

The Prospects for a Re-Energized NAFTA

The economies of the United States, Canada, and Mexico have become more open and increasingly intertwined over time. Economists close to the policy formation process contend that NAFTA strengthened the unification of the continental agricultural economy (Gardner, 2000). But barriers remain and there is much that policymakers could do in the three national economies to induce additional integration.

The payoffs of greater integration in North American agriculture are substantial. More integrated markets would better rationalize production, enhance economic efficiency, promote growth, and raise consumer income throughout the continent. It would also increase intra-NAFTA trade and cross-border investment, benefiting citizens in the United States, Canada, and Mexico. Using the *Economist Intelligence Unit* data on price dispersion, Hufbauer et al. estimate that Canadian per capita income would increase by about 3 percent, while Mexican per capita income would increase by about 7 percent, should these two countries become as integrated with the United States as the individual States of the United States are integrated among themselves.

The "good news is that NAFTA is performing at the upper end of pre-agreement expectations," (Hufbauer). Intra-member trade and investment have truly been impressive. Moreover, there is little evidence of the infamous "giant sucking sound," the figure-of-speech Ross Perot used to express concern about the loss of U.S. jobs to low-wage-paying Mexico in the public debates prior to passage of the NAFTA legislation.¹⁷ But despite this good news, "NAFTA is much closer to the starting post than to the finish line (Ibid)." Much more remains to be done to deepen market integration within North America.

Pursuit of complete market integration in North America takes time. The many fits and starts that led to the formation of the European Union (EU) demonstrate the longrun nature of the integration process. The European Common Market, launched in the late 1950s, ran out of fuel in the 1980s. There was much

¹⁷ Missing from Perot's argument was recognition that many high-wage jobs in the United States can be maintained because American workers are much more productive than their Mexican counterparts. NAFTA has a vital role to play even when American jobs are lost from firms that cannot compete with Mexican rivals by keeping down costs in the rest of the American economy. Only by redirecting capital into firms that can compete, will the United States be able to fully benefit from its comparative advantages.

talk of "Euro-sclerosis," as the European economies stagnated. Concerned Europeans recognized that numerous barriers were inhibiting EU competitiveness, dragging down growth, and raising unemployment. The collective response was Europe-1992, a broad-based initiative that eliminated many barriers inhibiting integration.

The recent birth of the euro (the EU common currency) is a significant achievement likely to have far-reaching implications for European market unification. The development of institutional mechanisms that support financial integration between and/or among the United States, Canada, and Mexico—including, perhaps, the formation of a monetary union—are possibilities down the road. The adoption of a single currency in North America would clearly have positive impacts on integration in the real-goods and factor-inputs sectors.

Though not as advanced as the EU, much progress has already been achieved towards the creation of a single North American market. NAFTA eliminated many tariffs by 2003; most others are scheduled for removal by 2008. Also, many nontariff trade barriers have been converted to more transparent tariffs and tariff-rate quotas. Yet, high levels of protection still exist, for example, in such large and important sectors as dairy, sugar, and poultry. Additional reforms are needed—including greater market-access provisions; further reduction in export subsidies; more discipline in the area of trade-distorting domestic farm policies; harmonization of sanitary and phytosanitary standards; establishment of labeling equivalencies; and the elimination of "rules of origin" and anti-dumping provisions that divert trade from more efficient, non-NAFTA suppliers.

Political considerations and institutional differences lie at the root of many of these obstacles. Witness the difficulties with U.S.-Mexican sugar trade, disputes over U.S. wheat imports from Canada and Canadian corn imports from the United States, the U.S.-Mexican stalemate over trucking, and the long-running U.S.-Canadian dispute over lumber, now entering its second decade.

As Hufbauer puts it, "barriers typically grow in thickets and the thickets can quickly regenerate. The launch of NAFTA was like cutting an overgrown lawn. NAFTA provided a vision, and started by cutting tariffs and other border barriers. Now we are in an era of fighting crabgrass. In some ways it's easier to cut an overgrown lawn than to fight the crabgrass. To realize the payoff

from economic integration, the NAFTA partners must do more than uproot protective weeds, one by one. We need to energize NAFTA with bold thinking."

The most essential element of the bold thinking would be a reinvigorated public vision. Other critical elements would include the convergence of domestic agricultural programs, greater cooperation in establishing and enforcing common product standards, elimination of unnecessary regulations, the streamlining of customs procedures, expansion of NAFTA work visas, and the development of policies that compensate displaced workers and facilitate needed labor adjustments.

A more integrated North American agriculture requires not only harmonization of farms and trade policies in the United States, Canada, and Mexico, but also convergence of policies affecting national markets upon which agriculture is dependent, such as local transportation and domestic services. Moreover, a com-

pletely integrated continental agricultural market would require compatible, if not completely harmonized, cross-border macroeconomic regimes, consisting of uniform tax, monetary, and fiscal policies. The creation of supra-national institutions capable of mitigating divisive disputes within partner countries are needed to advance the cause of continental market integration. A single North American agricultural market can eventually emerge, if the dynamic forces underlying domestic demand, supply, and trade are allowed to operate in the three countries.

A re-energized NAFTA could play a critical and vital role in increasing market efficiency in North America. Regional trade agreements are better able to dismantle "behind-the-border" institutional barriers that inhibit integration than multilateral agreements. Collective and coordinated action is needed to address market failures on the continent and to press institutional reform forward.