

Prepared Remarks

NAFTA and the North American Future

Robert B. Zoellick, Peterson Institute for International Economics

Prepared remarks delivered at the Baylor University conference “NAFTA in the Context of a Changing Global Economy”
October 15, 2013

I appreciate the invitation to be with you this evening.

The 20th anniversary of NAFTA (North American Free Trade Agreement) offers an excellent opportunity to reflect on the accomplishments—and shortfalls—of this landmark accord, and also to press for the potential we have yet to reach. I’d like especially to compliment Professor Joseph McKinney and Baylor University for organizing this conference to discuss “NAFTA in the Context of a Changing Global Economy.” I’ve been urging the same approach: to think about the future of North America in a global context.

Not surprisingly, most of the suggestions about North America are made by regional specialists—and especially by experts in Mexican-American relations. Their knowledge and ideas are invaluable. Yet I’d like to propose another perspective.

My vision is of a strong and unique continent—comprised of two developed countries and a rising developing country—in a rapidly changing world economy.

Consider the global weight of three democracies; of almost 500 million people; with energy-sufficiency and even exports; an integrated infrastructure system; complementary manufacturing and service industries; a shared effort to develop human capital—through educational innovation, linked to workforce skills, and pro-growth immigration policies; and a common outlook on our fundamental security and foreign policy interests. That North America would be well-positioned to contend with 1.3 billion Chinese—and other lands and peoples around the world.

Before suggesting particulars, I’d like to step back a bit—to reflect on how the story of NAFTA relates to this vision.

As a person who enjoys reading history, I appreciate how the chronicles of Canada, Mexico, and the United States—especially in the 19th century—left legacies of suspicions, wariness, conflict, and even war to overcome. “Poor Mexico,” Porfirio Díaz allegedly said, “so far from God and so close to the United States.”

This year is part of the 200th anniversary of what the United States calls the War of 1812, and even our Second War of Independence according to some historians. Canadians see it differently. Both York in Canada and Washington D.C. got burned in the process. Yet there are many tales

of cooperation—and common experience—across the years as well, especially by societies and peoples that crossed borders, intermingled, and grew to respect one another even if they were wary of the other.

So in 1987, when working for Secretary James Baker at the US Treasury, I was worried that the United States and Canada were about to miss an opportunity to shift the course of history because our free trade agreement (FTA) negotiation was faltering.

Secretary of State George Shultz, a strong advocate of North American cooperation, and White House Chief of Staff Howard Baker urged Secretary James Baker to visit Prime Minister Brian Mulroney in Ottawa to see what could be done. Baker took me along. Secretary Baker, as chair of the president's Economic Policy Council, was involved with trade issues—but was certainly not at the heart of the negotiations. And he had a lot on his own policy plate.

I recall asking the late Richard Darman, a close partner of Baker's in the Reagan White House and Treasury, whether I should urge Secretary Baker to get directly involved with US Trade Representative Clayton Yeutter to close the deal. The US-Canada FTA, Darman replied, was the type of strategic opportunity that would capture Bismarck's interest if he were alive today. That certainly captured my attention!

The Reagan administration managed to complete the Canada FTA and then Congress passed it with overwhelming support in the summer of 1988, an election year. The Mulroney government successfully fought its 1988 reelection campaign on the FTA. Fortunately, the opposition Liberal Party became supporters of the FTA in the 1990s.

That FTA certainly deepened US-Canadian economic ties. I think it also helped make the Canadian economy—which had to adapt to US competition—a more significant global competitor, too.

When Secretary Baker moved to the State Department after the 1988 election, there was talk of deeper economic ties with Mexico. Baker knew the Mexican leadership and economic issues well from his work at Treasury on the Latin debt crisis. At the State Department, we used the Bi-National Commission—which brought together cabinet ministries from both countries—to work on common problems and treat Mexico as a priority relationship. But we knew—given history and sensitivities—that any initiative for a US-Mexico FTA would have to come from Mexico City.

The end of the Cold War—and the reunification of a Europe “whole and free,” in President George H.W. Bush's words—stirred excitement about economic opportunities in Central and Eastern Europe. President Carlos Salinas, recognizing the risk to his economic reform plans, took the bold step of proposing an FTA with the United States to regain the initiative.

The US Trade Representative's office was initially cool to the idea, reflecting USTR's focus on the Uruguay Round of GATT (General Agreement on Tariffs and Trade) and skepticism about FTAs.

Bismarck had once said that a sign of the statesman is one who recognizes fate as she rushes past and grabs on to the hem of her cloak. We had been alert to the moment in Europe in 1989, but were at risk of ignoring this second chance to grasp fate's opportunity in 1990. Fortunately, the Bush 41 administration had a president, secretary of state, and secretary of commerce from Texas.

Once President Bush decided to go forward, USTR Carla Hills and her team did an excellent job, as did her Mexican counterpart, Jaime Serra, and the Mexican negotiators. I was asked to maintain a "back channel" to Pepe Córdoba, President Salinas' powerful minister of the presidency, and an excellent counterpart. Our cooperation enabled me to work closely with the late Jules Katz and others at USTR to assist.

There were also some tense moments about whether Canada would take part—making this deal an integrated North American venture. Somewhere in the Kremlin or KGB archives there is a recording of a tough phone call I took in Moscow from Derek Burney, then Canada's ambassador to the United States and formerly Prime Minister Mulroney's chief of staff. Derek was a key player in the completion of the US-Canada FTA, a friend, and no shrinking violet of diplomacy. As Derek pounded me about the need to include Canada, I had to remind him that we were on an open line—but Derek didn't seem to mind letting the Russians learn about trade policy. Of course, as it turned out, Derek was right: Canada's involvement was both useful and strategic.

For me, NAFTA was always about much more than a trade agreement, as important as that could be. I viewed NAFTA as an opportunity to achieve an historic reconciliation with our continental neighbor and prepare the way for an important future partnership.

There were also questions about Mexico's future in those days. The old corporatist state run by the governing PRI (Institutional Revolutionary Party) seemed to be breaking apart. I wondered where the constituent parts under the PRI umbrella—unions, universities, political groups, the military, state officials, courts, police forces, oligopolies and other businesses, the media—would end up. Could their new models be within a more open Mexican civil society, perhaps even a competitive democracy?

I thought NAFTA—and the accompanying trade, investment, business, private sector, and civil society ties—could offer a supportive framework for this Mexican transformation. Indeed, the new Mexican partnership with the United States and Canada certainly contributed to the momentous effort by the Clinton administration to assist Mexico after the Peso Crisis of 1994. NAFTA also helped Mexico to recover more rapidly.

Over the course of the past 20 years, Mexico's democratization and modernization—and its growing partnerships with the United States and Canada—have demonstrated the benefits of the NAFTA strategy.

Yet there have been disappointments, too. The difficulties Mexico has had in making structural economic reforms—to boost productivity, competitiveness, adjustment, and attractiveness for investment—have limited Mexico's ability to seize all the potential from NAFTA. Mexico has

also struggled with violence and vicious narcotics networks, whose prime source of demand is in the United States. US inattention—and missteps—have hurt, as well.

Of course the wider world has changed a great deal over 20 years, too. I believe the three North American countries should now determine their common goals for the continent in the new global context. Where they can agree, the United States, Mexico, and Canada should “map backwards” to determine the actions they need to take to achieve their goals, even if they will take years to reach.

Let me briefly highlight eight possible topics for a new North American agenda.

First, energy: the innovation in the United States and Canada, combined with legal and policy changes in Mexico, offers a huge opportunity. In 2008, the United States imported 70 percent of its oil. Since that time, US oil production has increased by over 40 percent—an amount equivalent to Nigeria’s total output.

The experts at PFC Energy estimate that if one considers all sources of US energy—and treats Canadian imports as part of an American market—US net energy imports from the rest of the world will fall to 5 percent by 2020. Energy reforms in Mexico would make this picture even brighter. Mexico needs the technologies and investment to revive this critical sector.

In addition to strengthening the North American current account, lower energy costs—especially from shale gas—will boost other industries through lower electricity costs; inputs to manufacturing such as chemicals, plastics, and paint; inputs to agriculture; and investment in production and infrastructure. Mexico is already benefiting from US natural gas exports, and the demand is supporting the price for US developers.

To fulfill their energy potential, the three governments need to work together on a policy and infrastructure—such as pipelines and electricity grids. We can also innovate together on alternative sources. The US delay in approving the Keystone Pipeline is an embarrassment that will push Canadian energy outside North America, not improve the environment. The United States and Canada should of course respect Mexico’s political sensitivities about energy, but our countries and companies can help show the potential benefits to Mexicans of taking a new approach.

Second, the three countries—and especially the United States and Mexico—need to upgrade their border infrastructure to match deeper integration.

The average age of US ports of entry is 40 years, with many closer to 70 years. Few new crossings have been opened. Maintenance on existing crossings has been deferred, at times to a dangerous degree. Companies, workers, and border cities lose tens of billions of dollars because of transit delays that routinely last hours.

The rest of the world is exploring how the use of IT (information technology), combined with smart infrastructure, can facilitate trade. US businesses are leaders in this effort. The three governments should organize a private sector effort on what’s needed, what’s used elsewhere,

and what can be done to upgrade border crossings, ports, and airports consistent with security objectives.

Third, North Americans should deepen their cooperation on trade globally and with other regions.

When I returned to the US government as US trade representative in 2001, my Mexican and Canadian counterparts were my best allies. Although we each had political sensitivities to manage, we shared a common outlook and tried to help one another. Where possible, I tried to assist them with other countries. With a more integrated North American economy, the mutual interests should grow.

It is good that Mexico and Canada are part of the TPP negotiations. Perhaps the three countries can also modernize some NAFTA provisions as part of the larger deal. But we should reach further: Why not explore a North American approach to the Transatlantic Trade and Investment Partnership? I understand that adding two nations might add to the complexity of the negotiations in the short-run, but their inclusion could serve a longer term goal of deeper integration.

I was encouraged to see the creation of the Pacific Alliance by Mexico, Colombia, Peru, and Chile—all FTA partners of the United States. Over time, the Pacific Alliance, the United States, Canada, and other FTA partners in the region should consider interconnecting our FTAs—and development efforts—while offering opportunities for other nations in the Western Hemisphere to join us.

Looking beyond trade, when I was president of the World Bank Group I was struck by the commonality of economic outlooks with Mexico and Canada in the G-20 and other global fora. The heads of the Canadian and Mexican Central Banks have been world class. Canada's premier Central Banker, Mark Carney, was recruited by the United Kingdom, and Agustín Carstens of Mexico would have made an excellent leader of the IMF (International Monetary Fund). North Americans should consider coordinating approaches—and perhaps launching initiatives—in the G-20, IMF, World Bank, and IDB (Inter-American Development Bank).

Fourth, security. Canada and the United States are already close security and NATO partners. But neither country should take their alliance for granted. As new issues arise, such as Arctic navigation and cyber-security, we should seek a common approach.

The Merida Initiative of 2008 between Mexico and the United States is a good first step to deal with organized crime, narcotics, and youth gangs—and to build support for the rule of law and a modernized border. But the threats remain considerable. The United States has spent a trillion dollars on security in Afghanistan and Iraq; doesn't our neighbor warrant priority attention, too?

Fifth, governmental capacity. As Mexico democratized, it also decentralized authority to the states. I have seen this process at work in other large democratizing countries around the world. Unfortunately, the governmental capacity at the state level—and the capability to deal with related issues such as corruption—usually does not match the federal standards.

The United States and Canada need to discuss with Mexico how best to help, taking into account political sensitivities. There may be creative alternatives. For example, the World Bank has been shifting more activity to states and provinces in large emerging markets, because the Bank can share know-how and comparative global experience with states and major cities. State-to-state or provincial linkages could be strengthened, perhaps with federal support. Foundations and universities can contribute, too.

Sixth, the future of all three countries depends on their human capital. The Program for International Student Assessment, or PISA, test scores rank Mexico at the bottom of OECD countries in reading, science, and math. The United States struggles to stay in the middle. Only Canada makes it into the top five in each category.

Mexico has taken on the teachers' union to improve students' prospects. The United States is debating standards, competition, choice, and accountability, as well as how to help teachers.

I suspect that the technological changes that have revolutionized business models are just starting to shake up traditional educational and skills-training providers.

Some major public universities—such as Arizona State—are boosting expectations for how schools can contribute to the broader population, across diverse ages and communities.

On the private for-profit side, Laureate Education now sponsors over 70 universities in 30 countries, with excellent results for student satisfaction, quality, jobs, and future earnings opportunities. Former President Bill Clinton is the honorary chancellor of this worldwide university system. Mexico is home to two of Laureate's universities, UVM and UNITEC, with over 150,000 students.

North America could be a leader in this transformation of the school-to-skills-to-workforce transition. Immigration politics should also encourage North America to draw top talent and better match workforce needs across all 3 countries.

Seventh, as North Americans we share the air, water, and biology of our region, including migratory species.

Mexico's leaders—and its growing middle class—have been emphasizing climate and environmental topics, creating more opportunities for working together. As the spread of influenza in 2009 demonstrates, the very health of people across North America is dependent on cooperation.

Finally, there should be increasing opportunities for the three countries to pursue diplomatic alignments.

We have already witnessed a huge shift from the pre-NAFTA era, when Mexican foreign policy seemed characterized as US policy with a minus sign in front. I've already touched on cooperation in foreign economic policy—topics such as trade, development, and monetary

affairs. There is a critical need to work together to assist Central America, where fragile governments with minimal capacity are struggling to cope with organized crime, violence, youth gangs, narcotics, and divided societies.

The United States negotiated CAFTA to encourage Central American integration, development, and cooperation. It is a starting point. I saw at the World Bank that fragile states need reinforcing support for security, governance, and development. Our governments have not been very effective in combining these disciplines and bureaucracies. But there are lessons to be learned, including from the Colombian experience.

Mexico used to treat Central America like the United States treated Mexico—but that attitude is changing. Latin American cooperation—involving Mexico, Colombia, and Panama—with the United States and Canada—could accomplish much more in Central America than we could individually.

Over time, I also hope that Latin democracies—and their civil society groups—recognize that they also have a stake in democratic development in our hemisphere and beyond. The Calvo doctrine—and the reluctance to challenge thuggish regimes—may take time to change. But there are already signs that younger generations—and more vibrant civil societies—will draw Latin and North American attitudes more closely together. Mexico, with a foot in both worlds, could be a pace setter.

I hope my suggestions have offered this conference some starting points. I look forward to learning more about the ideas that all of you develop. Yet as we continue this discussion, and dig into the details, I urge you to keep in mind where I began this evening: With a vision of what North America could be in the world.

Most developed economies are struggling to adapt to debt burdens, expensive social welfare systems, demographics, competition, and innovation on the technological frontier. The United States and Canada are better positioned than most to meet these challenges. Many developing countries, in turn, are debating how to avoid the so-called middle income trap—how to boost productivity and foster inclusive growth so as to reach high income levels.

Mexico's progress and its impressive reform agenda, along with the continuing opportunities NAFTA offers, positions Mexico better than most to meet those challenges. All three countries are more likely to succeed if we deepen North American integration and cooperation, and forge a new North American compact: That North America would have even greater influence in the world—not only this year or next, but for the 21st century.