicain : frein au développement d'un marché nord-américain de l'énergie, » *Chronique des Amériques* (juin 2003).

⁵² Danielle Goldfarb, "The Road to a Canada-U.S. Customs Union: Step-by-Step or in a Single Bound?" *C.D. Howe Institute Commentary* 184 (June 2003): 31 pp.

⁵³ Charles Barrett and Hugh Williams, "Renewing the Relationship: Canada and the United States in the 21st Century," *Conference Board* (2003): [.]

While an intermediate customs union would involve the establishment of CETs and policy harmonization, a full customs union would necessitate the development of common trade remedies against non-member states. In such an arrangement, however, the United States Congress would have to abandon its cherished trade remedy laws (TRLs) against its customs union partners. Otherwise, there would be little incentive for Canadians and Mexicans to move beyond a more limited model. A more feasible option for the short-run suggested by a number of observers was a sectoral customs union for certain highly integrated sectors, such as the steel industry.⁵⁴

Even an intermediate solution was contentious. As Daniel Schwanen of the IRPP pointed out, while harmonized tariffs would eliminate the need for complicated rules of origin, the hard questions of whether “we would be exempt from US antidumping and countervailing duty, whether we would be able to access procurement opportunities in the States” would not necessarily be answered to Canada’s satisfaction.⁵⁵

The downside of a customs union for Canada would be the abdication of its sovereignty over external tariffs, which would have made a mockery of the CCCE’s commitment to closer cooperation and/or trade deals with Japan, China and India.⁵⁶ The flexibility of members’ trade policy is characteristic of free trade areas—not of customs unions—and it exposed the inconsistency of the CCCE’s proposals. Mexico’s participation in any CET that was originally masterminded as a Canada-U.S. deal would be made more difficult by its free trade deal with the European Union. The Fox government would be unwilling to re-erect tariff barriers against the EU and effectively nullify this much prized transatlantic free trade deal that continued to evade Canada.

Loss of autonomy over economic policy would also have foreign policy implications. Whereas the two rich North American nations have in the past taken a common position against Europe’s farmers and aggressively promoted their hormone-fed beef exports, their interests on other trade issues have also diverged. Under a CET, Canada could no longer freely trade with countries such as Cuba, Iran, or any other targets of U.S. trade embargoes. The same would be true of Mexico’s fifty-year-long defiance of American foreign policy toward Fidel Castro. As a simple illustration, the CET would require either that Ottawa and Mexico City comply with the provisions of the Helms-Burton Act or that Washington rescind it.

Quite apart from what decisions are made, there lies the far more intractable institutional issue of how these decisions would be made. Since no set of rules is ever final, how subsequent changes would be made would also need specifying. If there were to be a common tariff-setting body, would each member have one vote or would voting muscle be proportional to population or economic strength? In future trade negotiations, members of a U.S.-Canada (and Mexico) customs union would have to speak with a single voice. It would not be much of a stretch to realize that it would be the voice of Uncle Sam.

4. A labour market deal

A bilateral U.S.-Mexico labour/migration deal might have seemed feasible in the days just before September 11, 2001, when Vicente Fox was George W. Bush’s favourite foreign president, but it disappeared from the Bush administration agenda and was never even contemplated in Washington for Canada. A negotiated removal of barriers to the movement of citizens or permanent residents and free exchange of human resources between Canada and the United States has also been tellingly overlooked in corporate and think-tank proposals after September 11.

⁵⁴ See for instance Sean Cooper of the Atlantic Provinces Chamber of Commerce submission to SCFAIT (December 2002 report).

⁵⁵ SCFAIT, *Partners in North America*: 178.

⁵⁶ Thomas D’Aquino, “The National and Global Policy Agenda: Priorities for Canadian Business Leadership” (Notes for an address to the Annual General Meeting of the CCCE, 14 January 2003).

Both David Dodge, Governor of Bank of Canada, and Pierre Pettigrew, Foreign Trade Minister, have spoken out in favour of labour mobility—a limited version for the Canada-U.S. relationship only. As Dodge noted, in 2003, “the border between Canadian and U.S. labour markets is somewhat more open than it was at the end of the Second World War. But, in comparison with the markets for products and capital, it is still *the* least open. This is because of immigration policies and a multitude of different provincial, state, or federal licensing laws in the two countries. To achieve the full benefits of a single market, significant freeing up of laws and regulations that impede labour mobility would be needed.”⁵⁷ Dodge went on to say that “labour market integration would be greatly aided if Canada and the United States had procedures in place...to grant work permits...[which] would be easier to negotiate if we were to simultaneously adopt a common immigration security perimeter for North America...To ensure that there are *real* welfare gains, initiatives to open up labour markets would also call for greater harmonization of licensing standards.” As with most other elements of NAFTA-Plus, every step toward integration is connected to another. Thus a North American labour market would require common regulatory standards and possibly even a common security perimeter. By the same token, the non-existence of an integrated labour market precludes the development of the common market—yet another integrationist option advocated in Canada⁵⁸—which is closely modelled on the EU’s Single European Act, based on the “Four Freedoms”—free movement of capital, goods, services, and *people*.

As a Public Policy Forum Conference has found, **support for a more open border to people has been declining in both the U.S. and Canada, accompanied in both countries by a growing insularity and declining concern with non-citizens; in contrast, Mexicans remained highly favourable toward labour mobility.**⁵⁹ In Mexico, labour mobility—as it relates to the thorny question of migration—has been part and parcel of its entire American relationship and the heart of President Fox’s Vision 20/20.

5. North American Monetary Union

A monetary union with a common currency was no less controversial than a customs union. Few new theoretical or practical reasons were added since September 11 to the arguments that had been in circulation since the early 1990s, and the business community remained distinctly uninterested in replacing the Canadian dollar that had been on a steady course of recovery along with the entire Canadian economy ever since the year 2000.

As soon as the fix-the-Canadian-dollar-to-the-U.S.-dollar position was rearticulated, the old counter-arguments re-surfaced. Currency floaters insist that exchange-rate flexibility gives Canada a shock absorber that allows the Bank of Canada—within very real constraints—to fine-tune an economy, which, with its still excessive dependence on staple exports, responds to changes in the terms of trade at a different rhythm and with different needs from that of the United States. Even though it may have the eighth largest economy in the world, Canada is a midget relative to the United States, with a mere 7 per cent of total U.S. GDP. Its influence on the monetary policy of a North American Monetary Union (NAMU) would be correspondingly minuscule. As Helliwell writes, “Under a common currency, US Federal Reserve monetary policy would target US inflation and unemployment without regard for Canada and with no intention of giving this country a voice. In short, for Canada, a common North American currency would amount to a unilateral transfer of sovereignty.”⁶⁰ But, outside a limited segment of the academic community, there was little interest in abandoning the flexible exchange-rate system. Simply put, the “vital preconditions to North American monetary

⁵⁷ David Dodge, “Economic Integration in North America,” Remarks to the Couchiching Institute on Public Affairs, Geneva Park, Ontario (7 August 2003).

⁵⁸ See Fred McMahon of the Fraser Institute who extended Wendy Dobson’s Big Idea and suggested it be surrounded by a common perimeter.

⁵⁹ **“Rethinking North American Integration: Conference Report.”**

⁶⁰ Other observers note that common currency is “doomed by visceral Canadian hostility and a lack of elite consensus.” Economists, such as Helliwell, also dismiss the idea since Canada’s lower inflation rate limits potential gains; the EU likewise does not provide a suiting example, given its fiscal redistribution (as a way to manage shocks) (in Wolfe, “See You in Washington?”).

integration (e.g., similarity in the economic structures of NAFTA participants, existence of labour mobility across borders, availability of a fiscal transfer system)”⁶¹ were absent.

Monetary integrationists never had any sway over the Mexican agenda for North America. If Canadian-American economic differences were too large for the two countries to compose an Optimum Currency Area, then Mexico—a developing country—might not appear even to be on the horizon. But given President Fox’s support for a common currency and Mexico’s already high level of de facto dollarization, even a NAMU might not be far off should Washington ever be so inclined to consider sharing sovereignty with its two neighbours.

B. Homeland Security and Military Integration

1. Continental Security Perimeter

Growing flows of goods and people between the three countries of North America had already shown that deepening economic integration brought easier transborder passage of narcotics, guns, and criminals. The Al Qaida coup only dramatized the challenge to encourage benign crossings of goods and people at the northern and southern U.S. borders while blocking the malign ones. The comprehensive government actions in all three capitals designed to strengthen security at airports, seaports, and at the two U.S. land-borders nonetheless left some Canadians unconvinced that not all putatively legitimate Uncle Sam’s homeland-security concerns had been addressed. In the CCCE’s view, nothing less would suffice than a continental “security perimeter” for Canada and the United States, and possibly Mexico.

The apparently simple concept of a common security perimeter covered a host of questions, geographical and functional. Would it encompass North America from the Arctic to Panama or only Canada and mainland U.S.A.? Would Washington insist that Canadian and Mexican officials be replaced by Americans in air- and seaports monitoring the application of harmonized-to-U.S.-regulations visa-requirements before passengers boarded Air Canada or AeroMéxico flights from Paris or Tokyo? But would Canadians, say, feel less secure if their safety depended on the American security systems that had let nineteen terrorists highjack those four civilian aircraft on September 11? Would a security perimeter require policy harmonization of a vast array of practices demanding far more integration than a customs union? If a continental security perimeter were to mean something other than closer bilateral (or trilateral) cooperation on intelligence, law enforcement, and enhanced border control, it had to signify such high policy harmonization and implementation in the areas of immigration, refugee policy, and coastal control, that the United States would agree to disband its monitoring of the two borders.

Sidney Weintraub added:

The notion of perimeter screening to speed up the movement of goods and residents of the two countries is logical on the surface, but there are inherent problems that must be considered. Without any border screening, the two countries would need identical immigration laws to permit the free movement of people from one country to the other and a common tariff and other trade restrictions so that the transshipment of goods from one country to the other would not matter. These steps smack of sharing sovereignty rather than “mutual respect for sovereignty,” which is an essential element of the CCCE proposal.⁶²

⁶¹ “Towards a Common Currency?,” *Partners in North America*.

⁶² Sidney Weintraub, “Strains in the Canada-U.S. relationship,” *Issues in International Political Economy* No 40 (April 2003) (A Center for Strategic and International Studies publication).

The security perimeter discussion evoked the provisions of the Schengen Agreement that implemented a 'Europe without borders,' one of the last steps in a long process of the EU's economic and political integration. Requiring centralized decision-making on security and immigration policies, the deep integration necessary for a North American security perimeter would require a degree of sovereignty sharing that seemed singularly ambitious and unworkable, given the embryonic shape of North American governance. Because it could all too readily embrace *all* aspects of Canadian-American cooperation, "very few sectors are excluded from the pretext of security."⁶³

None of the three NAFTA governments showed any intention to move on the business-promoted security perimeter, if for nothing else, then for its lack of clarity. John Manley rejected the security perimeter approach, adding that he preferred to deal with "specific areas of concern" rather than integrate Canada's policies with those of the U.S.: "Working closely with the United States does not mean turning over to them the keys to Canadian sovereignty...Perimeter implies NAFTA... It makes the problems, whatever they are, much more complex if you try and do two borders at once."⁶⁴ Canada's ambassador to the United States summarized the Canadian preference as creating a "zone of confidence" that would see the two governments adopt parallel measures that would meet each other's concerns. Donald Barry notes that progress was sufficiently encouraging that when the Global Business Forum called for closer North American integration, Ambassador Cellucci offered no support, adding that the debate "on whether we need to have a more formal economic union like Europe, whether we need the border or we should have a monetary union...those are big questions that involve sovereign issues and I do not want the progress we are taking on a smart, secure border to get held up because of this."⁶⁵

But Canada's opposition to a continental perimeter did not ipso facto mean a rejection of security integration with the U.S.—only that the shared Canadian-American perception of security risks would mean that it would instead proceed in increments, by stealth. This yet again left Mexico out of the North American picture, because Mexicans see security in a radically different way than do Canadians and Americans. Luis Herrera-Lasso argued that whereby Ottawa and Washington discuss *national security* (armies and foreign threats), Mexico City worries about *public security* (police forces and more immediate threats).⁶⁶ Thus any talk of a "common security agenda" must include a common definition of the threats: "for Mexico, security is not seen in terms of terrorists but rather in terms of migrants at the border. There also has to be discussion of where to fight the enemy, whether all around the world or just at the border, as well as how to fight the enemy using intelligent borders." It is then not so surprising that Fox's NAFTA partners ignored his suggestion in November 2001 for a common "North American Security Policy."⁶⁷

2. Defence Integration

a. In Canada

If counter-terrorism were seen to be a matter for police and counterintelligence, our many queries could be left here. But the global hegemon defines security more in military than in police terms, and the Canadian private sector decided that alleviating U.S. defence concerns was a price worth paying for its economic security. In the Bush administration-constructed security agenda, Canadian business promoted appeasing the U.S. on military matters as a means of re-establishing unhindered market integration. If the government handled the security issues to the Pentagon's satisfaction, so the thinking went, Washington would permit business to continue operating in the framework it had

⁶³ Stéphane Roussel, "Rapport final: Périmètre de sécurité et Homeland Defense: Quelles sont les conséquences pour le Canada?" *Canadian Centre for Foreign Policy Development publication* (May 2001).

⁶⁴ Barry, "Managing Canada-U.S. Relations."

⁶⁵ President Bush appeared to agree, telling Chrétien, "You pass your laws; we'll pass out laws" (in Barry, 36).

⁶⁶ "Rethinking North American Integration: Conference Report."

⁶⁷ Serrano, "U.S.-Mexico Security Relations in the 21st Century."

developed over the previous fourteen years. Here the most inventive integrationists had cross-pollinated their current trade liberalization thinking with certain elements from the Cold War days. Whereas the Cold War military-corporate complex had found its rationale in increasing its profit margins, the post-terrorist nexus was trying to maintain current profits by “fireproofing the border from political uncertainty.”⁶⁸

Beyond criticizing Ottawa’s indecisiveness in the fall of 2001, urging closer cooperation with the U.S. military in Afghanistan, and sponsoring pro-U.S., pro-Iraq-war rallies, the corporate sector actively advocated complete integration of an expanded Canadian military under the Pentagon’s aegis. Echoing the arguments raised by J.L. Granatstein and the *Council for Canadian Security in the 21st Century*, business groups effectively resorted to the old logic of “Defence against Help” which had governed much of Canada’s military planning during the Cold War when Canadian policymakers knew that they could either defend their territory to meet the U.S. requirements for its security, or Washington would do so unilaterally. Shortly after the terrorist attacks, Granatstein re-introduced the argument that Canada had “no choice” but to agree to the U.S. demands on security and military cooperation. Non-compliance with U.S. demands was not an option—unless Canada was willing to let its long-standing partnership unravel or the Pentagon take over its national defence.

Washington’s April 2002 decision to establish Northcom was seen with alarm not only by the Canadian government wanting to preserve existing Canada-U.S. defence arrangements, but also by Canadian integrationists fearing its implications for future cooperation under the North American Aerospace Defence Command. Granatstein recommended that Canada restructure its military forces to integrate with their American counterparts. In addition, Ottawa should support the U.S. national missile defence (NMD) project to weaponize space. And, of course, it had to increase defence spending to be taken seriously in Washington.

But the old Cold War equation of “contribution equals influence” did not apply in 2003. Promoters of greater military spending implied that Canada would regain its alleged influence in the Pentagon and asserted that this would reverberate favourably on bilateral issues. Many U.S. policy analysts demurred: the expected payoff for Canadian defence contributions to the U.S. war in Afghanistan in the form of concession on the softwood lumber issue was not to materialize.⁶⁹

b. In Mexico

In contrast to the ideas on defence floated by some members of the Canadian economic elite, Mexicans refused even to consider deeper military integration with the “Colossus of the North.” The Mexican-U.S. relationship might have seen its renaissance in the first post-NAFTA decade, but elements of the older, antagonistic times endured. Americans themselves might not have grasped the staying power of history on their relations with Mexico. In July 2002, the Commander of Northcom (and NORAD), Gen. Ralph E. Eberhart, expressed interest in engaging the southern periphery in military cooperation by expanding NORAD or even forming a bilateral defence alliance—a statement that the Mexican Defence Secretary immediately denied⁷⁰ for domestic political reasons. Any perceived U.S. attempts to subordinate Mexican sovereignty were thus bound to fail when confronted with historical Mexican suspicions and reluctance.⁷¹

Moreover, large military expenditures for *America’s* war on terrorism were a luxury that a developing nation committed to modernization and democratic reform could not afford. “If we are going to dedicate all the effort, the budget, politics and everything just to security [and] terrorism, what we’re

⁶⁸ D’Aquino, “Security and Prosperity.”

⁶⁹ Interview with Sidney Weintraub (April 2003).

⁷⁰ Gen. Ralph E. Eberhart (July 17, 2002), cited in Luis Alegre, “Bajo la sombra militar de EU,” *El Norte* (Monterrey, Mexico: Sep 29, 2002), 7.

⁷¹ Confidential interview.

suffering is on the economic side,” said Fox.⁷² A businessman-turned-politician would not do this. Mexico’s already low military budget was instead devoted to the provision of internal security, social order, and disaster relief⁷³—areas that Fox could justify from the perspective of Mexico’s own national security. In the view of most Mexicans, the war on terrorism was not theirs to fight: America had brought it on itself, and it should foot the bill. [polls] Institutionally, the Mexican military commands were so fragmented that cooperation with the U.S. was unfeasible without dramatic internal changes.⁷⁴

Finally, September 11 hardly changed Mexico’s conception of security from the one laid out in Fox’s address to the OAS on September 7, 2001: “In the new globalized system, national vulnerability does not come primarily from military considerations, given that the hemisphere does not currently face an extra-continental enemy that obligates us to defend ourselves through military alliance.”⁷⁵ On the same occasion, Fox had floated Mexico’s tentative plan to abrogate its commitments under the 1947 Inter-American Defence Treaty (the Rio Treaty), made “obsolete” by the end of the Cold War, and to propose a cooperative alternative to defend the region against natural disasters, poverty, and crime.⁷⁶ September 11 put those plans on hold. There was no place in either Northcom or NORAD for Mexico’s *human security* agenda for Latin America. For as long as that remained the case, Mexico would abstain from any continent-wide defence plans that smacked of U.S. imperialism. It would not even take part in the Rio Treaty.

Hobbled by constitutional prohibitions, by fiercely nationalist anti-Americanism in Congress, and by public concerns about the direction of American policies under the most unilateralist administration in recent history, Mexico had neither the capacity nor the will to contribute to the Americans’ global police work.

III Institutional Dilemmas and Political Realities

Beyond the ambitious listing of *what* items Canada and Mexico should peddle to Uncle Sam, the integrationist manuals diverged greatly on *how* to sell reform to the U.S. In Canada, the C.D. Howe Institute went farthest in advocating the “Big Idea”—a comprehensive inter-governmental strategic bargain that would set up a series of supranational institutions leading towards deeper union. This was in effect the Fox vision of 2000—*minus* Mexico. Canadian Big Idea proponents did not feel that Mexico could, or should, partake in their North American project that was primarily designed to insulate Canada from Washington’s whims.

The various Canadian proposals for redesigning North America’s architecture were more imaginative in positing functions to be filled at the continental level than in specifying the nature of the structures that would be needed to make them work. The scenarios for North American integration remained curiously apolitical since they provided little explanation of how policies would be made or administered. Firmly resisting the bureaucratization and democratization inherent in any EU-styled structure, the corporate vision simply omitted any description of the institutional and legal structures that would be needed to remodel North America.

⁷² Brian Laghi, “Fox warns of economic cost of war,” *Globe and Mail* (Feb. 28, 2003).

⁷³ Craig Deare and Raul Benitez, “U.S.-Mexico Defense Relations at the Beginning of the 21st Century—Conflict, Cooperation and Outlook” (Unpublished paper, n.d.). On the issue of human security, see Raul Benitez, “Security and Governance: The Urgent Need for State Reform,” in Joseph Tulchin and Andrew Selee, eds., *Mexico’s Politics and Society in Transition* (Colorado: Lynne Rinner, 2003), 55-71.

⁷⁴ Deare and Benitez, “U.S.-Mexico Defense Relations.”

⁷⁵ Farid Kahhat, “Hemispheric Security after September 11th,” in “Latin America After September 11” Files, *Social Science Research Council* 2002, available at www.ssrc.org/sept11/essays/kahhat_text_only.htm.

⁷⁶ Mexico hosted the Special Conference on Hemispheric Security in the summer of 2003. See Jorge G. Castaneda, “The Forgotten Relationship,” *Foreign Affairs* (May/June 2002), 80.

The CCCE recognized new institutions would be needed but offered platitudes that obfuscated instead of clarifying:

What is needed...is commitment to a new partnership, the cornerstone of which would be cooperation based on mutual respect for the sovereignty of each country... The institutional framework that would govern the process will require careful consideration. Beyond [the direct involvement of the President and the Prime Minister at the political level], it should be guided by creativity and flexibility.

As for the prototype of institutions that would be needed, the Council offered the first ever shared Canada-U.S. body, the International Joint Commission (IJC).⁷⁷ But the IJC was not just binational; it was supranational and based on Canadian-American parity—characteristics that Washington was unlikely ever to accept for managing a major issues, whether with one neighbour or two.

None of the proposed institutions addressed the question of North America's power asymmetries. No weighted voting formulae were proposed for an institutional framework that could place the weaker partners on a more equal footing with the hegemon in a common regulatory or decision-making system. The integrationists' failure to deal with this fundamental conundrum undermined much of their rationale for a more integrated North America that would finally work for Canada. Where the Canadians rejected off hand the European model—in reality, the sole institutional solution for their integrationist proposals—the Mexicans built their agenda around it. Supranationalism had been the essence of Pastor's and Fox's plan for North America.

The business messages indeed helped to shape a dynamic debate on the direction of Canadian policies; but, in the corporate circles at least, it focused on "NAFTA plus, trade dispute settlements, or some form of deeper economic and political union"⁷⁸ to the neglect of the prevailing political climate. Beyond the basic goal of keeping trade flowing, the business groups' vision remained vague and largely divorced from the realities of power. In Mexico, the government itself seemed oblivious to the limits of the possible. A constellation of political factors in North America—from the United States and Mexico to Canada—combined to thwart their plans.

A. American Politics

North American integrationists took Washington's new security doctrine to mean that a comprehensive trade and security deal might appear attractive to the Bush administration if it would clearly enhance homeland security. But U.S. Ambassador Cellucci bluntly reminded Canadian integration-enthusiasts of Washington's priorities: Canada and the United States should focus on building "smart borders" and not debating a "more formal economic union like Europe." He added, "I'm not saying the debate should not take place. I'm just saying it should take place at a later date."⁷⁹ As long as the Pentagon remained bogged down in Iraq and the Middle East demanded the White House's full attention, a bilateral deal with Canada that required major legislature being passed through Congress remained a political non-starter.

Even outside the Republican, neo-conservative circles, U.S. politicians showed little interest in deepening economic (let alone political) ties with its neighbours. Many Americans believed that the United States had not come out of NAFTA as a winner, and much of the economic slowdown in the U.S. was blamed on free trade with Mexico. Among the Democratic presidential candidates, Dennis Kucinich was only the most extreme in arguing for cancelling NAFTA and closing down the WTO. His rivals were all notably protectionist and critical of NAFTA. Washington's "national security preoccupations and the ever-present domestic political calculations that prevail within America's

⁷⁷ D'Aquino, "Security and Prosperity."

⁷⁸ Perrin Beatty, "Canada's Prosperity: The Business Case for Trade Diversification," *Canada-Europe Roundtable (CERT/FORCCE) Annual General Meeting and CEO Roundtable on "International Trade and Business Competitiveness"* (Montreal, October 29, 2002).

⁷⁹ Angelo Persichilli, "Cellucci says Canada-U.S. relationship 'a role model for the world,'" *The Hill Times* (October 7, 2002): 1.

complex federal system,”⁸⁰ made progress on the integrationists’ project doubly unlikely. It was most significant that, while lobbying for open and secure borders, U.S. business groups stayed silent or were sceptical of deeper integration beyond NAFTA. Be it in the government or in the corporate community, the Big Idea proponents have yet to find allies in the United States.

B. The Mexican Factor

Critical to the success of any plan for Canadian-American integration was the thorny question of whether to include Mexico that had been integrated into NAFTA’s market governance since 1994. If North America were defined to include Mexico, would Washington be more likely to take notice?

There may well be as many citizens in the United States with genetic connections to Canada as there are Mexican Americans, but they are not visible, they do not identify themselves as Canadian, and they do not vote as such within the U.S. political system. By contrast, Mexican Americans who amount to twenty-two out of about thirty-three million Hispanic Americans⁸¹—now greater in number than all black Americans combined—have a voice, vote, and a growing consciousness of their split identity. All this means that Congress is extremely unlikely to accept changes affecting Canada without requiring that the same changes apply to Mexico. Ottawa might decide unilaterally to replace its separate currency with the U.S. dollar, but a Canadian-American monetary union would hardly be worth pitching to Washington without Mexico’s participation. Nothing is more telling in this regard than the statement by the U.S. Chamber of Commerce: “the U.S. Chamber of Commerce believes, as the President does, that we have no more important relationship in the world than with our neighbors in Mexico, and we need to do all we can to perpetuate and strengthen that relationship, through increased trade, secure and efficient borders and a migration framework that meets the needs of both nations.”⁸²

If Mexico was needed to tip the balance in Washington towards a NAFTA-Plus, then the bilateral consultations of the Canadian business groups when generating their proposals did not bode well for their implementation. Most associations effectively ignored their Mexican counterparts whom they saw more as competitors than as allies for gaining Washington’s ear. The CCCE claimed to have conducted studies with its counterparts in the United States, but its assertion to have consulted Mexico⁸³ was no more than rhetorical. The CEO Action Group on Canada-United States Co-operation did not include the southern periphery.⁸⁴ Its proposals had been drafted in its rich members’ boardrooms with little to no Mexican participation. When it did admit that the southern periphery could not be ignored, the Canadian corporate community still preferred a North America à deux vitesses—with Canada taking the lead and Mexico joining in to the extent it was able. Given the political estrangement between the United States and Mexico since the fall of 2001, a “two-speed” North America appeared possible⁸⁵ at a time when Mexico was no longer the best U.S. friend—but only on questions of local, strictly Canada-U.S. relevance.

The Council maintained that “building ever-closer economic and political relations with Mexico must be a strategic priority,” and urged the government to “engage more fully in exploring how the three countries can act together to advance our common goals.” Yet, because “the Mexico-United States

⁸⁰ *Partners in North America*, 15.

⁸¹ Melissa Therrien and Roberto R. Ramirez, “The Hispanic Population in the United States: March 2000,” *Current Population Reports* P20-535 (U.S. Census Bureau, Washington DC).

⁸² Greg Lebedev, “Testimony - Strengthening U.S.-Mexico Relations: The Unfinished Agenda” (A Statement before the Senate Committee on Foreign Relations Subcommittee on Western Hemisphere, Peace Corps, and Narcotics Affairs on April 26, 2002) at *U.S. Chamber of Commerce* (<http://www.uschamber.com/press/testimony/020416lebedev.htm>).

⁸³ D’Aquino, “Security and Prosperity.”

⁸⁴ Thomas d’Aquino, “Canada’s vision for North America,” *Canadian Priorities in the Global Economy* (Canadian Council of Chief Executives, January 15, 2002).

⁸⁵ Confidential interview.

relationship is profoundly different from that of Canada and the United States,” the envisaged long-term blueprint for *trilateral* continental integration was designed for the “attainment of common goals in *different* ways and at *varying* speeds.” That was to become embedded in an all-encompassing proposal that Tom D’Aquino dubbed the “Treaty of North America.” In reality, the CCCE’s call for Canadian leadership was premised on resuscitating the special relationship of the 1960s: Canada should articulate “a vision for closer *North American* security and economic co-operation,” and “then propose to the *United States Administration* the elements of a strategy for a new *Canada-United States* partnership within a common North American vision.” Mexico’s not featuring in this plan surely doomed its prospects.

Notwithstanding the consultations they had undertaken with their Spanish-speaking colleagues, Canadian continentalists were in a state of deep denial about Mexico. Their 2003 proposals essentially rehashed Canadian-American business ideas from the summer of 2001, reducing their chances of endorsement by the government of Vicente Fox. The fundamental problem was conceptual: in Canada, “North America” was a code-word for Can-Am relations which did not extend south of Rio Grande. The ambiguity of “continentalism” itself thus put another obstacle in the way of continental integration.⁸⁶

A greater corporate willingness to include Mexico in the proposed governance structures would not have guaranteed their adoption. For instance, Mexico’s many free trade agreements would have made a customs union and a CET difficult to bargain. The military proposals would likewise be difficult. While domestic reforms were a focal point of Vicente Fox’s administration, they were focussed on social and labour policies. These, in turn, were entirely overlooked in Canadian business proposals. The ideas, big or small, could not be easily translated into ‘Mexican.’

Having transnationalized the concept of homeland security, September 11 had made a reversion to a *pre*-NAFTA bilateralism less, not more feasible.

From a popularly supported new President with a big vision for both Mexico and North America in the summer of 2000, Fox’s standing both at home as well as in Washington was eroded as he fell victim to the trap of high expectations. *Le colgaron muchos milagros*—‘they hung many miracles from him’—editorialized the *Economist* in August 2000, anticipating that Fox would fail to meet his country’s high expectations.⁸⁷ Because of the scope and long-term character of the reforms promised by the new PAN government, some disappointments were inevitable.⁸⁸

Neither president could have fulfilled the other’s expectations on the migration deal even in the absence of 9/11 and the Iraq War.⁸⁹ Pamela Starr indicated that the all-too-predictable delays in reaching the bilateral migration agreement undermined the capacity of his administration to sustain for long its pro-U.S. policy position before a Mexican public opinion “laced with anti-imperialist sentiments, a sense of insecurity relative to the United States, and hence a powerful aversion to anything that creates an appearance of subservience to the United States.”⁹⁰ So strong were his government’s fears of a popular backlash that they compelled him to downplay those areas of the bilateral relationship where deeper cooperation was advancing rapidly—fighting drug trafficking and organized crime and, after 9/11, border security. The loss of seats in the Mexican Congress in the 2003 midterm election was a direct result of the Mexicans’ resentment of his “antinationalist”

⁸⁶ For a discussion, see Stephen Clarkson, “Fearful Asymmetries: The Challenge of Comparing Continental Systems in a Globalizing World,” *Canadian-American Public Policy* No. 35 (September 1998): 9.

⁸⁷ “Survey: Mexico,” *The Economist* (Oct 26, 2000).

⁸⁸ “Survey: Mexico,” *The Economist* (Oct 26, 2000).

⁸⁹ Starr, “U.S.-Mexico Relations.”

⁹⁰ Starr, “U.S.-Mexico Relations.”

foreign policy. The most striking evidence of the developing anti-American trend in Mexican public opinion during 2001 was the reaction to the terrorist attacks, which elicited support for the United States from only fifty per cent of the population. Starr writes, “The other half saw the attacks on the twin towers as something that the United States had brought upon itself, and a significant segment of the populace reveled in the fact that the neighborhood bully had finally gotten its comeuppance.”

Fox’s subsequent decision not to make a decision to 9/11 and instead to allow a very public debate over the appropriate Mexican response to dominate the political scene should be taken as solid evidence of his approach to relations with Uncle Sam. His government’s support on any integrationist scheme will be forthcoming only if it carries demonstrable benefits for Mexico. The country’s volatile and often mistrustful political culture will thus play into Fox’s continental governance projects, while he and his administration should be expected to remain amenable to the deepening of NAFTA. Fox has yet to find, or possibly cultivate, vocal partners for a NAFTA-Plus in his electorate or policy elites.

C. Canada’s Political Realities

Just like Fox, before Washington could be presented with a big strategic deal, the Canadian integrationists also had the Sisyphean task of getting the Liberal government on board. Unthinkable while relations between Chrétien’s PMO and Bush’s White House were antagonistic, a formal commitment to deep integration would be difficult to strike for any Canadian Prime Minister—unless Prime Minister Martin was willing to take a huge political gamble and risk provoking a rebellion in his own party’s ranks and, possibly, a popular backlash. Such a risk might however become acceptable following further terrorist exploits involving, for example, nuclear, biological, or chemical weapons and implicating Canadian security failures. In this respect, September 11 did not change Canada’s opposition to big ideas.⁹¹

Even though opinion polls indicated that Canadians remained well disposed to further continental economic integration,⁹² the corporate agenda would not have fixed the main faults that public interest groups had identified in NAFTA—its democratic deficit and lack of transparency. Nor had longstanding concerns about NAFTA’s effects on environmental degradation, societal inequalities, and restricted employment opportunities been addressed. Canadian and American governments and business alike remained distinctly disinclined to add a “social dimension” to the trade agreement. Change was contemplated only in so far as it solidified firmer economic rules or a deeper union—or added security and defence pillars to Canada-U.S. economic cooperation. Widespread enthusiasm for a NAFTA-Plus was unlikely.

Even if it was true that only a Big Bang could bring Uncle Sam to the negotiating table,⁹³ the Canadian government’s experience with American trade negotiators showed them far less interested in debating grand schemes than in resolving the ‘irritants’ about which Congress was complaining. From the perspective of the U.S. Trade Representative’s Office, if Canada wanted a customs union or a trade court, it would have to pay for it by eliminating U.S. business lobbies’ grievances.

The unasked question was just how high would be the price. Having already surrendered most of its bargaining chips in the FTA/NAFTA negotiations, Canada—as the *demandeur*—would have to accept many *quids* for its quo: abolishing the prairie farmers’ Canada Wheat Board and central Canada’s

⁹¹ Ironically, it was Paul Cellucci himself, shortly after his appointment as ambassador to Canada in the spring of 2001, who had “suggested that the three countries expand their ties in a “NAFTA-plus” arrangement that would include harmonized border controls, immigration, law enforcement, energy, and environmental policies. The goal would be to create a security perimeter that would result in more open borders among the three countries.” John Manley, then Canada’s Minister of Foreign Affairs, said that Ottawa preferred to approach border issues on a bilateral basis by means of administrative changes (in Barry, “Managing Canada-U.S. Relations”).

⁹² Stacey Wilson-Forsberg, *North American Integration: Back to Basics*, Policy Paper, Canadian Foundation for the Americas (Ottawa, August 2002).

⁹³ Confidential interview.

supply management systems; terminating cultural policies favouring Canadian artistic expressions; opening the public health and education sectors to U.S. investment; privatizing public energy and water systems, and guaranteeing the U.S. higher flows; expanding military budgets and integrating the armed services. While some government officials, such as Peter Harder of Industry Canada, expressed interest in the Big Idea, most took a more cautious approach. Big, one-time deals connect too many areas, and Canada learned during the CUFTA negotiations that putting too many unrelated issues on the table can tie its hands.

More tellingly, Canadian business groups were also not united on the question of deeper integration with the United States, which—contrary to the assertion of the C.D. Howe Institute—would have created greater and not lesser dependence on the U.S. market.⁹⁴ The economic slowdown in the United States in the first term of the George W. Bush presidency validated fears in Canada about “the risks associated with the current concentration of Canada’s trade and investment” in the U.S. Speaking for the CME, Perrin Beatty argued: “To simply hitch your caboose to someone else’s train is risky—it can be great when there is a powerful engine pulling you up the mountain, but it provides little protection if things start to go off the rails.” In the view of the Canadian manufacturing community, trade expansion into the European market would “increase our wealth when times are good and...protect ourselves when the American economy starts to slow.”⁹⁵

The CME’s concern about excessive dependence on the global giant was natural for members who faced vastly different operating constraints than businesses in the highly integrated automotive and parts industry. Many were an easy target for U.S. trade remedy laws and other instruments of regulatory harassment. Ultimately vulnerable to the whims of the U.S. Congress—as well as to competition from Mexico—the CME advocated not a customs union but another more typically Canadian idea: “Rules and obligations established on a multilateral level, within the FTAA, or in NAFTA, [that] continue to be Canada’s best safeguard against unilateral actions on the part of the United States that may have a negative impact on Canada.” Even the CCCE’s advocacy of a bilateral customs union was accompanied by its support for multilateralism: as a relatively small economy, Canada had a “vital interest in strengthening the international rule of law and multilateral institutions such as the World Trade Organization.” The Council expressed its commitment to multilateral and regional discussions aimed at continued trade liberalization and to cooperation with other business organizations and governments in developing countries.⁹⁶

The higher the price of the Big Idea to the Americans, the lesser the chance of selling it to the Canadian public—unless it was convinced by the integrationists’ contradictory sovereignty logic which prophesied that integrating Canada into the U.S. system by adopting American policies was the way to “affirm our sovereignty effectively, or we run the risk of losing it.”⁹⁷ According to the CCCE, Canada and the United States faced a historic opportunity “that could be squandered if leaders in both countries fail to grasp the real potential that closer co-operation offers, or allow outdated concerns about sovereignty to cloud their vision.”⁹⁸ Yet business ideas on sovereignty did not coincide with those of the Canadian government or of a public concerned about sustaining a viable Canadian state, because a strategic deal seemed to promise the loss of Canada’s primary jurisdiction over any matters of concern to U.S. security interests.

⁹⁴ Goldfarb, “The Road to a Canada- U.S. Customs Union.”

⁹⁵ According to DFAIT’s analysis, a free trade agreement between Canada and the European Union would lead to a net economic gain for Canada of at least 200 million dollars (cited in Beatty, “Canada’s Prosperity”).

⁹⁶ D’Aquino, “The National and Global Policy Agenda.”

⁹⁷ D’Aquino, “Security and Prosperity.”

⁹⁸ D’Aquino, “Security and Prosperity” (emphasis added).

IV Assessment of a Potential for a Can-Mex Strategy

Towards the Big Idea in Small Instalments

The difficulties inherent in each element of the Big Idea were considerable. Lumping them together and labelling the product a new “community of law” raised more questions than it answered.⁹⁹ As Daniel Schwanen points out, the U.S. wants a secure border with Canada; Canada wants secure trade with the U.S. But this does not necessarily produce the makings of a grand bargain: there is a mismatch between the short-term nature of Washington’s needs and the longer-term nature of the Canadian solutions prescribing more market integration.¹⁰⁰

But just because the Big Idea is politically impractical in the present does not mean that the bulk of its components would not be implemented eventually. The alternative to a mega-deal was gradual change. A second generation of institution building was feasible—“not by offering politically unrealistic suggestions such as moving to a full customs union...but by carefully building on existing NAFTA institutions.”¹⁰¹ Canada was more likely to come out of negotiations having achieved its objective if it operated case-by-case, since it could then focus its resources and so offset the inherent asymmetry in the power relationship. Much would depend on what is being negotiated.

A step-by-step approach that avoided the excesses of linkage found endorsement in Canada anywhere from think-tanks and some business groups to the government. The Conference Board published a counter-argument to Wendy Dobson’s “big idea fallacy” by proposing that Canada proceed to negotiate bit-by-bit.¹⁰² FOCAL presented a similar plan in a series of studies, arguing that because there was no overwhelming common interest to further North American integration beyond trade and investment, nor any well-articulated plans from which all three countries would reap significant political, economic, or social benefits, North American integration should proceed in *increments*.¹⁰³ This incrementalism would take place sectorally in those areas where there was a perceived net national benefit—such as energy, border management, public security, and environmental issues—and which also had both Washington’s attention as well as their direct parallel in Mexico-U.S. relations.

One option for accelerating cross-border movements was to harmonize rules, standards, and regulations that inhibited the free flow of goods, services, and investment. The Conference Board distinguished between maintaining different regulatory regimes for compelling public policy reasons (standards for product labelling, health, and safety concerns) and maintaining them for “other”—presumably protectionist—reasons. The CCCE proposed eliminating regulatory differences in key industries through harmonization or mutual recognition agreements.¹⁰⁴

Seemingly non-contentious and technical, in reality this proposal had vast implications for the smaller partners’ autonomy over their public policy. Any talk of ‘harmonization’ really meant unilateral adjustment of laws and regulations by Canada or Mexico to parallel the hegemon’s standards. Given the preponderance of the United States, even such proponents of trade liberalization as Minister of National Defence John McCallum admitted that “Canada can achieve ‘North American policy harmonization’ only by copying existing U.S. policies, whether we’re talking about taxes, regulations, external tariffs, immigration policy, or social policies.”¹⁰⁵ As an alternative to developing common policies, among many members of the Canadian government mutual

⁹⁹ Alan Gottlieb, “A North American Community of Law,” *The National Post* (March 5, 2003).

¹⁰⁰ Daniel Schwanen, “Let’s Not Cut Corners: Unbundling the Canada-US Relationship.”

¹⁰¹ Herman, “Thoughts on Market Access,” 11.

¹⁰² Barrett and Williams, “Renewing the Relationship.”

¹⁰³ Wilson-Forsberg, *North American Integration*.

¹⁰⁴ D’Aquino, “Security and Prosperity.”

¹⁰⁵ John McCallum, “Adopt the Greenback? Never! Keep the Change, Uncle Sam,” *The Globe and Mail* (May 14, 2001).

recognition of each country's regulations was the preferred alternative.¹⁰⁶ Complete policy harmonization was inconceivable in the short-run, the new federal gun registry being the least of the obstacles to unobstructed flow of goods from the U.S.

Encompassing the transportation, telecommunications, financial services, oil, gas and electricity sectors, harmonization for Canada would mean completely aligning the Canadian transportation grid with that of the U.S.; dismantling Bell's market power; abandoning the Canadian banks; recognizing American drug testing standards; and, integrating the provincial governments' electricity grids. It would also necessitate adopting U.S. anti-trust laws to complement or supplant the Canadian competition regime. Ultimately, it could require opening up a number of public sectors—such as healthcare and education—to piecemeal privatization and competition from American companies. The changes in Canada, however, would pale in comparison with the complete redrawing of the Mexican system necessary for a harmonization to U.S. standards, which would involve a still greater relinquishing of state power to the market than has already occurred.

Practically speaking, then, incrementalism could drive a variable-speed North America in the short-run by keeping issues below the radar screen and keeping Mexico away from the Canadian negotiating table. An incrementalist approach to managing the forces of integration seemed more likely to prevail in the post-Chrétien era as Canadian government, vulnerable businesses, and its anxious public continued to engage with a crusading hegemon wanting to trump trade with security. But Mexico's exclusion would prove an obstacle to further deepening, at least in the long-run.

We can only speculate precisely what content and form further integration will take, but the corporate proposals made one thing clear: the Canadian private sector did not understand the institutional and political logic of interdependence. Deep asymmetries of power and dependence in the Canada-U.S. relationship notwithstanding, even the Bush White House could not ignore the large American national interest in keeping the borders open. The American Data Management Improvement Act Task Force on security issues on the northern border "firmly believes that there are two security elements...First, the public must be protected from terrorist acts and injuries. Second, the economic security of the U.S. *and its trading partners* must be preserved. The latter depends on the efficient and facilitated movement of individuals and legal trade activity."¹⁰⁷ On the one hand, the panic-infused business proposals underestimated Canada's bargaining leverage, which would make most of the urgency in big and small ideas unnecessary. On the other hand, in a "leap of logic," Canadian businesses and think-tanks overestimated the attractiveness to the U.S. of any strategic deals with Canada, which makes most of their proposals unrealistic.

Towards a Common Position

Whether attempted incrementally or in one fell swoop, NAFTA Plus remains an idea limited to a small segment of North America's elites. Ignoring the U.S. position on the matter and just taking Canada's and Mexico's into account, we notice a complete absence of government-to-government or business-to-business cooperation and consultation on proposal development. There has been a noticeable mismatch between the two peripheries in the players, the proposed content, as well as the timeliness and the external pressures under which they operated.

In the north, the Canadian business proposals for anything beyond the immediate issues of border security were not endorsed by the Canadian government. As Canada's integration-friendly trade minister noticed, "Now many in the business community have been calling for a strategic or a grand bargain with the U.S. Others have called for a common market or a customs union. While there is

¹⁰⁶ Pierre Pettigrew has advocated a move to mutual recognition in his October 16 Address to the Canadian-American Business Council ("The Canada We Want in the North America We are Building," 2002).

¹⁰⁷ It went on to recommend strongly that Canada be included as a full partner in securing the common border.

always room for a healthy debate, and I encourage it, I do not think there is currently an appetite for such a grand scheme” (Pettigrew 2002).¹⁰⁸

Ironically, the Canadian business community’s ambitious vision of a NAFTA Plus echoes in many ways the Fox Vision 20/20, making the Mexican government their best ally in the pro-integration movement. There is, of course, one minor problem: Canadian corporate circles would rather not have to deal with Mexico. But for as long as the Canadian elites remain committed not to deepening NAFTA but to narrowing it back to a Can-Am relationship, their proposals will continue to go unheeded by Washington.

Convincing Canadians that, in addition to sharing the continent with Mexico, they also share an interest in humanizing and legalizing continental integration is a fundamental obstacle to be overcome before there is any hope of negotiating a trilateral NAFTA Plus. The question then, as Robert Wolfe asks, is “when might it suit Canadians to include Mexico in “North America?”¹⁰⁹ He argues that the problem is that Canada is not integrated with Mexico on any measure of movement of goods, services, people or ideas, nor is this reality likely to change soon. From Ottawa’s perspective, “trilateral institutions (as opposed to working with Mexico in bilateral and multilateral forums) would only complicate our relations with the United States, especially on border and immigration issues...Canada wanted to avoid hub-and-spoke regional trade deals, and on the occasions when the US Congress sees an issue involving Mexico and Canada in similar ways, the two countries can pool their markets and negotiating assets...But opportunities for true trilateral institutions will be rare.”¹¹⁰ But Ottawa’s rejecting trilateralism in effect endorsed being a spoke—however special.

For as long as NAFTA Plus cannot continue to proceed by stealth, driven by market integration alone, and requires the support of the federal governments, there will be no deepening on a grand scale in North America. Given the present lack of—as well as dim prospects for a future—joint Canada-Mexico position, we can infer from the various proposals that it will take a change of climate in each country for the next big step toward deeper integration occur. In the meantime,

- Canada and Mexico have no overlapping position on either security or defence. Washington’s own national security interests means that Canada will continue its trajectory toward silent integration with the U.S. in military matters (through Northcom, NATO, and now the NMD), while Mexico’s history will continue to sideline it.
- The two peripheries might develop a common strategy toward increasing labour mobility among the three NAFTA partners—short of an integrated labour market. But progress in this direction would also require the negotiation of a complete migration deal with Washington. It is unlikely that Canada would want to have its own labour mobility agenda, if ever articulated, hindered by the pace of U.S.-Mexico talks.
- There is no interest on the government level in Canada in either a CET nor a customs union or a common market. Perhaps Ottawa could be persuaded to join if Mexico once again succeeding in capturing the U.S. agenda, but this is not a likely prospect in the near future.
- Energy cooperation is one fertile area for cooperation given the similar nature of the two peripheries’ power over the U.S. energy supply. An integrated energy market is a U.S. priority, and as Washington continues to push its neighbours in this direction, there would be much good sense in developing a joint approach. The Mexican constitution still stands in the way of this goal, but it could be altered—just as it was for the conclusion of NAFTA—if Mexico is

¹⁰⁸ Wolfe, “See you in Washington?”

¹⁰⁹ Wolfe also argues that Canadians, who “have never been keen on policy-led integration with the United States,” have nonetheless been “enthusiastic participants in market-driven integration” (Wolfe, “See you in Washington?”).

¹¹⁰ Wolfe, “See you in Washington?”

given enough incentive elsewhere. In Canada it might find a willing ally to help maintain a semblance of sovereignty before the hegemonification of the continent.

- A North American trade court offers another possibility for Canada-Mexico cooperation.

Political realities in both countries make it obvious that Canada and Mexico could make a joint presentation to Washington only on an issue-by-issue, i.e. incremental, basis. This potential too, however, will be lost if the peripheries' foreign policies elsewhere continue to diverge. Their recent cooperation in the UN Security Council during the Iraq debate made Canada-Mexico interaction seem more viable as well as promising in other spheres, such as continental integration. But that show of independence and solidarity with Canada may turn out to have been a blip on Fox's part.

His decision to appoint Luis Ernesto Derbez as Foreign Minister after Castañeda's departure in January 2003 and Adolfo Aguilar Zinser's resignation as UN ambassador arguably laid the groundwork for a significant change in the tone and content of Mexican foreign policy.¹¹¹ On the one hand, since Mexico's reinvigorated multilateralism, coupled once again with strategic errors, is said to have "torpedoed the bilateral relationship and with it what remained of Fox's North American strategy,"¹¹² we can only speculate at this stage that the new appointees will eschew the global spotlight at the UN and elsewhere. Moreover, Derbez's economic background forebodes a technocratic, legalistic, functionalist approach to the management of the U.S. relationship which could support further institutional development to rectify NAFTA's inadequacies that were dramatically revealed in the aftermath of September 11. In this sense, a more determined continentalist outlook and a desire to mend fences with Washington might make Mexico more amenable to North American integration—U.S.-style—from which Canada would not be immune.

V Conclusions

Regardless of how they were pitched, all of the integrationist policy proposals agreed on one point: the *status quo* was not tolerable. The Canadian-American relationship, NAFTA, and broader continental relations were in need of mending, revising, and redefining. In this context, September 11 had presented both a challenge and an opportunity for Canada to set clear goals for the future direction of its most important foreign relationship. But these had to be developed within the tough, U.S.-defined terror and security paradigm focusing on the two borders.

Ever since they subscribed to Canada-U.S. free trade, Canadian business groups have been staunch believers in economic determinism, making silent integration a self-fulfilling prophecy. At their most basic level, the integrationists shared a sense of manifest North American destiny—taking for granted that long-run integration was not just positive but inevitable. In FOCAL's words, it "is important to now focus on specifics over generalities and begin to gather the building blocks of integration."¹¹³ Seeing a positive sum game (a win-win situation) between sovereignty and security, integrationists believed Canadian political independence would not be compromised by further integration with the United States, because deepening NAFTA would protect Canada against U.S. unilateralism. If sovereignty merely meant having a seat at the United Nations and a distinctive flag, the Big Idea would not be problematic. If it meant policy-making autonomy, then the 'Big Idea' nonetheless implied complete subordination and a virtual annexation of North America's kindler, gentler alternative. This process seems poised to continue under the aegis of governments in Ottawa and Mexico City which, despite their shift to a more pro-American and continentalist direction, will implement it incrementally—and separately—as spokes fixed securely to the American hub and connected to each other only by the flimsiest of rims.

¹¹¹ Starr, "U.S.-Mexico Relations."

¹¹² Starr, "U.S.-Mexico Relations."

¹¹³ Wilson-Forsberg, *North American Integration*.

