



**THE MONTEBELLO SUMMIT
AND THE FUTURE OF NORTH AMERICA**

MONDAY, AUGUST 13, 2007

**WALTER AND BETSY STERN CONFERENCE CENTER
HUDSON INSTITUTE
WASHINGTON, D.C.**

*Transcript by:
Federal News Service
Washington, D.C.*

**Panel 1: Negotiating North America: The Security
and Prosperity Partnership**

**Ken Weinstein
Greg Anderson
Christopher Sands**

KEN WEINSTEIN: Well, good morning. I'm Ken Weinstein, CEO of Hudson Institute. And on behalf of Hudson Institute, I want to welcome everyone for today's discussion on the future of North America. I also want to extend a special welcome to the C-SPAN viewing audience watching us today.

I'm pleased to see that we got such a large crowd for a Monday morning in August. It shows just how critically important the U.S.-Mexican-Canadian trilateral relationship is. Now, Canadian Prime Minister Stephen Harper will host President Bush and Mexican President Felipe Calderon on August 20th and 21st in Montebello, Quebec. And this is going to be the third in the series of annual North American leader summits that began in 2005 in Waco, Texas, and continued in 2006 in Cancun.

And at these annual summits, the three leaders receive updates on the security and prosperity partnership, which is an ongoing series of technical negotiations among officials in the three national governments. The United States' relationship with our neighbors in Canada and Mexico is of critical importance to many of the challenges that we as a nation face in the 21st century. And too often, as those of us here know, these countries get overlooked in discussions of American foreign policy.

Hudson Institute placed close attention on these relationships and to the negotiations that will affect the future of our region. The institute has had a longstanding research interest in Canada. And in fact, for many years, we had an office in Montreal and a Canadian affiliate, Hudson of Canada, headed by our executive committee member and senior fellow, Marie-Josée Kravis

And for this reason among others, Hudson is pleased to have Christopher Sands on board. Chris joined Hudson as a senior fellow earlier this year, devoting his attention to North American studies. Chris is widely respected both here in Washington and in Ottawa as arguably the leading Canada expert in Washington. Chris works very closely with Ambassador Jaime Daresblum, our director of Latin America studies, another figure widely respected both here in Washington and in the region he studies. And they've worked together on today's conference.

We're especially pleased to have the support of the William H. Donner Foundation and of the Donner Canadian Foundation to underwrite Chris' work on North America and on Canada in particular. And Chris is joined on the first panel this morning this morning by Greg Anderson, an American teaching at the University of Alberta in Edmonton. I understand that Chris and Greg met in graduate school at Johns Hopkins

University, SAIS. And I am pleased to note that they are still collaborating professionally.

I should note on a personal note that Chris and I actually met during the long night at the 2000 elections when we were doing commentary – Chris for the CBC, me for Radio Canada at the CBC/Radio Canada studios not too far from here as well.

Well, the latest product of Greg Anderson and Chris Sands' collaboration is the new Hudson Institute White Paper, "Negotiating North America: the Security and Prosperity Partnership," which they will talk about today. Copies of this paper, along with speaker biographies are available at your seats here. And C-SPAN viewers can find the paper on the Hudson Institute website www.hudson.org, again, www.hudson.org.

So without further ado, it's my pleasure to turn the program over to the panel and to you, Chris, to briefly introduce the paper. Thank you.

CHRISTOPHER SANDS: Thank you very much, Ken, and good morning to everybody. There is probably no more important negotiation going on right now among the North American countries than the Security and Prosperity Partnership. But so few of us actually know what's going on with these talks. They are not very visible. And we felt that the Montebello Summit being hosted by the Canadians next week provided us with an important opportunity to take the temperature of these negotiations to remind all of us of what the negotiations contain, and to look at how well these talks are actually working, how successfully they address the topics they're supposed to address, and how well they work from the perspective of American foreign policy.

"Negotiating North America," this is the paper, for those of you who have not seen it. "Negotiating North America" is really the first purpose. Can we negotiate about North American issues, North American regional issues successfully in a model that follows this particular pattern? I'm going to turn it over to Greg to talk about where this all came from; not out of thin air, but actually out of a little bit of history.

GREG ANDERSON: Thanks, Chris. Yeah, next slide. My job is for a couple of minutes to try to give you a sense for how we got to Waco, Texas, the Waco, Texas summit in March of 2005 where the Security and Prosperity Partnership was actually launched. And as the slide sort of suggests, the title, "Leftovers and Orphans," that's perhaps one of the better ways to actually look at the Security and Prosperity Partnership, because if you look at the details of it, some of it will ring familiar to those that are familiar with either the NAFTA process and economic integration, and certainly after September 11th, many of the bilateral and trilateral initiatives to facilitate cooperation along both the borders.

And so, with the NAFTA, the NAFTA is a mature agreement, concluded, implemented starting in 1994; largely completely implemented now. It's mature – 29 working groups; if you look through the pages of the NAFTA, working groups created all over the place. Some of them completed their work; some of them continue to do good

work. For example, the rules of origin process still continues to this day. Others sort of fell by the wayside.

And then, we also cite the U.S. immigration legislation from 1996 in which are the entry/exit provisions that we are all familiar with now, and the U.S. visit program. Those originated in 1996. And in many ways, focus Canadian minds on well, what are we going to do; how can we facilitate cooperation along the U.S.-Canada border? And so there were a number of dialogues and forums that were stimulated throughout the 1990s, including what eventually led to the U.S.-Canada Smart Border Action Plan. This was, again, it originated in the mid-1990s, kind of sat on the shelf. And September 11th changed all of that, in a sense, brought all of these sort of extant processes together and provided the kind of impetus to link or marry security and prosperity in the North American context. And so, you have, hence, the SPP with two agenda – security and prosperity, largely made up of this mixture of sort of leftovers, orphans, things that didn't have enough momentum on their own to see them to fruition, but under the Security and Prosperity Partnership, perhaps could be brought as a group forward and have some traction.

So next slide – you'll see that some of these are – for those of you again familiar with some of the working groups out of the NAFTA, and certainly post-September 11th – many of the agenda items on security, those are things that are found in the Smart Border Action Plans. On the prosperity side, a lot of these mirror or closely reflect some of the working groups and committees that were established as a result of the NAFTA.

And one of the things that I think we want to emphasize with the Security and Prosperity Partnership, without stealing much of Chris' thunder who I'll turn to in a second, is that the launch of the Security and Prosperity Partnership at Waco identified some 300 items, agenda items, a very disparate group of things that the report to leaders in June of that year then distilled into roughly 20 working groups that you see listed here.

So there's 300 items – it's a huge agenda. Very ambitious in many respects, but also a bit unwieldy in some respects as well. A couple of things to note, importantly about this process – one, it's a political agreement among the leaders. It relies heavily on the leadership to the three leaders, President Bush, President Calderon, and Prime Minister Harper to really drive this agenda and get the bureaucracies working together. There is no legislation associated with this, like you would have found in 1994 with the NAFTA by itself. So it is very much a leadership-driven kind of process.

Finally, it's a very technocratic process. Many of these issues on both of these agendas deal with a kind of group of low-hanging fruit or small irritants that are really best dealt with, in some respects, at a technocratic level. These are the technical experts that can deal with some of these issues and perhaps bring some momentum to coming to some trilateral or bilateral agreement on how to move forward on them.

And with that, I think that is a segue into turning it over to Chris to talk about the structure with which our paper deals with this mixture of things.

MR. SANDS: The paper focuses on the United States, and the reason that we focus on the United States is that not only did this process begin with the United States inviting the leaders of Canada and Mexico to Waco, Texas to start this dialogue, but also we feel strongly that it's in the United States that this agreement will either succeed or fail. The U.S. is the toughest of the three negotiating partners to bring to the table; it has the most distractions globally, other issues on the agenda; it's also – if it's not rude to say – the monkey in the middle. It's the country right in the middle. It affects Canada's relationship with Mexico and Mexico's relationship with Canada. So what happens in the U.S. is critical.

For a U.S. process, there are three things that – looking at past trade agreements, looking at other types of negotiations – prove to be very essential in the structuring of these kinds of negotiations. First is how do you manage the asymmetry between the partners? The U.S. is large; Canada and Mexico relatively smaller. How do you manage that process so that Mexico and Canada feel comfortable making concessions to the U.S.? You don't want either extreme, either a U.S. bullying session where the U.S. is beating concessions out of its neighbors, or a U.S. Santa Claus session where the U.S. is giving things away, but getting very little in return.

And so managing the asymmetry successfully is tricky. And we've seen in some cases, for example, the free trade agreement that was signed with Singapore, the kind of agreement where they were relatively unimaginative, very basic agreement; it doesn't go too far into new territory. If the SPP was going to work, because its agenda involved technical standards on both the economic regulations side and on the security process side, it would need to be a bit innovative. So asymmetry was the first test of how well SPP could function.

Secondly, Congress. Undeniably, Congress is critical when the U.S. negotiates anything. As Greg pointed out, this is a negotiation being conducted between the three executive branches or the executive component of each of the three governments. That makes sense, because these are regulatory issues or security issues that are under the authority of the executive branch. At the same time, Congress is critical. On anything to do with trade, the regulations of the domestic U.S. economy, Congress has a constitutional role that can't be ignored. And on security, well, new procedures have to be funded from some place. And Congress has been the watch dog ever since September 11 and before for the civil liberties of individuals in the United States to make sure that those are not infringed by new security procedures. The nature of the U.S. system makes Congress critical here.

Lastly, special interests – and in a Washington audience, special interest is not necessarily an insult – but special interests matter a great deal. We mean here both businesses – big business is obviously a special interest – and also the variety of NGOs that are advocating for the rights of special groups, whether they're worried about the environment, or whether they're worried about a particular industry or region or an issue that matters a great deal to them.

MR. ANDERSON: Negotiations, such as NAFTA, include a window for special interests. Some weigh for interest groups to monitor the negotiations, to get involved, perhaps providing technical assistance through advisory groups. These negotiations initially as started in Waco had no window for the special interest groups; even the business community really didn't have a direct role at Waco.

And so, early on, we judged the SPP was in some trouble. Although asymmetry was creatively managed by taking the discussions to a technical level, Congress was excluded, and the special interests were not involved initially at all. This changed at the Cancun summit, which Greg will pick up and talk about in a minute, through the creation of the North American Competitiveness Council, a three-country business group designed to bring private sector input into the negotiations. But it hasn't changed substantially for NGOs, one of the warning signs that we felt threatened the success of the SPP.

Between the report to leaders in June of 2005, which – if you go to the SPP website – you can look at there is a list of early harvest kinds of achievements that post-Waco, a lot of the bureaucracies could point to and say, okay, look, here is how the agenda is actually playing out. But a lot of this, even by the time we get to Cancun in 2006, can be seen as a part of that legacy agenda; part of those processes that either were rooted in the NAFTA, or perhaps the early initiatives on security that really originated in the mid-1990s. And so, part of the difficulty in assessing progress on the SPP is really trying to sort out what is really SPP-driven versus those items that are really a product of legacy processes.

But as Chris was mentioning, by the time we get to Cancun, we detect some second thoughts, perhaps, or some reservations on the horizon, primarily because of the 300 or so agenda items, the 20 working groups, a rather unwieldy kind of agenda, there is problems with prioritization. There are things that – early harvest items that can be pointed to as success stories. But which things should the bureaucracies be actually working on?

And so, in Cancun, what you see are the series of second thoughts, and an effort to really try to reach out, primarily to the private sector at first, to try to help the governments prioritize some of these issues. And so, they need input; they need input from the private sector. They need input on what the priorities are supposed to be, how best to address them.

And so what you see out of Cancun, the big change out of Cancun, is the introduction and instructions to the North American Competitiveness Council. As Chris mentioned, a trilateral council comprised of – organized differently in all three countries, but primarily – of business leaders. And part of the problem there with the progress up to Cancun was that the progress was uneven. A lot of the success items were already entrained prior to the SPP being launched at Waco.

You take – for example, on the prosperity side, if you take the rules of origin, which is an old NAFTA legacy process, out of the prosperity agenda, that’s a big chunk of the agenda missing. That is a legacy agenda that continues even now. And so, in which – on the prosperity agenda, for example – in which areas would business like to see the agenda moved forward?

And so, what you get at Cancun is this effort or these instructions to the North American Competitiveness Council, and also to the co-chairs, the Cabinet-level co-chairs. In the United States, it’s structured such that the co-chairs are the secretary of Commerce and also the Department of Homeland Security secretary – so Michael Chertoff and Carlos Gutierrez. And so, you have these instructions to them to work with the – to receive the recommendations of the North American Competitiveness Council, and try to push the security and prosperity agenda forward partially on that basis, on the basis of that input and prioritization.

Okay, and so, out of the report to leaders, again, you can point to these early success/early harvest items. And again, it’s uneven. And so what you have by early 2007 is a set of recommendations from the NACC that have been presented to the co-chairs. There are 15 of them; these are the priorities. We expected – this current meeting in Montebello coming up next week has been delayed a couple of times – we expected this meeting earlier in the spring. These recommendations were presented in February of this year. And one of the key aspects that we’re looking for out of the Montebello meeting is what are the leaders going to do with this list of recommendations that have emerged from the NACC?

And with that, I’d like to turn it back over to Christopher.

MR. SANDS: Well, let me just say this about these recommendations. I’m going to flip through the slides very quickly. The report to leaders is an annual process that comes with the Cabinet-level committees talking to the Prime Minister of Canada, the president of Mexico, and the president of the United States. It’s generated by the government, comes out of the process of government negotiators, and they’re usually the first to report.

In this case, following the discussion at Cancun, which was in March of 2006, in August, you see the report from the governments. It’s a progress report that suggests that more focus is needed. The North American Competitiveness Council report provides some prioritization. First, with some recommendations for 2007, things that were felt to be able to be dealt with. And we try to go through this agenda in some detail in the paper.

You can see the items here include things like simplifying rule of origin requirements, implementing land pre-clearance pilot projects, enhancing some of the emergency management and pandemic preparedness, coordinate intellectual property rights. Most of these things were already in process at Cancun, so this was something

that the governments were hearing from the private sector needed a push. And the SPP might have been the place to push it.

The business community also put together recommendations for things that could be dealt near-term – that is, by 2008 – and little bit longer term, 2010. Conscious that between 2008 and 2010, you have a U.S. presidential election, very likely a Canadian election, so this was a way of dividing up that agenda and putting some things a bit further down the road. You see here they came up with three categories of action – border crossing and facilitation, standards and regulatory cooperation, and energy integration – with some specific items under each one.

Now, the competitiveness council is made up of businesses in all three countries. And one of the things that was remarkable about its work was they actually produced a consensus report. There is no dissent from that report. They managed to actually agree on an agenda. And it was one of the most successful things to come out of Cancun, simply because the report was thorough, and because it actually did respond to what the leaders felt they needed.

This leads us to ask what's next for SPP? The three things that are crucial for the negotiation to go well, all of them we have to give mixed grades to the governments for. First, on asymmetry, while it's true that the negotiations at one level are technical – and because they're technical, we can all talk about what's the appropriate crash test standard for a car – there doesn't seem to be necessarily a political or national difference on car crash testing, so it's easy to have a dialogue about things like that.

But the asymmetry is not always managed well on the security side. The U.S. is not only more concerned about security; it also comes to the security agenda more aggressively. And so, the asymmetry breaks down a little bit on security where DHS, the Department of Homeland Security, is not always negotiating with its partners; it's more setting a standard and expecting that Canada and Mexico will move towards that standard as well.

So the asymmetry is not always well managed in the current process, and there is some concern that if the negotiations don't last beyond the next presidential election in the United States, that asymmetry will become a bigger problem. For the Canadians to make concessions, for Mexico to make concessions, they need to know that this process is going to continue to provide a way of sorting out regulatory differences. If this is a short-term process, why make concessions – especially major concessions – now? Why not wait for a successor process that might work better?

Secondly, Congress. Congress was shut out from the very beginning of this process. In the last couple of years, we've seen increasing concern on Capitol Hill about what's going on in these negotiations, requests for information, discussion of having hearings, bringing people forward just to know more about what's going on. And the congressional interest relates directly to the special interest exclusion.

While the business community has been given a window into the negotiations, the special interests – that is, the NGOs – have not had the same access. And so, as they've complained, just looking for information, they've started complaining about transparency and the accountability of the process. Those complaints have gone and resonated on Capitol Hill, leading more and more members of Congress to say we don't know what's going on in SPP, but we have concerns. And we have the ability to force some things onto the public record. And so, for the U.S., the failure to bring Congress in – although you can understand it on one level – has left SPP highly vulnerable now and increasingly surrounded by critics.

Three chances to fix these problems – and since Cancun was an opportunity to revisit the structure and make some positive changes, we feel that Montebello is the first great chance. What we may see next week is not only more progress on the individual items, but a discussion of the structure, and how some of these problems, which have become more worrisome in the last couple of months may be dealt with here and now.

If we don't see the leaders move on the structure at Montebello, the next opportunity will be in the United States in 2008. If we continue the cycle, the U.S. should host the next summit. We don't know where; we don't know when. Could be as soon as March; the original schedule for these meeting was March. This is one of the large foreign policy legacies of the second term of George W. Bush. He may want to make a major revision in 2008 before leaving office, his last summit, to put this thing on a track that can continue into the future.

But if he doesn't, then we have one last chance, and that is after President Bush, when the U.S. has a new president taking a look at this in 2009. We believe strongly that the agenda of sorting out how we regulate things, how we work on security, the agenda at the root of SPP needs to be talked about with Canada and Mexico. We can't not have this conversation at some level; but this structure may not work.

The next president, in early 2009, maybe late 2009 as they look at that, we think will also see the need for some sort of dialogue on these lines, but may wish to either re-launch it; give it a new acronym; start over; or continue the process with changes. That will be the next big chance to get this thing fixed. It's also possible that the next president will look at this and see it as so controversial now that they'll want to abandon the process; let it go fallow for a while. We still think they'll be coming back shortly after to put this kind of a discussion back on the agenda.

With that, we can take a few questions before switching to the next panelist. We have about 15 minutes. There are some young people in the room with microphones so that the cameras can hear your question. Young lady in the middle row?

Q: Hi, thanks. Luiza Savage from MacLean's Magazine. Could you talk a little bit more about how the structure could be changed to include the NGOs? And not just the environmentalists, but it seems in the U.S., the main concern is coming more from the political right, from people concerned with issues of sovereignty. And they brought the

whole transportation highway issue to the Congress recently, and got a lot of members of Congress on board. And that, to me, seems to be more the issue in this country, whereas in Canada – I don't know about Mexico – but in Canada, it would be the environmentalists and the political left.

MR. SANDS: Well, I think there are any number of groups that have looked for a greater sense of what's going on. You could include some of the immigration NGOs, people worried about workers' rights, the effect that some of these discussions will have on everything from professional certification to wage rates. We think that part of this is just about transparency.

The more we've looked at this and talked to people involved in the process during our research phase for this paper, we didn't really find a lot of stealthy ambitions. There was no grand attempt to sneak something past people, but they'd simply never built in a transparent process. This is one of the problems of going from the normal professional negotiation that USTR manages when we have trade negotiators who know you have to communicate with the NGOs. We all learned that after the battle in Seattle and the troubles over NAFTA and other trade agreements.

You shift from their negotiation to the negotiation by technical officials in different governments, each of which, in the bureaucracy, has their own favorite stakeholders, people that they talk to. But the totality of the agreement is hard to get your hands on. You have to run around looking for what's going on. And I think the lack of transparency has a lot of groups that may not have a great dispute with the content worried, and as Ronald Reagan used to say, they'll trust but they want to verify what the heck is going on, and can they really believe what's being said by the leaders. Is this just a stepping stone for grander ambitions? It's impossible to know whether that's true or not because of the lack of transparency.

So we feel that there should be more public information, a more concerted effort to reach out; not only to the media, but to NGOs, giving them a way to have a discussion group. Why couldn't there be a North American citizen's council like the Competitiveness Council that would bring other groups in and give them a chance to get briefings on what's going on from the various cabinet level officials and others who have been working on these negotiations. Greg?

MR. ANDERSON: Just to add to that, I think that one of the things that we try to do in our paper in addressing asymmetries, Congress, and special interests, is contrast the SPP process with what has been, for most of the post-war period, a rather predictable, almost stage managed trade policy or trade negotiation model, where the executive branch works quite closely with Congress. And the degree of congressional oversight and transparency and public input has, in effect, increased over time to the point where you have administration officials up on Capitol Hill for, say, the WTO negotiations on a regular basis, meeting with staffers of the relevant committees, telling them what they're doing, and Congress then pushing back, imposing limits on what the administration can do.

And what we've got here is an effort on the one hand to manage asymmetries by putting, you know, rules of origin – I mean, that doesn't get anybody very excited – so you put it at a technical level, manage asymmetries, because it's a very technical discussion. And yet, at the same time, you almost increase that lack of transparency, or the perception of that lack of transparency. And so, you're seeing some of the blowback – for lack of a better term – from both the left and the right in terms of trying to figure out what's actually going on.

MR. SANDS: Folks up front? Oh, not that one – hang on, sir, just there.

Q: In the final days of debate concerning the immigration bill, language was added to the bill that would have provided specific legislative authority for the SPP, and that went down with the bill. First part of my question is whether there are any other plans to provide specific legislative authority. I know in your paper you argue that prior legislation, broadly interpreted, can authorize this, but there is a lack of specific authority.

The second part of my question relates to the point that you well make that there has been insufficient transparency. Much of this has gone below the radar. It has not been a matter of significant public debate thus far. Yet, this problem is reinforced by the fact that at Montebello this coming week, on August 20 and 21, the public is excluded, even from entering a buffer zone near the Montebello meeting. And much of it will be conducted in secret. This increases the level of concern. And I wonder if there are any plans on the part of decision makers from the president on down to let the public in on these deliberations?

MR. SANDS: Thank you for the question. I don't know. One of the interesting things about the inclusion of SPP authorizing language in the immigration bill was that it wasn't clear whether this was something the administration had asked for, or whether members on Capitol Hill felt this was something that should be put into statute. The administration has been reluctant to go to the Congress and talk to them about this process, maybe thinking that they can be dealt with at a later date, maybe thinking that they do really have the authority to proceed in this way.

But the problem with these technical negotiations is that most American citizens – I think Canadians and Mexicans as well – because they're not technical experts, rely on NGOs, rely on business associations, other groups, to do the study of the detail, and then advise them that this is going to be in their interest or not. We can't all be experts in government, but we do rely on that mediating role. And the lack of transparency has really denied us that ability to know whether what's going on is something we should be alarmed about or not. And I think that opening this process up would really reveal, for the most part, that a lot of the areas are dull and they don't affect us that much – or they'll affect narrow interests but not more broadly.

So I think if I were advising the administration, I'd say you have nothing really to fear by transparency. The extent of transparency would be good, and by bringing

Congress in, you have a way of achieving that that will give people – the average voter – a greater sense that this is being overseen. And having done that, yes, you'll have some extra roadblocks; there's no doubt. But by and large, your freedom of action won't be much constrained that the governments will be able to proceed on every reasonable measure where they're trying to do something. And so, I don't think there's really any reason to fear transparency. But for some reason, it's been there.

I don't know whether the administration is thinking about it. I'm also curious if the Canadian and Mexican governments looking at this might want to say, for their part, United States, you really need to help us address this, because we realize this whole thing could die in the U.S. and we need things out of this process in Canada, Mexico, so it's in our interest for you to deal with this as well.

MR. ANDERSON: Just to add, certainly, to the second part of your question regarding buffer zones and allowing a sort of public input, this is a phenomenon that has really gripped leaders' meetings since Seattle in 1999 when you had people running through the streets, smashing Starbucks, and so forth. Every G8 summit, every IMF/World Bank meeting, any of these kinds of forums, you now have these big buffer zones. And I think it's just endemic to the leaders, whenever leaders meet.

Q: What about authorized meetings?

MR. ANDERSON: I think we agree on this in that this does need to be addressed, because I think, in part, even going back to the controversy over the NAFTA, I mean, the NAFTA is a relatively limited agreement in terms of what it's supposed to do. And yet, depending on where you look, it will do almost everything for you – clean your dishes, perhaps. I mean, that's an exaggeration but it really was designed to kind of reduce the obvious barriers in North America. And the sticking points with the NAFTA have been the so-called non-tariff barriers, many of which are now being dealt with or attempted to be dealt with in the SPP. And those are very difficult sort of snags and stumps to handle.

And I think that one way you could look at this SPP in terms of trying to assess its impact is to say, well, maybe it's really a much more limited process than perhaps we think, because to the degree that bureaucracies will be able to work together to harmonize certain kinds of regulations, they'll have to do it within the bounds of existing legislation in their own countries. And so, the ability to agree trilaterally or bilaterally may inherently be limited by that existing grant of authority within national pieces of legislation. They may exist under, say, the NAFTA legislation or on security side, you may find those limitations in the Patriot Act, for example; something like that. But those are some real barriers. But to circumvent those things or overcome them, rather, you're going to have to augment or deal with this transparency issue and try to open the process up a bit.

MR. SANDS: Well, and not to disagree with Greg, but just to underscore something, these standards, these kind of non-tariff barriers, are one of the things that

people in the international trade field talk about as the real barrier to continuing market liberalization. As tariffs have started to be eliminated – WTO and other levels – the new frontier are domestic regulatory standards that can be legitimate or can be used for protectionist purposes. And so, it's likely that although the SPP seems sort of innovative and original in dealing with these issues, we're going to see more negotiations of this sort at the global level, at other regional levels. And so, it's important to get this right here and start talking about what's working and not working, because it is going to come back again and again in some new form.

We have a bunch of questions. The gentleman up here in the beard, and then the lady in the back, and we'll just keep moving around.

Q: Hi, my name is Cliff Kincaid. I wanted to ask you about the fact, building on the last question, that one group, Judicial Watch, has been forced to go through the Freedom of Information Act to get information about the SPP and other meetings that apparently are part of this process. They got some official notes from the meeting in Canada of figures and officials from the three countries which referred to pushing this process forward by evolution by stealth. That was the phrase in the official notes. Then on top of that, we've got, as Mr. Phillips (ph) indicated, a last minute effort to put approval of this process into the immigration bill. Nobody knows where that came from. The White House, Congress – nobody seems to know. Plus we've got meetings taking place all over, including one under the hospices of Mr. Pastor that I attended where participants are given documents suggesting the eventual establishment of a North American Court of Justice with authority beyond our own Supreme Court.

Now if you're a member of the public, not a special interest but an ordinary person seeing all this going on, how can you not conclude that this is a process that is deceptive and secretive, and meant to keep not only the Congress but the people out of it.

MR. ANDERSON: Well and this is something that we talk about a bit in the paper. One of the things that's interesting about this is that although the leaders at Waco made some modest statements about what they were trying to achieve, in between Waco and Cancun, the Council on Foreign Relations here in the U.S. with counterparts in Mexico and Canada brought forward a report building a North American community where they had a much more ambitious vision of what SPP could achieve.

We later saw discussions coming from other groups – I think one of the groups here mentioning the North American Forum had official participation but wasn't in any sense part of the SPP process, but raised legitimate questions about well what is the end here? What are we working toward in this process? And I think because the governments have not been as transparent as they could be, the official word is easily mixed up with all sorts of other, you know, forums and other people's visions. And what we should be having is a debate about that vision, but we can't because the governments aren't always clear about what should – what is in and what is out.

So that's one of the reasons that we think the transparency issue has to be dealt with. At the same time, we've been looking at the role that the governments have tried to have. There's a project that we talked a little bit about in the paper – the future of North America 2025 – which is government funded to look at sort of at the vision of where we might go. The fact that it's funded by the government suggests that there's some sort of at least support for it, but it's certainly not endorsed by the three governments; we haven't seen the report yet. Those kinds of things just mix up your message, and I think they raise legitimate questions for people who are concerned about where this is going.

If we had started the European Coal and Steel agreement in Europe with the same level of fear and suspicion about what the real intent was, Europe would never have gotten launched. And here we are at an early stage in North America. I think, actually, moving forward, talking to the Canadians and Mexicans make sense. They are our neighbors and a lot of these issues are pretty straight forward, but we could ruin the ability to have those relationships on a constructive basis because of the way in which we're handling these negotiations now. So without prejudging the future agendas, I think the process here needs to be fixed in order to rebuild confidence in what we're trying to do.

I think I have time for one more question and then we've got to switch over. Phil, could you –

Q: Who asked for the postponement of – (inaudible)?

MR. SANDS: The gentleman asked who asked for the postponement of this meeting at Montebello. It was postponed originally because March of 2007, which would have been the time to hold it – there were concerns that that might be in the middle of a Canadian election. The Harper government's in a minority position, and so, as host, [Harper] didn't want to have a summit in the middle of his reelection campaign, so moved the meeting down the road in the hopes that that would not conflict. So it wasn't – it was simply a scheduling issue, and we may have another one because we don't know whether the next summit will be March next year, which will be in the middle of the American primary season, or August, which will be right on the eve of U.S. elections. So election cycles could be an issue in this timing the next summit.

Q: Was it the only request for a postponement?

MR. SANDS: Near as we know it, yes sir. All right, I'm afraid we have to turn over to our next panelist, but we'll have questions after every session, so some of the same issues we can come to. Let me turn it over to Ambassador Daremblum who will introduce Ambassador Jones. Thank you very much.

(Applause.)

Keynote Presentation
The Honorable James Jones

AMBASSADOR JAIME DAREMBLUM: Good morning, ladies and gentleman. I'm Jaime Daremblum, in charge of Latin American programs here at the Hudson Institute. When the leaders of Mexico, the United States and Canada, better known as the tres amigos, meet later this month at Montebello to praise and improve the cooperation mechanisms of NAFTA, they can probably point to the impressive impact NAFTA has had in the growth of investment, production, employment and trade in the respective countries. Undoubtedly, NAFTA has been an engine of prosperity in North America, yet right from its beginning back in 1993-94, NAFTA has been at the center of controversy.

For example, some groups have consistently maligned NAFTA as part of an effort to undermine first, the Caribbean Basin Initiative, CBI, and more recently CAFTA, the Central American-Dominican Republic Free Trade Agreement with the United States. In recent days, presidential contenders here in the United States have portrayed NAFTA as a big business scheme and even call for its demise.

Well, politics is politics all over the world. No question there are challenges for NAFTA that must be addressed by the tres amigos. They range from fast-changing security conditions to immigration flaws under the search of international actors influencing NAFTA. But nothing of this detracts from the accomplishment and promising potential of NAFTA.

To analyze this and other aspects of NAFTA, we have today as our keynote speaker the Honorable James Jones. It is not easy to introduce my good friend Ambassador Jones, giving his innumerable distinguished positions throughout his public as well private career. Among his credentials are his positions as member of the House of Representatives, chairman and ranking member of key congressional committees, White House official, ambassador to Mexico as well as corporate advisor. Having played an important role at the creation and implementation of NAFTA, he has had a prime insight to the topics of our conference. And without any further preamble, I give you Ambassador Jones.

(Applause).

AMBASSADOR JAMES JONES: Thank you very much, Jaime, for the introduction and for the invitation to participate in this conference. I am particularly pleased that the Hudson Institute has taken on this subject – it's a very timely subject – and I want to associate myself with the panel that preceded me, and especially want to endorse their call for more transparency in the SPP and in the NACC, North American Competitiveness Council, activities and to expand the participation in those kinds of activities.

I am especially pleased to be invited by Jaime Daremblum, whom I got to know when he was the Costa Rican ambassador to the United States, and I admired his

diplomatic skills when he was here as ambassador. But one of the things that I noticed about him, as someone who spent 14 years in elected office myself and seven years at the White House and for a congressman in a staff positions for people who ran for office, Jaime also had wonderful political skills that served his nation very well. So I appreciate the fact that he would invite me.

I find that on the eve of this third meeting of the leaders of our three countries at Montebello next week, and on the 13th year of NAFTA, that there are still many very loud voices, especially in this country, but also some in Mexico and some in Canada who proclaim that NAFTA's been a failure. I just find that incredible because if you look at the objective data, on virtually every measurement, NAFTA has been a success. Trade has tripled or more between our countries in the years NAFTA has been in effect. There has been, off all the studies that I've seen except one, a conclusion that there has been a net increase of jobs as it relates to NAFTA having an effect. All the studies show that the jobs with NAFTA related activity are 13 to 18 percent higher in wages than the other jobs in the economy. The – in Mexico, there's been a more than doubling of the per capita GDP since NAFTA has gone into effect. So, on an objective basis, the data clearly shows that NAFTA has been a success.

I think NAFTA has to also be looked at in intangible ways. For example, in Mexico, I have had the theory that if you open the economic system, there will soon be a demand to open the political system. I had the privilege of serving and representing the United States in the pre-NAFTA and post-NAFTA activities, and I saw there, as I went to Mexico with the number one objective of opening the commercial relationship followed by the opening of democracy – what I saw there was as soon as the opening of the economic system happened, there was a political demand and support for opening the political system.

And ever since NAFTA, every one of the elections held in Mexico have been held in basic honesty, openness, and have been proclaimed as honestly honest elections, which is something that didn't happen before NAFTA occurred. And so, I think the opening of the economic system through NAFTA had the intangible effect of opening the political system so that today, Mexico is one of the most open competitive economic systems in the world, and is one of the most open competitive political systems in the world also.

Another intangible effect of NAFTA is the business ethics and self. Those who did business with Mexico prior to NAFTA complained continuously about the process of corruption and various things of that nature that they had to go through to do business. As ambassador, we put this as a top priority; we urged U.S. companies to talk to us if they ran into these kinds of situations. And in business, we do a lot – since I left Mexico – we do a lot of business helping U.S. primarily firms do business in Mexico. And it is a very rare instance in which someone complains that they have been put to an untoward situation in order to do business in Mexico, particularly if you're from a NAFTA country. The business ethics in Mexico have changed 180 degrees for the positive since NAFTA went into effect, another very positive intangible effect of this trade agreement.

Also in Mexico, the sense of competition, the sense of competitiveness, the sense that they have to compete and improve their industries is something that resulted as a result of NAFTA, a result of the opening of their economic system. And so now, not only are they competing outside of Mexico, but there are large, large voices within Mexico saying we have to have more competition within Mexico. We have to go after those monopolies and those large organizations that are stifling our economic growth. And so those are intangible, positive effects of NAFTA.

So if you look at it objectively and from an intangible point of view, I conclude that NAFTA has been a great success. The question is then why do so many people perceive it as a failure? Well, I think one of the reasons is that many of us who felt NAFTA was a good thing for the United States oversold our case. We promised more than could possibly be delivered by a trade agreement. And when it fell short of that, then they said, ah-ha, it's a failure.

I think another reason has to go to the governments themselves. For example, in Mexico, there was too much reliance on the free market system to cure the ills of Mexico and to make Mexico a much more competitive, a much more inclusive society. The basic things that make a government and a country competitive were not addressed in Mexico. They did not put the money into education and the kind of education that makes a society competitive. They did not put the money into healthcare that allows a worker in a poor area to come to work on a regular basis and to be healthy and productive. And clearly, they did not put their money into infrastructure, particularly in the southern half of Mexico where the infrastructure is so weak, so bad, and where it's impossible – even if you make a good product – to get that product efficiently to market. And so, the government of Mexico has to share in this blame also.

Therefore, the result, for example, in Mexico is that NAFTA is a huge success for about half the population. If you consider that the per capita GDP roughly doubled over this period of NAFTA and the other half of Mexico received virtually no tangible benefits out of NAFTA, you can see that half the population almost quadrupled their per capita income, whereas the other half virtually stayed the same. And so the gap between the haves and the have-nots have increased even greater.

And that's not just a problem in Mexico. I've been speaking for 10 years basically since I left Mexico as our ambassador that this is a problem that has to be addressed throughout Latin America. The region with the greatest divide between the haves and the have-nots cannot exist and cannot exist with a commitment to democracy and to free markets. And we've already seen, by not addressing that issue, that you have a Chavez in Venezuela; you have Bolivia, Ecuador, and other places moving to discard a free market system, to discard real democracy, and to turn the clock back. And so that has to be addressed, and that should be addressed as one of the major foreign policy in the region for the United States.

Another issue that makes people perceive that NAFTA is a failure is this whole issue of globalization, as if we can do something about it. I don't think you're going to

turn that clock back. But as someone who has been in public life, who has been in elected politics, who runs for election and reelection and has some sense of what people are telling you – also as someone who chairs an organization that allows me today to go around the country and to speak to different audiences and to test public opinion, I am utterly astounded at the abject fear that is gripping this nation; not just in blue collar workers, but in white collar workers alike. This feeling that globalization has overtaken their lives; this feeling that their standard of living is going to be diminished or at least that the standard of living for their children and grandchildren cannot approach what it is today for them. That fear is coloring everything in their feedback to their elected representatives in the Congress, for example.

And like it our not; that's our system. One of the things that I found when I was in the Congress is how truly representative the Congress is of the American people, how closely members of Congress listen to their constituents and reflect their constituents. There are not a whole lot of Edmund Burkes in the Congress these days because there are not a whole lot of people who like to lose the next election. But what they are doing is reflecting the American people's opinions. And that fear has gripped the American people, the American worker, and it's manifest itself into a number of issues.

Trade issues, for example – not only the larger Doha round of global trade negotiations, but bilateral free trade agreements. And who is to say that Panama or Peru or Colombia, if we have a free trade agreement with each of them, is going to overcome the United States economy? But it's that fear that one little step after another is going to diminish our standard of living. That has made the Congress and the American people look backwards. And what we're losing and what concerns me, what Ronald Reagan had so much – even though he was another party – he had us looking forward. He had us believing in ourselves. He had us using that American sense that we can conquer these things. And what concerns me about the effect of globalization is that we're losing our confidence as a country, and it's reflected itself in what Congress is doing or not doing.

It also reflected itself in the issue of immigration reform. Clearly, everybody who looks at it knows the system is broken. It needs to be repaired. And it needs to be repaired responsibly. All of the view is that if you build a big wall across the border of the United States and Mexico, you're going to keep undocumented Mexicans from coming into this country. I think that is one of the false assumptions and one of the fallacies of that whole debate.

When I was ambassador, I made a point to visit. I wanted to visit all 32 states of Mexico; I only got to 31 of the 32. I spent a number of times at the border. And when I did, I wanted to understand better this phenomenon of why people would risk themselves to cross our border, to die in the desert this time of year, or to possibly make it. Why would they do that?

And I visited with these mostly young people, mostly males who you knew, when darkness hit, they were going to make the run across the border and try to get into the United States. Without exception, it was to get a job. It was to get a job that they could

make a better life for themselves, send money back to their families in their little communities and villages across Mexico, and to improve their standard of living.

And although it was primitive, it was a very sophisticated system. If they could get to Los Angeles and they could get to their network of Mexican community in Los Angeles, they could find out where the jobs were. Jobs could be in Buffalo, could be in Atlanta, could be in Seattle, could be anywhere across the country. But if they could get to Los Angeles, they could find out where the jobs were and they would go towards those jobs.

And so, what I concluded was that if you really want to stop illegal immigration, the way to stop it is to go after the employers – to have very serious criminal and civil penalties against the employers who knowingly hire those who are undocumented. That was a part of the 1986 immigration reform that was passed my last year in Congress. It was never implemented. And so, when I was ambassador to Mexico, that was the year when the governor of California in the mid-1990s was running for reelection and he had the proposition 87 or 187, I forget. But it was very much targeted in a very mean way against Mexican immigrants.

And so, I visited with the governor's office and I told him, first of all, agriculture is the number one endeavor in the economy of California. In agriculture in California, 90 percent of the workers are predominantly Mexican; two-thirds of those are here illegally. So if you really want to stop illegal immigration, go after the farmers and ranchers of California and stop it, put civil and criminal penalties against them, and I can guarantee you, you're not going to have two-thirds of the California agricultural workers facing the risk of serious injury or death to get to the United States if they know when they get there, there's not going to be a job. The response – oh, I couldn't do that. That would be politically unfeasible.

Well, what I'm proud to see of this administration – and I'm not very honestly proud of a lot of the things they do, particularly in the foreign policy area and particularly in the Middle East – but what I thought they did last week when Secretaries Chertoff and Gutierrez announced the program to seriously go after employers who knowingly hire undocumented workers, will be the most effective issues, the most effective thing we can do to stop illegal immigration. And rather than spend billions of dollars on a fence that I do not believe will keep people from coming here illegally, we ought to be spending the same amount of money along the border building solar power facilities, building windmills, building alternative energy facilities that can be used on both sides of the border.

So globalization finds its way into many of the issues and distorts the response to those issues such as immigration. So where are we now? Next week, they meet – the three leaders of the three countries meet. What would I like to see them do? And I think some of this was touched by Chris and Greg in the first panel.

The first thing I'd like to see them do is to think big. Think big and to prepare the bodies politic in all three countries for what the real issue is. The real issue is not competition among Canada, United States, and Mexico. The real issue is the competition each of our countries face in not only traditional competitors in Europe, but more importantly, the new competitors in Asia – China, India, the Asian tigers, et cetera. They're our competition economically. And if we don't know that, if we don't respond to that, they're going to eat our lunch. And if each of us tries to do that on the basis of our own ability as a country, we're doomed to failure. But if we look at it from a regional perspective, and the complementarities of our three different countries of the North American region, we can be as effective as anyone can imagine in facing that economic competition. So the first thing that I would like to see them do is to think big, to talk honestly to the respective citizens of these three countries about what the competition is and why it's important that we become a more integrated North American region.

And the second thing I would like to see them do is to insist on the implementation of these relatively small steps in the SPP and the NACC, insist on implementing those goals, those objectives that have been set forth. An integrated North America is going to require – if we're going to compete 20 years from now – it's going to require a number of things. It is going to require a massive development program. Bob Pastor talked about this – I think the first one a few years ago. It was put in the report that I chaired a commission for the Council of the Americas. It was put into a report of the Council on Foreign Relations, which I was a member.

But that development plan basically had Canada and the United States putting development money into developing the poor half of Mexico. I think it should be expanded beyond that. It should be put into developing the underdeveloped areas of all three countries. We have areas right here in the United States that cannot compete, that are being neglected, that does not have the infrastructure, does not have the quality education, does not have the various things it takes to compete. And so, I think to integrate North America and to make us competitive, we're going to have to do that. All three countries, a massive development program to the underdeveloped areas of each of our countries.

That means, we're going to have to put a lot of money into infrastructure. Clearly, in Mexico it is needed and it's never been there, particularly in the southern half of Mexico. But if anything taught us from the bridge collapse in Minneapolis last week, we have that problem here in the United States also. And unless we tend to the infrastructure deficiencies in this country, we are not going to be competitive either.

Education is absolutely important. The problem with education is it does not have an immediate payoff. And those who are looking to the next election can't point to the fact that they've had a positive result as a result of something they've done in the field of education. But unless we commit ourselves, in all three countries, to providing the kind of education that makes us competitive in a global economy, that we commit ourselves to

the investment in research, technology, development, then we can't be competitive. That's another part of North American integration.

We have to also insist, particularly in Mexico, that they have a real commitment and make real advance on the issue of the rule of law. For any country to be a fully respected, recognized, First World nation, they have to have an open economy, a competitive democracy, and a transparent, honest legal system. And Mexico needs – they've done very well on the first two; they have a lot of work to do on the last one. And that needs to go forward.

So those are some of the issues. Labor mobility, we have to address that and that should be a part of an immigration reform in this country. As I understand it, we need about 10 times more service jobs in this country. The demand is for that than what our current quotas will permit. And that's just one area. And so, if we're going to have immigration reform, recognizing the need for labor mobility, I think we have to have a serious effort at what the administration announced last week, and that is a crackdown on employers who hire illegal workers in this country.

One of the reasons I think that's important is that may be the only way to get the Congress to face up to the reality of the need for workers in this country. As our country ages demographically and Mexico has productive workers, we need to recognize that we need many of those workers in this country to keep our economy going. We're not going to do that as long as employers in this country can employ 8 or 10 million people and not give them the same advantages, the same benefits, the same opportunities that people who are here in the legal fashion have, as long as we let that façade continue, we're not going to face up to what our needs are; we're not going to face up to an honest immigration bill. So I think that needs to be a part of it.

And finally, I think we need to seriously look at the energy situation of North America. It is connected to all three countries. There is going to be a demand for roughly 50 percent more energy than we have now in the next 20 to 25 years worldwide. And if we're going to meet our energy demands, we're going to have to connect the energy resources and the energy production of all sorts of the three countries in order for us to do well.

So those are some of the things that I think needs to be addressed at next week's meeting. I hope it can be bold. I hope it can have big ideas. I hope that all three leaders will take some chances and really try to do something about it. But I also hope that this conference and the timeliness of it will have some impetus to all three leaders to do those things. Thank you very much.

(Applause.)

MR. DAREMBLUM: Ambassador Jones will take questions from the public. The gentleman over here?

Q: My name is Joe Dukert. I'm an independent energy analyst. NAFTA included side agreements referring to the environment and to labor. Now, the Council for Environmental Cooperation in Montreal, while it isn't often listened to, has done some very good work. I think it's a growing organization. I can't say the same for a resounding success in the character of the labor organization that was spun off by NAFTA. I wonder if you would comment on that and perhaps venture a suggestion as to why one is still thriving and the other is still struggling.

MR. JONES: Well, I think of the various institutions established by NAFTA, some are working; some are not. The border infrastructure bank, NAD Bank, still is not working well, for example. Others are working. The environmental thing is working because people are behind it. The labor thing is not working as well as it should. And I think a lot of that has to do with the way they are organized, the people that organize them. In the final analysis, it's people who make institutions work or not. That would be my answer.

I do think, however – and I've spent 12 of the 14 years of my time in Congress on the trade subcommittee of Ways and Means – and that was one of the areas that I devoted a lot to. I used to be purely a free trader. And today, I think that labor and environmental parts of the agreement should be a part of these trade agreements in our own best interests. And so I think that you can build on what we tried to do with NAFTA and make it more effective.

MR. DAREMBLUM: Other, question, yes, sir?

Q: Hi. I'm John Hunn with the Campaign for Local Rights. Just a comment on a couple of your figures on NAFTA being such a success – and I hear this a lot – the things that don't seem to get mentioned are the 1.7 million farmers that have been pushed off their land in Mexico, the 18 percent decrease in the average wage for Mexican workers. Those are, like you said, only half of Mexico seems to be doing okay as a result. But those are figures that affect quite a lot of people and the other half of Mexico is a large portion of that. In terms of SPP and where it's going, I'd like to hear your comments on what's going to happen if we don't see an increase in Mexico, especially in the southern half, if we don't see this investment in infrastructure, if we don't see a building up of the communities there? Because that's where a lot of the immigration is now coming from, and it's a result of NAFTA's trade policies that have altered the economic structure of Mexico. So I'd like to hear your thoughts on that.

MR. JONES: Yeah, I think I would say that, first of all, on the farm situation, that's another area where the Mexican government needs to take some responsibility. I don't know how many farms you visited in Mexico. I visited quite a few. The inefficiency, the inability to compete on any kind of a global basis is astounding. So they were going to go out of business one way or the other unless they had a massive program similar to our program that we had in the 1930s, the conservation system, the agricultural education system in the various states, et cetera, teach them how to farm more efficiently,

more productively, et cetera. That's one that was going to happen and they need to do something about that.

As far as the average decrease in wages, I do not believe that statistic because it doesn't fit with the other statistics that happened. The ones who lost their jobs, obviously, lost a lot. And many of those tried to come to the United States. They're not going to – it's a transition period in Mexico also. One of the things that the Mexicans have to do for themselves – and I think we need to help them – is to help them to become more productive, particularly in the southern half of Mexico.

And Mexico puts an awful lot of money into higher education. What they put into basic education – elementary and secondary – is not good at all, and the quality is not good. And I've suggested what they ought to be doing is what the Asians have been doing for quite a few years now – put their resources into basic education and make that the top quality, because the people that come out of that system are going to be competing on a global basis. And they've shown they can do it.

Sure, sure.

Q: Most of the farmer – (cross talk, inaudible) –

MR. JONES: I'll repeat it if you don't get it.

Q: Most of the farmers – or not most but a large portion of them – were subsistence farmers that weren't trying to compete in the global market. In one case, they were growing their basic food crops, put the little bit extra that they could sell for cash to buy other things they couldn't produce themselves. As a result of corn subsidies, especially here in the U.S., those are the farmers that were pushed off. I heard a representative from the U.S. Chamber of Commerce last week say that the land wasn't any good; they didn't really want it anyway. I felt that was quite insulting to the people that had been pushed off their land that had no real desire to enter into this global market, and obviously, had no desire to take that dangerous journey to come here to the U.S. So I think the agriculture, the programs aren't necessarily needed to make them more efficient. It's the simple fact that they weren't even allowed to survive because they couldn't meet their basic food crop needs, especially now that prices have tripled because of the biofuels and all that.

MR. JONES: Well, I think my sense is that those who are doing subsistence farming just for their own use are still doing that. The ones who are trying to also sell crops, particularly in corn, have found they're just not competitive at all. And it's inevitable – the evolution of any economy or any society is such that you go through these contractions where you have winners and losers. The United States in the 1920s or so, I think we had 9 or 10 million people farming. Today, we have less than 2 million people, closer to one million people farming. And yet, we're more competitive; we do a better job of it; and those 8 or 9 million people who are not farming are doing something else. And that is the nature of economic evolution. So I think we have to recognize that.

I am not saying that NAFTA didn't displace people in all three countries. It happens. But that would happen inevitably anyway, because we're living in a globalized economy.

There was a question back there? I'm sorry, okay.

MR. DAREMBLUM: One final question.

Q: Yeah, my question has to do with the issue of labor mobility. You pointed out that the Mexicans that come to the United States risk their lives to come here. But isn't there labor mobility within Mexico, and maybe isn't that a better way to solve the problem of the poorer parts of Mexico is that they move to the wealthier parts of Mexico, or isn't that kind of mobility taking place within Mexico. Instead of having a massive program to aid the poorest parts of southern Mexico, wouldn't a more rapid and broader development in the north, and people moving there solve Mexico's economic problems more efficiently?

MR. JONES: Well, many of them are moving to the northern part of Mexico. And many of them are staying in the northern part of Mexico. The northern part of Mexico has a labor force that meets its demand right now. The United States is the market that has a greater demand for labor than we have supply. And that's why they're moving on north; that coupled with the difference in wages. And so one of the goals for Mexico and for North America ought to be as they did in Europe to bring up the lesser parts of our societies and to make them more competitive and to bring their wages up, because when you do that – one of the reasons I agree that we ought to have labor standards – if you can improve the standards of labor that translates into a better standard of living, it increases the market for U.S. goods and services. So everything sort of circles each other.

**Panel 2: Debate at Montebello – Economic and Trade Relations among
Canada, Mexico and the United States**

Jaime Daremblum

James Jones

Daniel Schwanen

Sidney Weintraub

MR. DAREMBLUM: We thank Ambassador Jones. He has kindly agreed to participate in the discussion of our panel, which is about to begin. And I invite the participants, Dr. Weintraub, Dr. Schwanen.

In addition to Ambassador Jones, we are privileged to have a panel with two outstanding experts who will examine the economic relations between the three member countries of NAFTA. I will introduce both in the order in which they will speak. The first speaker will be Mr. Schwanen, a well known Canadian specialist in international trade who has had wide experience both in banking and in prestigious research institutions.

He will be followed by our much admired friend, Sidney Weintraub who holds the William Simon chair in political economy at CSIS. Dr. Weintraub is a true intellectual luminary here in Washington, as well as a role model for many of us in the think tank community. We will hear our two guests. We will then open the floor for discussion and invite the public to questions and comments. Mr. Schwanen?

DANIEL SCHWANEN: Thank you. Thank you very much. It's a real pleasure to be here. And thank you, Chris Sands, for the invitation and Hudson Institute.

Things have changed since NAFTA and its predecessor, the free trade agreement between Canada and the United States in a way that I think is not always appreciated and is maybe even missing from the discussion on the SPP that is often presented as a sort of next step, and let's fix some of the things that were left unfixed or not fixed in the NAFTA. I am going to not address the obvious thing that has changed, which is the emphasis on security. I'm an economist, and we've all had in our profession to become, to some degree, security experts, because we've suddenly discovered, for obvious reasons, the interplay between open borders that a lot of economists favor and security issues that are foremost on most people's mind in a lot of – in the United States these days collectively. But I'm not going to address them; I'm not qualified. But that is the obvious thing that has changed, and that's why we're talking now about a security and prosperity partnership. But I'll discuss a little bit more the prosperity part of it.

And so, since the Canada-U.S. free trade agreements, since the NAFTA, we – relative to the size of our economies – we invest more in each other; we trade more with each other. There is a much greater movement of people between all three economies – so six different relationships – where you see a much higher movement of people. Temporary movement – I'm not addressing, obviously here, the permanent migration

issues, including illegal migration – but a temporary movement of people, workers, between the three countries.

But the one exception is that there are less Americans going to Canada each year for some reason other than for business reasons. But if you look at all the other relationships, Americans in Mexico, Mexicans in the U.S., and Canadians in both countries, both other partners, there are more people. And that's something working, crossing the border every day, every month, every year for work. It is something that is often overlooked, but needs to be facilitated because – and we can discuss this – I think it brings great benefits to all three countries.

But not so long ago, there was this joke that when the share of Canada's exports going to the United States reached about 86 percent of our total exports, there was a joke that, well, at least it can't go higher than 100 percent. And people were bemoaning all of a sudden this dependency on the U.S. market. I mean, Canadians switch back and forth. On the one hand, we want access to the United States market. On the other hand, when we get it and we benefit from it, all of a sudden say, we're too dependent on the United States market. But this became a serious issue with the security-related closings, albeit temporary, at the border. And so the joke was, well, at least we can't be 100 percent reliant on the United States market, because there is a natural mathematical limit here.

But since then, one thing that isn't quite grasped even in Canada, even though we pay a lot of attention to these things, is that the three countries, I would say, since about 2000-2001, if you look at some statistics, the three countries – certainly Canada and the United States – have started to get a little bit bored with each other. And I think in the sense, you know, in the relationship sort of sense, we're talking a little bit about whether it might not be worth reviving. And I think there are some tried and true reasons why we should.

The share of Canadian exports going to the United States has dropped precipitously in the past three or four years. It's going to go below 80 percent soon, which is very high, but is not the ever-increasing trend that we were perceiving just a few years ago. Canadians, it used to be actually before NAFTA that 60 percent of Canadian investment – so Canadians have become investors, in fact, net providers of capital to the world in terms of foreign direct investment since NAFTA was signed. This is a very different role for us. We invest in other countries more than they invest in us. That's a big shift for Canadians in Canadian terms.

Well, in terms of our foreign investment, it used to be that 60 percent of it was in the United States – major companies, of course, banking, high tech, and so on, retail, transportation. But that has now switched to the extent that 60 percent of our foreign investment abroad is in countries outside of the United States. And the trend is the same for the United States. In other words, no matter how quickly we got integrated with each other relative to the size of our economies, in the past few years, what we've seen is that we're becoming even more quickly integrated in terms of economic relationships,

investment, and now trade, with the rest of the world. And this is true of the United States as well, I believe.

In other words, yeah, we're more important to each other. But the rest of the world is becoming even more and more important. It's quite astonishing, given how close the two countries are, that 60 percent – only 60 percent of Canadian services exports – and that's a very rapidly growing – we're talking architectural services, business services, cultural services – only 60 percent of our exports in Canada in services end up in the United States; 40 percent to the rest of the world. If you look at how close the geographical relationship is, I think that's quite a phenomenon. In other words, our relationship – and those are the three countries with the rest of the world – are also at a minimum growing fast or faster. And I think this has to impact the way we look at the future of North America.

I think another thing that has happened – and speaks a little bit more to what Ambassador Jones and other speakers were discussing in terms of motivations for the SPP – Canada feels more confident economically. And the notion that a trade agreement, in a narrow sense of the word, is really going to kick-start the economy or a new and improved trade agreement, that is a little bit more difficult to buy than it was at the time of the NAFTA, and before that at the time of the Canada-U.S. free trade agreement.

Canada has a low unemployment rate, declining public debt, well funded or increasingly well funded public pension plans. Natural resource prices are up, and that always makes us a little bit more – feel a little bit more independent. And I would say that this economic confidence also translates into the fact where there is quite a bit of knowledge that in Canada, we do face challenges in terms of an innovative economy. This is our biggest drawback. We're not as innovative in terms of moving into new industries as the United States is. But we realize that this has a lot to do with domestic policies – free trade agreements are not going to give you, necessarily, what you need.

And finally, as others have mentioned, there has been – there is other agendas than economic growth. There is other agendas than trade that are not going to go away, that I feel have gotten stronger. Obviously, security, but also economic security, energy security, the fairness debate, which I think is being completely hijacked – the word fairness – by what I would call the traditional left. Economists and people on the right traditionally discuss issues such as competition policy. Competition policy is all about fairness; what are the rules of engagement; what are the rules of trade? And I think that this is a debate that is well worth having.

The environmental agenda now augmented by, I think, some more clearer signals on climate change – what are we going to do about this in North America in order not to let that agenda being hijacked by policy developments in Europe and elsewhere in terms of emissions trading, for example. Should we have a North American strategy on this? And indeed, I think there is one being developed, but not by national governments – not in any kind of framework, but at the sub-national level.

And other issues that are not necessarily traditional trade issues – and I think that it's really important or increasingly important to be able to deal with these issues as a whole in terms of selling – I suppose, if that's the right word – an agenda such as that of the SPP to the public.

In terms of the SPP itself, I think that – and following on what I just said – I think that it's a real shame that the term quality-of-life, which actually pervades a lot of the texts, if you read the declaration of what the SPP is all about, was not made an explicit goal. I think this would have a lot of traction in terms of selling the SPP; not just as a pure security or economic, but if you combine the two, you also add to quality of life, and there are intrinsic, I suppose, quality of life issue – health, water standards – that are in fact part of the security and prosperity initiatives, so why not explicitly mention that as an objective?

On the economic front, I think that a lot of the issues addressed by the SPP – they are so -- to me they are so basic as to sometimes I wonder why they elicit -- why the whole process elicits an issue, and I think it's a process rather than a substance question, as the paper mentioned.

So the SPP addresses infrastructure issues, rules of origin, simplifying rules-of-origin issues. And this is so important. The rest of the world – when you look at what is happening in the rest of the world, trade agreements are growing by leaps and bounds, and a lot of them are more simpler and more easier to understand, quite frankly, with simpler rules, more open rules than the NAFTA is. The NAFTA is being left behind. So it's important to address these issues in some way or another.

Coordinate position in terms of certain sensitive trade negotiations, for example, on steel. I think that makes a lot of sense. We live in an increasingly integrated market. Revise some of the NAFTA working groups. Yes, we need to re-inject some policy and political purpose in some of the things that we agreed we would be doing at the time of the NAFTA. So this is all reasonably safe and sound.

On standards, of course this raises the concerns, concerns about sovereignty, about the appropriate level of protection, but I think increasingly we understand and we can easily sell the point that this is not harmonizing standards, if you like, in certain areas, is not a race to the bottom. It never was. There is no evidence globally for that.

What we are talking about maybe is a race to a minimum floor with each country being able very easily to increase or set the floor in their own country where they feel it's appropriate. It's really about removing what the paper talks and Michael Heart (sp) in Canada talks about, just a tyranny of small differences that really exist only for protectionist purposes. You know, if we have the same goal, the same objective, and the same objective reality, we should be able to harmonize some standards.

So I mentioned quality of life. Transparency and special interests: I think that is really the – I don't know how this issue got out of hand. It's almost like we made a point

of saying, look; we're engaging in a non-transparent exercise. You know, it's almost like we advertised this – and look how clever we are. And, you know, I'm not so sure that in retrospect that that was the right thing to do, but then there is a question of negotiating – the SPP is negotiated by technical officials with special expertise.

Yes, you can argue that they may be beholden to special-interest groups, and yes, there needs to be more transparency, but if you look at the list – extremely detailed – of what they are talking about, that is a very transparent list. I mean, you know what they are talking about and you know what the objective is; you just don't know exactly what the negotiations are – the negotiators are doing at any given moment. The leaders are dying to produce a list at every meeting of things that they have accomplished. I mean, this is reasonably transparent.

But the reality is that when you set up a special group to get advice from business, no matter what the objective reasons for doing so, which is that businesses do transact across borders and they do know what the problems are, as the paper points out, nevertheless, the fact of the matter is that you risk the impression that you're forgetting about other groups, other issues, including quality-of-life issues.

There is also the question of when technical – when officials negotiate and you leave that to them, you constantly need the political push, but leaders to get distracted. And so I think making progress on some of the economic issues that I mentioned is good, solid. I would argue that some of the resulting – some of the resulting measures are likely to be highly uncontroversial when they come out, but the process is controversial. It needs that political push. And really, is it enough.

I could go on about other countries, the progress that other countries around the world are making in terms of strengthening regional cooperation in order to together address economic issues of competitiveness, competitiveness vis-à-vis China and India, for example, but not just those two countries. And we are all swamped by import from these countries. There are major opportunities in these countries. Are we going to address these issues together, regionally, or are we going to address them separately. What I'm saying is that in a lot of place in the world, they are addressing it regionally and together, and we're not there and we're being bypassed by other agreements, other countries, in terms of global strategy – global competitiveness strategy.

And so the SPP I think is a minimum in terms of the economic issues. I wish them well; I hope they make progress. I think we can certainly do better, however, in terms of process – what I'm saying, process that is less beholden to the whims, I suppose – the political whims in each country, but that is also transparent, that is also inclusive.

And what do I have in mind here? Let me just finish briefly on that note. Well, I think we are not digging and looking around enough in our joint histories – Canada, the United States. I'm slightly less familiar with Mexico but we have people here to talk about that that relationship in particular. But we're not digging and looking around

enough in our joint histories for examples of cooperation, very dynamic cooperation that have worked well and have addressed very, very difficult problems.

What I have in mind here, for example: the joint international commission, that deals with boundary-water issues between Canada and the United States – transparent but authoritative, incorporates public consultation. But at the end of the day, if there is a really, really tough issue, they recommend – but the politicians are accountable.

Nevertheless, you have this buffer here between the special interests and the public and the politician that is ultimately responsible. You have a group there that is solidly well-informed, gets public input and is able to make recommendations on really tough issues. And a lot of these issues are technical. I think this would have worked well on forestry issues between Canada and the United States, for example. And I think it would work well on some other issues.

Furthermore, there are many exciting things that are not happening at the national level but at the sub-national level. Provinces and states are signing agreements and implementing agreements for greater cooperation not just on economic issues but also on leading-edge issues, including security and especially environmental issues. Can we benefit from, can we bring those into the process?

And finally I think that there is a process called the Future of North America 2025 Roundtable. I was privileged to participate in this process. We need to do more scenario-analysis. I think if we are going to have an intelligent debate and especially more public and business input and think-tank input into initiatives such as the SPP and the specific initiatives under the SPP, we really do need to think ahead collectively on, you know, where we are heading, where is the competition, what are the issues.

And I think that the scenario method – not just saying in abstract – oh, free trade is good; let's expand on it, but this is the situation we're facing in 2025. Let's work back and see what we can do collectively about it. I think that is an appealing idea. So I'm just leaving you with these three ideas. I'm sorry; I think I overstepped my time. Thank you very much.

MR. DAREMBLUM: It's been very good. Dr. Weintraub.

SIDNEY WEINTRAUB: Thank you very much for this opportunity. I want to thank the Hudson Institute for putting on the program, for inviting me to take part. In particular, I would like to thank Chris and Greg for having me here and letting me talk about their paper and about the issues, and for that very, very nice and overly kind invitation of Ambassador Daremblum. Thank you very much. I don't know whether I deserve it, but I'll accept it.

At the beginning of my comments, I want to make one point: I do have a certain bias, but I think it's a bias coming out of practical experience and education and training, and it's a lot like the bias that Daniel Schwanen sort of indicated, and Ambassador Jones

also indicated. I'm in favor of removing practically all of the barriers that we can in order to make North America more competitive. I start out that way, and I look at what those barriers might be and how you deal with them.

Now, we don't remove barriers in one fell swoop because there are a lot of interests involved. You don't do it that way; you do it in a progressive fashion, but you don't hold on to barriers because there are some very narrow interests that might be hurt if things change. And in general, my view is you try to deal with those problems in the narrow way that you – narrowest way you can, but increase the competitiveness of the region as a whole. And there are a good many ways to do that. I'll come to that in the course of my talks.

I must confess – as much as I follow Mexico and as much as I follow North America, I had not paid much attention to what the SPP was doing until I was sort of forced to read the paper that these two gentlemen prepared, and then I saw what it was doing and what North – what was taking place.

One of the two institutions that I knew were functions of the operations of SPP was the North American Energy Working Group, which is part of SPP. It has done some rather good things. It may need more transparency; I don't know. The NAEWG has had some very good publications. You do now have agreed analysis of a good many things in the energy area in North America.

And, two, I was part of the energy portion of the North American Competitiveness Committee. And I think the main items that the NACC actually highlighted are just the right things: How you facilitate border crossing, how you move on standards, and regulations to get more similarity or more compatibility, and on energy integration, which is a very serious one. In other words, I think those contributions are fine.

On transparency, SPP, I really don't know because I wasn't paying that much attention to it. Somehow or other I think the transparency argument is overstated in the paper we received. A lot of people who hate SPP hated NAFTA, and NAFTA was not secret. Greg said that NAFTA was sort of a routine trade negotiation. Greg, you weren't around then following it. The amount of lobbying that had to be done, the idea that we accept the idea immediately is wrong– the first reaction of USTR when President Salinas suggested NAFTA was no– we want to finish the Uruguay round first. They had to be talked out of that.

And in fact NAFTA helped to complete the Uruguay round; it worked the other way round. CSIS together with Bob Pastor who was then at the Carter Center, we ran a tremendously large program, holding meetings at the White House, getting previous presidents and previous Secretaries of State to support approval of NAFTA. I don't remember the final vote, but it was close. NAFTA wasn't routine; it was a major, major step in trying to bring North America together that way.

And there was tremendous opposition at the beginning by some of the same groups that are opposing NAFTA now. I don't hear very much new from the opposing groups even as the trade has increased enormously. The job losses that the United States had were cited. Many people who had to face direct competition— they lost jobs. But the United States during the 1990s had full employment. Had we increased jobs any more, the Fed would have acted to slow the economy. In other words, NAFTA opponents have been citing things that aren't true. Even today, the main problem U.S. labor faces is less about jobs, but about the great shift of the benefits of the economic growth to capital and not enough to labor in recent years; this is a different issue. I'll get to some of those things in a little greater detail in a few moments.

I was terribly disappointed last week as I listened to the comments about NAFTA made by the Democratic candidates for president. One said, let's eliminate NAFTA; let's get out of the WTO. Hillary Clinton said, oh, the problem is the way NAFTA was implemented. I have no idea what she means. I don't think she does either. All of them made statements that were really not terribly helpful. And one of the analyses in The New York Times was what the candidates take this position at the moment to get nominated, but don't worry, they will change once they get into office, and she cited Bill Clinton. Perhaps. But in any event, the candidates are trashing NAFTA, and I must admit I'm pessimistic about the Democratic Party on trade issues, and I hope they get a little better.

NAFTA has always been contentious, and so has trade with Mexico. The United States trade policy went along quite smoothly for the whole post-war period with some objections, but not many until NAFTA. And in the case of NAFTA, the problem was Mexico because it is a low-wage country and a lot of people in the United States, with some justification, were fearful of what would happen in trade with a low-wage country.

In point of fact, as Ambassador Jones pointed out, U.S. exports to Mexico tripled. We had full employment during all of that period. As an economist, I want to make an assertion now. And if you want to argue about it, I am ready for that. Full employment is not accomplished in the United States by trade policy; it's accomplished by macro-economic policy. And therefore, whenever people tell me that big trade deficits were going to cause high unemployment, my answer is that what we need is high growth and that fosters employment. And it's not the trade issues. In other words, I think we are being fed a bill of goods by many of anti-trade people.

NAFTA was not a panacea, not for us; certainly not for Mexico. I'm going to get into some of the structural issues that Ambassador Jones talked about because that is what Mexico's problem has been.

Let me tackle one of these issues that keeps coming up and came up this morning about agriculture in Mexico. I'm not a partisan of U.S. agricultural subsidies. So that part of the comment made that U.S. agricultural subsidies are causing the problems in Mexico – well, I agree with largely – that policy causes some of the problems in Mexican agriculture.

But Mexican agriculture for a long, long time has been a mixed bag. I don't know what the latest figures are exactly, how many people are engaged in farming in Mexico now. It must be 15 or 16 percent of the population. And they contribute about 6 percent to Mexican GDP. Let's keep those numbers in mind. It means they are very poor.

I would like to know from those people who were nervous about people emigrating out of the agricultural areas because they are poor: do you want to keep them there with no opportunity, which is essentially what they have now? And it's not just landowners; it's also workers. In Mexico they're called *jornaleros* who can't get good schooling; they can't get a good education. There are no jobs nearby. What do you do under those conditions if you're a rational person? You try to get out where the conditions may be better. It has happened in every country of the world that has developed. I don't think you can name any exceptions to that, that we need less people in agriculture where it's more developed.

These are people working in rain-fed areas with no irrigation. They can't compete. Their children have no opportunity. There is no future for their children. Sure they try to leave. And the Mexican authorities knew that when they negotiated NAFTA. What they misjudged when they negotiated NAFTA was not that part of it; what they misjudged is what the growth-rate of Mexico would be in the rest of the country and in the cities so there would be opportunities for these people to work. And instead of growing at about 6 percent a year, which is what they had planned on, the GDP grew on an average of about 2 to 3 percent a year during that period, and that is where the problem is.

In other words, I think you have to be heartless to insist that people stay on their rural farm areas even if there are no opportunities here. Somebody mentioned that Bob Pastor wrote and talked about aid to backward areas in Mexico. I made a proposal for minimizing migration under which the United States should give massive amounts of aid not to Mexico as a whole – but pinpointed to municipal areas in the states of Mexico that send many migrants so that people who are working in agriculture also can find jobs nearby, working in clusters of manufacturing and service activities.

I would want a quid pro quo for that. The quid pro quo I suggested was that Mexico must collect more taxes a percentage of the GDP than they are doing so they can meet some of their other obligations on education and so forth. Mexico is making a start on that already. Large increases in tax revenues are not going to happen right away, but I agree with the people who think that we ought to be able to do something along the lines that the Europeans have done in terms of providing aid to the weaker members, and in such a way that it might help to raise incomes.

I will make two points and then I'll close. I am familiar with the exercise that several people mentioned looking toward 2025. I'm familiar with what is going on, and indeed, I have done some work trying to look at productivity gains in the three countries of North America. That is how you create higher incomes really. It's – in a sense, if

you're a good economist, you'll talk about productivity, productivity, productivity. All I mean is that you create more goods and services with the same labor force. And that is how you raise incomes without inflation.

Mexico's productivity growth has not been good since the early – well, since NAFTA, and there are a lot of reasons for it, and I'll come to that in a moment, even though we don't know all of the reasons for high productivity. A lot of the problem is lack of investment; a lot of it is lack of education. A lot of it is other structural problems. That is one area—the structural issues—that I think we have to look at.

Throughout most of the '90s, U.S. productivity exceeded Canada's, and therefore the income gap between the two countries widened over that period of time. In the last couple of years, U.S. productivity growth seems to be slowing—the increases are less than they were before. And in '95, actually Canada's productivity increase was bigger than that of the United States.

I don't know whether we will return to higher productivity growth. The decline may short-term or the beginning of a long-term trend. I think it's a short-term drop because when the country been at full employment for a long time, it is producing at capacity and it's very hard to raise production further. But anyhow, it hasn't been mentioned here, and I think the critical element in trying to integrate is North America more productivity.

And now let me just talk about some of the problems I see in Mexico, and again Ambassador Jones mentioned them. If you look at the structural changes that Mexico has made since NAFTA, they are meager. They really haven't made the kind of changes they should make. And I think almost any economist – Mexican economist that I know -- points out over and over again that the problems are political. Mexico lacks political consensus on these issues.

The problems – the structural problems are collecting more taxes as a portion of GDP, getting society to be more equal, better health care, better education, and an energy program that works, impartial rule of law, dealing somehow or other with corruption in ways that they haven't been able to. And all of those things affect I think Mexican growth and Mexican productivity. And they must be tackled.

And I have yet to meet a Mexican economist who argues with this, but the underlying question is process: How do you make these hard changes in a country that is as divided politically as Mexico? And I don't know the answer to that and I haven't heard the answer to that from others.

One answer is that Mexico will first have another crisis. Mexico had a crisis in 1982, and the import substitution policy disappeared. Mexico had a crisis at the end of '94 and in '95, and the fixed exchanged problem disappeared. If Mexico had an energy crisis, it would be tragic, but then there would be change. I just hope they are more mature than most of us are. In most countries, including the United States, the changes

get made after crises. I hope Mexico can make the needed structural changes before the next crisis.

There is just one other point I want to make. I don't know where the three countries of North America will get the resources to deal with the infrastructure problems all of them have. They are major and the costs will be enormous. We are talking now not in billions but in tens of billions, and maybe looking at the issue in the aggregate, hundreds of billions of dollars.

The United States learned after Minneapolis that we have devote more money to our inadequate infrastructure. The Canadians have similar problems. Canadians haven't been able to deal yet with the gas pipeline that they want to build. In other words, there are big and real problems, and I don't want to skirt them. I don't think we help anything by becoming ultra-nationalistic and only looking inward in the three countries and not taking into account the related transportation problems of our neighbors. Thank you.

MR. DAREMBLUM: Thank you, Sidney. We are going to stretch out a little bit the time of this panel. And we'll be glad to take a few questions. It was here; it was here. Dr. Bailey.

Q: Thank you. Fascinating panel and a fascinating topic so thank you to all. My name is Norman Bailey, The Institute for Global Economic Growth.

There was a good deal of discussion of U.S.-Canadian economic relations U.S.-Mexican economic relations. There was practical no mention of Canadian-Mexican economic relations since the inception of NAFTA. I wonder whether either or both of the two panelists would care to address that issue.

MR. SCHWANEN: I can give it a try.

MR. WEINTRAUB: Yes, sure.

MR. SCHWANEN: I think it's interesting. Partly it's a statistical problem. The official Canadian statistics show – still show that Mexico accounts for maybe between 1 and 2 percent of our exports. But what happens is that the economy – and this is something that I neglected to mention. It speaks to the really different nature of economic relations between Canada, Mexico, and the United States, than, let's say, between Canada or the United States and let's say China. It's speaks of the value change.

When you export something to the United States from Canada, there is a higher chance – there is a good chance that some of it will be at some point re-exported to Mexico. It just – it just gets counted in the Canadian statistic as an export to the United States. I'm not saying there is a good chance; I'm just saying there is quite a bit. Some people have calculated that our export statistics undercount – basically only show a third of the trade that we actually do with Mexico we do via the United States.

It's just that the production chains are so highly integrated and so, you know – so number one, Canadians tend to underestimate the relation with Mexico. It's much higher than the statistics would show.

Number two, there has been a very high growth, and I mentioned that at the beginning. And the number of Mexican workers in Canada in agriculture but also elsewhere – construction – that is something that you're familiar with here but we have programs that deal with this influx. And there has been a number of Canadians in the banking industry, for example, moving to Mexico. There has been major Canadian investments in Mexico, but notably in the banking industry.

So the relationship has I think really very much blossomed, partly via the United States, so we meet in the middle, if you like, but it remains not, if you like, a very large relationship in terms of numbers, but it has been growing very fast.

MR. WEINTRAUB: Let me add just one point. I agree with that.

MR. SCHWANEN: Yes.

MR. WEINTRAUB: One other point. If you look at Mexican exports to Canada, the official figures, they have grown much more than Canada's exports to Mexico. So I'm not quite sure why, why it shows that, but anyhow.

MR. SCHWANEN: Well, this is – this shows the integrated nature because we import a lot of automobile parts from Mexico, but we don't really care too much about the fact that that gives us a deficit with Mexico because we have a surplus with the United States in terms of assembled vehicles for the parts coming into Canada, but really that helps us generate a surplus with the United States, for example. So yes, we have a large trade deficit with Mexico officially, but our exports are undercounted, and a lot of the imports are re-exported.

MR. DAREMBLUM: Jim?

MR. JONES: Well, I would only add that it has grown substantially but from a very, very low base. It was virtually an asterisk, Canada-Mexico trade, when NAFTA started. And the Canadian government did try to introduce commerce to the equation. It has had some success. But ironically, Canada has done more – I believe more increase of trade with other Latin American countries such as Peru and Chile, and that is predominately because of the mining industry.

Q: Al Millikan, Washington Independent Writers.

There was concern expressed about the United States democratic presidential candidates. I'm wondering if any of you are aware of the economic and political advisors that may be giving them advice, giving the consultation, and could they be in conflict about that? I did sense your concern about this.

MR. WEINTRAUB: Well, I'm the one who mentioned it. I don't know – I don't know personally all of the advisors. Sure it could be. A lot of what you're saying I'm sure it takes place, but this guy knows much more about political advisors than I do and maybe he can give you a better answer than I can.

MR. : No, I don't know who all of their advisors are. But the problem with our political system, presidential system, it is you have to appeal, if you're a Republican to the hard right, to the Democrat; to the hard left in order to get the nomination, and whoever can move back to the middle faster between the nominating and the general election wins the election. And so what you have seen is the audience was the AFL-CIO who historically have opposed virtually all trade agreements, and there was a lot of pandering going on. And so that is what I – didn't take a political advisor to tell them if they wanted to get the AFL-CIO applause, they had to pander to the left there.

MR. DAREMBLUM: One last question.

Q: Cliff Kincaid again. On the point about how transparent these working groups are, I think Mr. Schwanen had mentioned that and that this is rather mundane work by technical bureaucrats. And then Mr. Weintraub mentioned that he has been involved in these workings, these negotiations. Have either of you – you were involved with the North American Competitiveness Council.

MR. WEINTRAUB: Yes.

Q: Right, which is part of this. Have either of you or any of you been to the website of the SPP, spp.gov? Because if you go there, you won't find the names of any members of these working groups at all. You will not find a phone number for anybody. Instead, you will simply find a form to fill out, which goes somewhere we don't know, if you want information about the process.

And you are told that, oh, various myths have been perpetrated about this, and rest assured the government would never do anything secretive or anything to undermine sovereignty or sell out to business. And I'm wondering if that kind of process, that kind of approach is satisfactory when, as I indicated earlier, the public interest group Judicial Watch actually had to use the Freedom of Information Act to get the names of the people involved in these working groups and to actually find out how many working groups there were that were part of the SPP. So those are my questions for you two.

For Ambassador Jones, you talked about North America coming like a regional trading bloc. And I'm curious to know if you see this as the future globally of trading blocs really competing against each other. Thank you.

MR. SCHWANEN: Yeah, I a – I'm just wondering what would be achieved or if you say that the names were made public. I was wondering what was achieved by having

the names of minor or more senior officials that were working within these working groups.

Q: (Off mike.)

MR. SCHWANEN: I think – well, yes. I think in terms – what I meant in terms of transparency – and you say that the information eventually became available. I was wonder if it was useful. I guess that was – that is a bit of a question back to actually, you know, who and what their phone number is.

I mean, I don't know about calling the actual people responsible for implementing a particular regulation as opposed to calling, you know, I suppose legislators and others. But, in other words, I'm just questioning if you know the identity of the individual at the table if they are not, you know, a major business group or they are not an elected person or a major official what that would give you, but his is not – now I'm starting – (unintelligible) – and really I shouldn't have done that. I'm just curious what that information would give you.

But what I meant by transparency was more that I think we do know and we should know what they are talking about, and I think that the government – and what their objectives are. And I think that we – from my perspective, having gone on the website of course and talked to people involved the process, admittedly at a senior level, it seems clear to me what they are up to, and if there are ways of making this not only clearer but involving groups other than the Competitiveness Council in making sure that in fact what they are working on is what they say they are working on or giving input on what they should be working on as opposed to the list that was produced initially under the SPP, I'm very much in favor of that. I mean, that is what I mean by transparency, but I suppose it's more – better classified as an oversight issue, but a very, very public one.

MR. DAREMBLUM: Jim, Sidney?

MR. WEINTRAUB: I don't really have too much more to say. I mean, I don't know why – I didn't even really think of transparency. When bureaucrats negotiate with each other on a good many issues in general, there is not much publicity about it. But the people who want to be lobbyists, I would be surprised if they don't know who the key people and the various agencies who work on these issues. In the case of the North American Competitiveness Council, they published – I mean, it's wide open. So you can just get what they have. It's not – that is not secret. And all of the recommendations are there.

I must say that I think you're making a federal case that is not as important as that. And what I guess I have noticed in a lot of the opposition that I have seen so far from the left wing – we're getting a lot of opposition to trade. That is where the complaints are, and from the more conservative groups, we are getting a lot of opposition to immigration. All right. That is the way it is. I guess I find it hard to take as seriously as you do.

MR. JONES: Just one comment on that. I agree with Sydney that I don't think you're going to learn a whole lot more than what you have. But I do think it ought to be more transparent than it is just to allay fears that there is some sort of nefarious schemes going on. And by that, I think the different groups should be there. There should be briefings on what they discussed and what they didn't discuss. There should be top-level people, cabinet officers or what have you taking questions, meeting with the various NGOs. I have no problem with that. I think that strengthens what everybody is trying to do.

On your question of regional blocs, yes, I think that is the inevitable direction we are going because globalization is not going to turn back. It is a life unto itself regardless of what governments say. It's like the communications and technology in the financial services industry. You're not going to turn that clock back. So you have dollars and various monetary denominations flowing across boundaries, and there is nothing governments can do about that.

So it's going to happen. So how do you compete in that atmosphere? You compete where you get the various parts of a successful economic unit together to compete against the China, which is a regional bloc in and of itself; India, which is a regional bloc in and of itself; the European community, which is a regional bloc in and of itself. And to me, a natural region to compete in that area is North America, ultimately probably Central America too if we are going to be able to compete. So that is – I think it's inevitable regardless of what governments say or don't say and we better recognize it.

MR. DAREMBLUM: Well, we thank the panelists for – I'm sorry, but we're going over time.

Q: One question from the – (off mike).

MR. DAREMBLUM: Okay.

Q: (Off mike.)

MR. DAREMBLUM: Please, please. We're being transparent here.

Q: (Off mike) – secretly arrived there might be a little bit heavy – (off mike).

MR. DAREMBLUM: Do you want to get the mike?

Q: It would be rather nice to know whether the – whether people, the country, whether the politicians, the political process is ever to be involved in what, after all, are very consequential steps that are being – that are under discussion. And I wonder if you would, all three of you, if you would comment?

MR. JONES: I agree.

MR. WEINTRAUB: Let me make one comment because I want to run. I don't think –

MR. : Would you pull up the other mike?

MR. WEINTRAUB: I agree with you. If there were secret agreements secretly arrived at, that is bad. All right, but I don't think that is what is being done. I said in my initial comments that I think more transparency would be useful, but I'm not all that nervous about it because I would imagine that the political people know what is going on. They can speak to the various people if they wish to. Their staff speaks to these people frequently. I got calls about that "secret" North American Competitiveness Council directly from members of staffs of Congress while it was going on, and I was just on little section of the whole thing, and I assume that other people of other sections also did.

In other words, if I thought what was happening were secret agreements, secretly arrived at, given by the government without knowledge of Congress, I would agree with you. But I don't think that is what is happening.

MR. DAREMBLUM: Well, I'm sorry.

Q: (Off mike) – secret agreements secretly arrived at. But the drift is quite clearly in the direction of doing things by the back door.

MR. DAREMBLUM: There is – this is going to be a space at the end of the program in which you can interact with our speakers. We are over time. We thank you very much. And let's thank our panelists for an excellent job.

(Applause.)

(Break.)

**Panel 3: After Montebello: The View from the Summit,
and Where We Go From Here**

John O’Sullivan

John Fonte

Barbara Kotschwar

Robert Pastor

JOHN O’SULLIVAN: I ask people to resume their seats. Thank you.

I would like to thank the previous speakers for very stimulating sessions. I would also like to thank Greg Anderson and Christopher Sands for a very strong analysis in their paper, which gave us a very good foundation for today’s debates and for organizing the events. And I can only hope that the three leaders at the Montebello Summit are actually following our proceedings via C-SPAN.

Now, our final session is indeed an attempt to look forward from the Montebello Summit and do a – attempt a modest exercise in futurism examining what the Security and Prosperity Partnership for North American might look like following the summit. How do our three panelists expect the SPP to develop in future? How do they think that the SPP is going to fit into America’s wider trade policy? And how do the three speakers think that the SPP will evolve as an issue in American politics as well as in Canadian and Mexican politics? Do they see it in narrow terms as a tidying up of different regulatory structures in the three countries to enable gradual integration, or do they see it as the harbinger of something much more significant, something perhaps akin to what has happened in Europe over the last 50 years.

And we have an extremely distinguished, not say, in the comprehensive panel for this final session. I’m not going to read out the full biographies. You have those, and they are three very distinguished biographies. But our first speaker is going to be John Fonte, my colleague here at the Hudson Institute, where he directs the Center for Common American Culture, who is a historian and a political theorist who has done an enormous amount in recent years to improve the mechanisms of assimilation and citizenship in this country.

Barbara Kotschwar, who will speak after him, is a distinguished economist specializing in the economics of the Americas. She is presently at the Peterson Institute for International Economics.

And Robert Pastor has been a major figure in the development of the idea of greater North American and Latin – and hemispheric integration, both in government, where he was at the National Security Council, heading the Latin American desk in non-governmental politics, where he worked for – when he worked for the Carter Center, and now in academia. I don’t think we could have a stronger panel for this occasion. I’m going to ask John Fonte to begin, and to give us the standpoint, so to speak, from the Common – from the Center of the Common American Culture. John Fonte.

JOHN FONTE: Thank you, John.

My vision of the future of North America is rather different from the one you have heard. I see a 21st century North American consisting of three independent democratic nation states, the United States, Canada, and Mexico. There would be reasonable cooperation and security and trade, but as sovereign democratic states, they would rule themselves. For example, American border security would be determined by Americans. Canadian trade, economic, and energy policies would be determined by Canadians. And if some of those – America didn't like some of those policies, well, that is called democracy.

Mexican education and cultural policy would be determined by Mexicans. Thus, Mexican schools, for example, would continue to promote Mexican identity to Mexican students, not, as recommended by the Council on Foreign Relations, to, quote, give students a greater sense of North American identity. I would expect that most ordinary citizens in the United States, Canada and Mexico, would prefer their educational institutions focused on their own national identity and history.

Now, let's look at some broad – what I see as broad problems with the SPP in general. One is conceptual, philosophical. There is in a sense a democracy deficit in terms of process. And, two, in terms of the substance of the policies themselves, which I'll look at – examine that: border security, immigration, and how it meshes with the traditional American concept of the assimilation of immigrants, what we used to proudly call Americanization.

On the first point, democracy deficit, the SPP has some very far-reaching goals: the harmonization of regulation, standards, border immigration policies. The legal and constitutional authority for SPP is supposedly in the fine print in NAFTA. But, as has been pointed out, there is no congressional authorization for SPP. There have been no funds appropriated by Congress directly for SPP. There is little oversight or congressional hearings, no real public involvement. It is not a treaty, no real transparency, except for the material released reluctantly after freedom-of-information requests.

Actually, just as an aside, I was rather astounded by the last panel when the question was, should we know who was actually attending these meetings, and the person on the panel said, well, that really wouldn't serve any purpose if you essentially know who is coming or not. This tells us something about the mindset at work.

In short, the SPP contains none of the regular procedures of American constitutional democracy. As the Anderson-Sands paper points out, there has been a lack of response to Congress by the Bush administration.

Now, unlike some, I don't believe a conspiracy is at work; nevertheless, the North American integration process, the NSPP, is deeply flawed both conceptually and administratively. Obviously there are areas of cooperation that are being pursued by SPP

and others that make sense in health regulations, trade, intelligence cooperation and so on. However, the issue is a border security, in immigrations, that are issues in America that will be decided by the Congress of the United States, not delegated to executive branch officials and transnational corporate executives.

Let's look at some specifics: border security. It's clear that the SPP document, as it states, the immediate number-one priority is, quote, "to facilitate the movement of people across borders of North America." Now, unlike Adam Smith in "The Wealth of Nations," SPP does not put – does indeed put commerce over security. Remember Smith put security over commerce in the wealth of nations.

Jim Edwards writes in a background paper for the Center for Immigration Study – I urge you to read that, along with the Judicial Watch's Freedom Information Note, which are very interesting on what – of some of the reports on some of the meetings. Edwards says the SPP reports prioritize speed over security. I think that is right. We'll give you an example here. The North American Competitiveness Council report of February 2007 have the following recommendation: Develop and adopt a low-cost, easily attainable ID and citizenship-verification document as an alternative to a passport. And that is almost an invitation to fraud given what we know about fraudulent documents in the immigration business in the last 10 years.

These priorities are vaguely written and ambiguous, but implicit is the suggestion there should be one border for all of North America. Indeed, there is a discussion by the traveler screening system working group of one card, and this has been – this is the suggestion. It is somewhat ambiguous in SPP. Well, this is an absolutely crucial issue. Are we talking about one border for North America, or when you cross the Mexican-Guatemalan border, are you in the United States, in which case our security is dependent on Mexican-border security.

The implication of in SPP is a yes, but, as I say, it's ambiguous. It would make much more sense in terms of border security and the war on terror if we had a layered system of borders. Sure, a North American outer border would be fine, but then even tougher borders – U.S.-Mexican border and the U.S.-Canadian border – tougher as the administration is now belatedly saying the last few weeks that it plans on doing.

One of the problems is this process has been dominated by corporate special interests and not by the national security interests, by border security interests of the United States. And I believe that overall that proposals in SPP would actually weaken border security.

Let's look at immigration, labor mobility. SPP document states temporary work entry – quote, "The three countries have forwarded a trilateral document setting out each country's domestic procedures to modify NAFTA's temporary appendix of professionals, providing a mechanism for more North American professionals to be given temporary entry." Secretary of Commerce Gutierrez said, quote, "Work must continue to formalize a transnational labor force that could work in any North American country."

Well, all of this immigration policy, which is not a technical issue, as we have heard. This is absolutely not a technical issue. It's decided in our constitutional system not by the secretary of commerce in consultation with the Chamber of Commerce and foreign governments – by the Congress of the United States of America. And as we have witnessed recently, in the United States Senate, a bipartisan majority, 37 Republicans, 15 Democrats or so have very different ideas from the Bush administration and from business about what immigration and security policy should and should not consist of.

Now, Ambassador Jones is right, that Congress does listen to the American people. He is also right to suggest that interior enforcement is crucial. However, SPP moves in the opposite direction.

Let me pick a bone with Ambassador Jones, listening to his previous discussion here – labor and mobility. Labor and mobility is a euphemism. That is immigration policy. What are we talking about? The labor mobility – the suggestion in SPP and the others is to continue massive, low-skilled immigration to the United States – Mexico and South – Central America. The Heritage Foundation has suggested over the long term the folks – the low-skilled people would cost about 20,000 a year in terms of what they would require in benefits and what they would pay in taxes. So it would be a cost to the taxpayer.

So in any case, that is an immigration debate. What we have often in SPP, in North American discussion is an end run around an immigration debate. Now, there is intellectual framework, and Mr. Pastor will be talking about this I'm sure for a North American vision.

I want to look briefly at the Council on Foreign Relations' report. No, it's not technically part of SPP, but it's certainly part of the intellectual framework, part of the vision. And a lot of the same people are involved. There is two permanent things here that I want to talk about. One is a trade – the trade tribunal and the other is the promotion of North American identity.

Let me just – before we get to that, let me just discuss the whole question of a trading – of trading block. Is that what we really, really want? In a way, having the world divided into different trading blocks is a negative on free trade to an extent.

Then if we were looking for partners, there are other partners suggested. My colleague John O'Sullivan has talked about an Anglosphere, closer trade relations between the English-speaking peoples, the United States, Canada, Britain, Australia, New Zealand, and India. Get India out of the Asian bloc and into an Anglosphere bloc.

I mean, there are other ways of looking at trading blocs. We're going to have a trading bloc. Is North America the strongest way of doing it with Mexico and Central America perhaps being a drag as opposed to having something with an Anglosphere

where we can include India? That is just another way that – I don't think they have clearly thought this through.

Let's look at what has been suggested by the North American – I'm sorry, by the Council on Foreign Relations to establish – they recommended establishing a permanent tribunal for North American dispute resolution because the current ad-hoc panels are not capable of building institutional memories or establish precedence. As demonstrated, quote, “by the WTO appeals process, a permanent tribunal would likely encourage, faster, more consistent, more predictable resolution disputes.” Well, that is exactly the problem. The structure of the World Trade Organization is different from the GATT, the General Agreement on Trades and Tariffs.

It's more transnational and less international. Cornell University professor Jeremy Rabkin, a lot of you know, writes that the appellate of the World Trade Organization should be taken seriously as a threat to sovereignty. Rabkin – why? Why is that the case? Well, Rabkin says the AB of the WTO, the appellate body, could build a body of case law from the international treaties the United States did not sign, as standards for setting trade disputes.

It's already building a constituency of transnational actors, not just global corporation but – (inaudible) – activist NGOs that could in large measure, through courts, bypass the legislative decision-making process of the democratic nation states. Indeed, this is exactly what happened in the European nation states. Look at the writing of Alec Sweet Stone, a British expert, generally favorable to the EU, but he describes the history of what happened in Europe over a 20-year period. The European Court of Justice established a body of independent case law, became the arbiter not just of trade but of social policy, and gradually, step by step, achieved dominance over democratically elected European parliaments. That is the history of the last 40 years in Europe.

The Council of Foreign Relations report, “Building American – North American Community” also recommends building North American identity. It says, quote, “encourage – we should encourage in imaginative ways to build North American connections, have research institutes, engage in new concepts such as the North American community, developing curricula that would permit citizens of our three countries to look at each other in the past in different ways.

Now, for those of us who have spent years examining history curricula, the subtext of this is clear enough. This is historical revisionism. Let's rewrite the history of American history not as a story of the American people but as a story of North America. The Council on Foreign Relations also recommends, quote, “developing training programs for elementary and secondary teachers who would give some students a greater sense of North American identity.”

Again, these are code words that are clear enough: translation, promoting new North American identity that will challenge the allegedly outmoded conceptions of American, Canadian, or Mexican identity.

Another CFR recommendation: greater effort should be made to recruit Mexican language teachers to teach Spanish in the United States and Canada. Well, on the contrary, most Americans would like to see greater efforts at assisting immigrants learn English. The CFR recommendation is in direct conflict with U.S. national interests and our traditional policy of Americanizing newcomers into the mainstream of American civic life by promoting the U.S. of the English language. This is a direct challenge to the goal of assimilation.

Well, there is a lack of popular support. The leaders of the SPP project admit such, that their vision of North America doesn't quite have the popular support now. Notes from the Banff meeting (of the North American Forum) state the following: quote, "Most people are not compelled – they don't find the North American integration vision compelling, so there is a need to demonstrate the concept's success." Another SPP document declare, while a vision of an integrated North America is appealing, working on the infrastructure might yield more benefit and bring more people on board: evolution by stealth, evolution by stealth indeed.

One could ask why government funds are used for propaganda purposes to promote North American integration, which is simply one vision of North America. There are others, and this is a particular partisan vision – it's a particular, let's say, elite vision. There is no wonder that many members of Congress and the general public are suspicious of the project.

In conclusion, I would say to my friends who are promoting this particular vision, you guys need to go back to square one, get congressional authorization, and come up with some more modest goals focused on cooperation and sovereignty – cooperation among three sovereign nations that are issues are mutual concern, and not the type of extended integration that is not supported by the three publics in any of these countries at the present time or probably I would imagine ever. Thank you.

(Scattered applause.)

MR. O'SULLIVAN: Thank you very much. That was a gauntlet thrown down if ever I heard one.

MR. FONTE: That is the idea.

MR. O'SULLIVAN: May I now ask Dr. Kotschwar to respond, or rather to give her own paper.

BARBARA KOTSWCHWAR: (Chuckles.) Yeah, I'm not sure I'll respond. I'll probably be a little bit less controversial. But first I want to thank the chair of the panel and to thank the Hudson Institute, and particularly Chris Sands for inviting me to participate in what promises to be an exciting panel. (Laughter.)

I am aware that I am in the position of being the speaker directly before the speaker who has been the most cited during this morning so I'm sure that you're all very eager to get to that. I'll try to be brief. I also know that I have your attention because you're going to listen to Dr. Pastor. So I'll take full advantage of that but try to be responsible and respectful of your time.

Looking at the North American relationship, I'm going to focus a little bit more on the prosperity section than the security section, having the same issue that one of the previous speakers had, which is that I'm an economist, and although we recognize the importance that security plays in this issue, and particularly in this relationship, I'm going to look at the part that I know best and look at some of perhaps the less big-picture issues, perhaps the less sexy issues and some of the issues that still remain on the North American agenda.

Whether we want the world to divide into trading blocs, whether we want to think of North America as a trading bloc, there is quite a degree of integration already in North America, and that just is the way that things are. And the three countries, the three NAFTA countries, have collaborated, and have cooperated in quite a few areas while remaining – by retaining their own individual trade policies, and that is also evidenced in some of the disputes that have come about during the NAFTA implementation process.

But going back to NAFTA on New Year's Eve coming up, hopefully some of you will remember when you are celebrating and you have your champagne and you're toasting, that in the next few minutes or so, we should be seeing the implementation of all of NAFTA. On January 1st, 2008, according to schedule, NAFTA provisions will be fully implemented. Now, there is about 1 percent of tariff lines that remains to be implemented, but still, it's kind of a milestone. This will mark the end of a 14-year transition period of North American integration.

And near the end of this transition period, we do find a great degree of integration has occurred more than some would like and not as much as others would like, but just in big-picture terms, over the period of the NAFTA implementation, intra-NAFTA exports are more than half of total NAFTA country export. Even with the recent trend in falling of Canadian exports to the United States, for example, the last couple of years we have seen less of that interregional trade. But even taking that into account over the entire period of transition, intra-NAFTA trade has grown an average annual rate of about 2 percent greater than NAFTA exports to the rest of the world, so trade integration continues.

Foreign direct investment has increased for the region as a whole. The average stock of FDI in the period 2000 to 2005 was almost four-times larger than it was in the period 1989 to 1992 largely as a result of liberalization of foreign investment regimes under the NAFTA. Relative to regional GDP, FDI stock has almost doubled from about 8 percent to about 15 percent. In Mexico, the FDI stock is about 6 times larger than it was 1992.

Intra-industry trade has been discussed by previous panelists, particularly in sectors like the auto sector. You have seen a huge increase in intra-industry trade, and also a larger degree of integrated production chains in North America. There are some countries – companies that are truly North American. And also you see foreign firms looking at the North American market more as such, as a North American market. When you talk to foreign investors, they see much more Mexico as a possibility for looking at the North American market and the other North American countries vis-à-vis Mexico.

As a result of some of these moves, business cycles among the three countries have also been seen to be more in sync with each other. An example of this was given by the Dallas fed who estimated that from 1980 to 1993, the correlation between indices of economic activity between the United States and Mexico was about .73. This increased to .96 between 1993 and 2004, just another example of integration.

As we reach the close of the NAFTA transition period, as NAFTA becomes what has been called a mature and boring – (chuckles) – agreement – I guess the familiar becomes less exciting – this doesn't mean that no challenges remain for the NAFTA countries and the NAFTA as a whole. There are a number of challenges that remain and that require a forum for continued discussion as a forum that was put for the Anderson and Sands paper as perhaps the SPP could serve as this type of a continuing forum for discussion.

One challenge is that despite the promise of full implementation on January 1st 2008, there is still some challenges to full implementation. Some sectors remain that have not been implemented.

One major example is the Mexico-U.S. trucking sector, which was to have started to open up on December 18th, 1995, and be fully liberalized by 2001. This is a sector that represents about a million dollars of trade a day between Mexico and the United States that currently remains U.N.-open and there is not there is not the sort of most-favored nation trade that you see or treatment of Mexico that you have with Canada that was promised under the NAFTA. So this, along with some other well-known examples, remains to be addressed within the context of the North American trade agenda.

Another challenge that has been discussed by the previous panelists, and is in the news quite a bit, is the politics of immigration. Some negative signals such as the threat of building a U.S. wall at the southern border remain just an example of how necessary it is to have a continuing forum for discussion both at the technical level and at the political level.

Immigration policies have a great impact on business, of course. One good example of this is that the Microsoft Corporation has just set up a regional center in Canada taking advantage both of Canada's advantages in this area, as well as Canada's slightly more open immigration policy that will allow this company to bring in highly trained professionals from outside.

Now, in the context of talking about North American competitiveness, this isn't necessarily a bad thing because this continues to – these jobs continue to be in North America. In terms of immigration policy, it's probably something that countries want to think about, whether this is the sorts of jobs that you wish to lose.

A third challenge is the fear that you're starting to see of a decreasingly friendly foreign investment environment. Countries are increasingly looking at reformulating their foreign trade regime to include strong measures to address national security – very important for countries to be able to protect their national security is certainly something that needs to be discussed in such a highly integrated environment, something where the three countries can really benefit from talking to one another, particularly given how important the foreign investment ties are for NAFTA countries.

These challenges obviously will continue, and the transition period doesn't mark the end of the continuing changes and challenges in the NAFTA relationship; it just makes close monitoring and continued collaboration all the more compelling.

As Daniel Schwanen mentioned, the trade arena has also changed from where it was in 1994. There are many, many more bilateral and regional trade agreements participated in by the rest of the world but also by the countries of the NAFTA. When NAFTA was signed, the three North American partners, all of whom were GATT members, were relatively new players in the regional integration theme.

The U.S. was a big proponent of multilateralism and was rather hesitant about bilateral trade agreements. Mexico had a free-trade agreement only with Chile. The United States had an agreement with Israel and with Canada, and Canada with the United States. Now Mexico has free-trade agreements with 46 countries or they cover 46 countries; the United States, 15 countries; Canada with five additional countries, many of those countries in the Americas. All are in the process of negotiating more and more free trade agreements.

Now, this also represents both a challenge and opportunity for the NAFTA. One of the challenges in the trade arena was mentioned by Ambassador Jones, which is the threat that NAFTA-base suppliers will be replaced by global competitors, obviously mainly from Asia. This a North American I shouldn't say threat but challenge, something that North American countries, as they are thinking about continuing discussions in formulating a policy towards North American competitiveness, which includes each of the individual countries' own competitiveness should take into account.

Border security threats – it's difficult to think about how these can be effectively managed without collaborating and coordinating with the countries on the other sides of those borders. There is also the threat of keeping up with technology. This is certainly an important aspect of competitiveness, and there is scope for collaboration and taking advantage of economies of scale and using what each of the NAFTA partners are able to contribute to that.

The North American Partnership for Prosperity and Security gives a scope for increased collaboration. Given the number of new agreements signed by the participating countries, there is some scope for discussion about how to perhaps improve NAFTA, how it learn from some of the new aspects of these trade agreements that address some of the issues that in 1992 to 1994 were not so compelling, in which the countries didn't have so much experience, and perhaps adopt some of the improvements that have been made in new trade agreements.

One area in which a lot of improvement could be made of course is rules of origin, which has been mentioned as a somewhat boring technical element, but if you're a small- or medium-sized enterprise, rule of origin might be a disincentive of going to market.

Then at the multilateral level, Dr. Weintraub reminded us that one of the great legacies of the NAFTA was to spur further discussions and more rapid conclusion of the Uruguay round. The multilateral system, trading system right now is in some difficulties. The three NAFTA partners have been constructive players at the multilateral level, hopefully, part of their discussion can help be even more constructive at the multilateral level.

Looking at the three elements that Anderson and Sands pointed out in their paper that are important for carrying forward this partnership is symmetry of transparency and paying attention to the U.S. Congress. One element of a symmetry that hasn't been addressed but that I think is pretty basic is the larger partner needs to give the smaller partners a sense that they are playing by the games that they themselves set out. It's important to implement the commitments that were already made in the NAFTA. If further dialogue needs to be engaged in with the partners in order to make the larger partner more comfortable in implementing those then that needs to be done. But agreements that you have made need to be implemented.

Transparency is a big issue obviously. In preparing for this and in thinking about the Montebello Summit, I looked on the Internet to see what information was out there. And I first Googled "North American prosperity and security partnership." And using this formal term, I found links to the SPP website and to the Council on Competitiveness, so found all of the official documents relatively easily. When I Googled, "SPP Montebello meeting," I found a whole different set of documents, most of them inviting me to sign up to the protest and to express why I didn't want to have a NAFTA superhighway that would ruin somehow the sovereignty of the three countries.

So the two sides really don't seem to be talking or perhaps finding each other's information. Perhaps the formal discussions need to become a little bit less formal. And I wonder whether the people who invited me by Internet to sign up for the protest have actually really read the documents on the official websites, and seen the amount of information that is out there, which actually is quite plentiful.

Now, I hope that this paper published by the Hudson Institute will show up on both of these searches because I think it does a really good job of covering the evolution of the process, what the process is, what it isn't, and give some really good recommendations of how the two sides could perhaps talk to each other.

This isn't going to make me any more popular, but thinking about another process, the free-trade area of the Americas process, which nobody really talks about anymore because the negotiations didn't really bring anything to fruition, at least yet. But what they did have – which, I was reminded of this in the discussion about the business involvement in the SPP dialogue.

That process brought in relatively early the business – the Americas business forum and as a result had to create a forum for civil society in which they created a window through which civil society participants could submit their – or not participants. Anybody in civil society could send their comments to the negotiators. Now, the SPP is not a negotiation, but perhaps a similar mechanism could be developed by which people's opinions could go to those people who are doing the discussion. There are also joint meetings between civil society representatives and the negotiators, which may be another thing that could be dealt with.

The third, the Congress, as Chris Sands said, you can't not talk about issues with Mexico and Canada. You also can't not talk about these issues with the Congress if you want to have a successful initiative, and I think that has been discussed at length.

I'll close. I realize that I have probably gone over time as well, and hopefully we have plenty of time for Dr. Pastor. Thank you very much for your attention.

MR. O'SULLIVAN: Thank you very much indeed. If I may so, you picked up Mr. Fonte's gauntlet and very delicately put it up on a very high shelf. (Laughter.) Could I now ask Dr. Pastor to address us?

ROBERT PASTOR: So time is not up yet?

MR. O'SULLIVAN: Time is not up. And I have just been told that it is not urgent that you finish by – we are going to go on till about 12:20.

MR. PASTOR: In 1940, there is a story about a Frenchman in Paris being asked by a tourist, how do I get from here to Berlin? And the answer was, well, I wouldn't start from here. And if the question were asked, how do you get to a new North America, my answer would be, well, I wouldn't start in Montebello.

MR. O'SULLIVAN: May I just interrupt? Could you take – lower the microphones and move it exactly up slightly. Yes, thank you. Sorry.

MR. PASTOR: Is that why there wasn't any laughter after the first – (laughter). Can you still – can you hear me now? The bigger problem is not the point of departure;

the bigger problem is the destination is simply not clear. As Barbara just pointed out, if you look at the SPP site, website, it appears that the agenda for Montebello has to do with epidemics and emergency management, perhaps your regulatory framework.

But if you listen to other louder critics, the real hidden agenda is the dissolution of the sovereignty of the three countries of North America into one North American union. I would say the real problem is not, as the critics would suggest, that there is actually more than it seems going on in Montebello. I would argue that the bigger problem is that there is a lot less than it appears to them, and indeed that the agenda that faces the three countries of North America is quite formidable. And our three governments are not entertaining that agenda.

First, let me start where Jim Jones left off. I believe that NAFTA was a success – is that going to work better now – NAFTA was a success for what it was designed to do. It was designed to dismantle trade and investment barriers and it achieved that purpose, and the result was a tripling of trade among the three countries and a quintupling of foreign direct investment.

At the same time, however, our leaders did oversell NAFTA because it represented such a huge swallow for all three countries for very different reasons – from the Canadian and Mexican perspective, where they have long feared a close embrace by the United States would be suffocating, and from the U.S. perspective, that closer integration with Mexico could lead to a loss in jobs or perhaps a diminution in standard of living. And therefore, our leaders oversold.

But it did succeed for what it was intended. The issue today, however, 13 years later, is that the world has changed. NAFTA succeeded in accelerating the integration of the three countries. And there is a new agenda that is not being addressed, and that agenda flows not only from the transformation of the three countries and their relationship; it flows from the transformation of the world primarily in two ways.

One is the integration into the world economy of China, India, and Russia. All three are a part of the world-trading system today and are having a profound effect on all of the countries of the world, especially the United States and its neighbors. And secondly, 9/11: 9/11 introduced more than just a little speed bump in the road to integration among North America. It is a danger to our economic prosperity if it is not handled correctly with a new framework than we have seen up until now.

What is that new agenda? I think the first element in that agenda is the development gap between Mexico and its northern neighbors has not narrowed. And to succeed on any of the major challenges in North America, whether it's security, whether it's trade or whether it's immigration, that income gap needs to close because the source of immigration from Mexico to the United States of undocumented migration is not that they are coming to the United States to look for jobs.

We have surveyed the undocumented immigrants. Ninety-three percent leave jobs in Mexico. They are coming here because they can earn eight to 10 times more in income, and therefore, if you want to have a long-term effect on that migration, one needs to take steps to narrow that income gap. And indeed, narrowing the income gap is a benefit not just to Mexico; it is to the U.S. and Canada, particularly the United States because that is our second-largest market for goods.

Secondly, it said nothing about immigration. There were some who argued that it would diminish undocumented migration. My own view at the time was that it would not precisely because you were talking about an enlarged market. And more importantly, the border is a magnet right now because NAFTA succeeded in one critical sense.

While it is true – an earlier question was asked about average wages in Mexico not improving – perhaps not declining quite as much as you have suggested – if you disaggregate, you’ll find that the northern part of Mexico, which is connected to the U.S. market, has grown 10 times faster than the southern part of Mexico, which means that NAFTA succeeded for that part of Mexico, which was connected to the U.S. And the Northern part of Mexico has become a magnet for labor coming from the south from which they could then easily cross the border into the United States and earn 10 times more.

There is a second gap that opened; it’s between the international trading system and the domestic market of Mexico. The international trading part of Mexico, its wages have increased very sharply and the rest have not. So to close those two gaps, plus the gap between the U.S. and Mexico, you need a strategy, and there is no strategy out there right now. NAFTA does not make that better and it does not solve that problem.

The third issue is the enlarged market did not involve increasing coordination on economic policy, and the peso crisis was one consequence of that failure. Fourth, NAFTA didn’t even plan for its success. The tripling in trade in which roughly three quarters of that trade crosses the border by trucks did not lead to a tripling in infrastructure on the border. And so there are many more delays, there are many more problems.

And the costs have risen so fast, that plus the protectionist attitude on the part of the teamsters and trucking companies to keep out Mexican trucks despite their pledges and verification on safety and other matters. That has meant that it’s cheaper for a container to go from Shanghai to Long Beach, California, than it is to go from Monterey to Long Beach, California.

The North American economic advantage has eroded over time because of lack of infrastructure, 9/11, and China’s integration into the world economy. We didn’t obviously plan for security. And while the smart border arrangements that have been developed are a step forward, they are clearly inadequate to secure our borders, let alone the North American security perimeter as well.

And we haven't really planned for this erosion of the North American vantage by looking beyond rules-of-origin procedures towards establishing common external tariffs and customs union.

The biggest challenge, however, was we made the opposite mistake of Europe. There is no question that the North American model is pragmatic. It's more business-and-market oriented. It's non-bureaucratic because that reflects the difference between North America and Europe. But we made the opposite mistake of Europe. Europe over-institutionalized, created too many super-national institutions, and North America, we created almost none, and none of them are effective, and it's not just because of personal leadership; it's many of them were stillborn for many different reasons.

So we need to think about lean advisory institutions on a North American setting that could at least pose this broader North American agenda, which is not absent – which is not in the current debate. The current debate has been dominated by the Lou Dobbs and the Bill O'Reillys and the Howard Phillips, and many others in all three countries to a certain extent that have stemmed from many different sources.

The one source of course is the immigration problem on undocumented migration, a legitimate concern that haven't been addressed by our three countries at all. Another source is the fear of globalization, and the uneasiness, as Jim Jones pointed out, throughout the country, of this broader insecurity in jobs. There are also other sources that may be racist or anti-Mexican or believe that maybe we can return to a 19th-century isolationism without diminishing our standard of living.

I think whatever the source, there is no doubt that this loud criticism has had its effect. And indeed, to a certain extent, the irony is that the Security and Prosperity Partnership is a compromise between the recognition of the importance of North America, which I believe President Bush has, and the intimidation by his right – and therefore – and also, from the simple fact that there are three minority governments now in North America.

Therefore, they have aimed deliberately low under the radar screen in a non-transparent, in a secretive manner, given one whole segment to the CEOs, therefore provoking even more of the suspicions of those who are so fearful of a North American union to thinking there is more there than meets the eye. The truth unfortunately is that there is a lot less than meets the eye.

What is going to happen in Montebello and what should happen: I think what will happen in Montebello is that there will be a photo opportunity in which all three leaders will stress once again the importance of North America and their relationships with each other. And there may be some very small deliverables in which a few technocrats may understand. And indeed, there may be a little bit bureaucratic cooperation among the different agencies. And that is all to the good, but it's clearly inadequate to the nature of the tasks that lay in front of them, and indeed, I think it will just lead to the same bifurcated debate between those who fear a North American Union

of which nobody has proposed, by the way. The only ones who ever mention North American Union are those who are opposed to it.

I know I have been alleged to have been the architect of it, but you can read – if you want, but very few do – all of the things that I’ve written, and you’ll see that I’ve never proposed a North American Union, that I do believe that North America will be a composite of three sovereign countries, but that nonetheless they need to look towards a community.

So, what should come out? I think what should come out is a very different approach than as SPP. It’s one that invites a public debate in all three countries about the future of our relationship that helps people recognize that from the U.S. perspective, our number one and number two trading partners, our number one and number two sources of energy in the world, are not Europe and Japan or China or Venezuela or Saudi Arabia, they’re Canada and Mexico, and that we ought to be treating our neighbors as friends and partners, not as enemies or adversaries.

That does require national debates in the three countries. It does require our leaders to make clear that the future of the United States and of each of our countries requires a different way of dealing with each other than we have had in the past. It also requires new policies, policies that address the agenda that I’ve laid down and that I’d be happy to develop in greater detail in the questions and answers, policies that also address the problem of illegal migration more effectively than was proposed and that address the undercurrent and concerns regarding losses of jobs.

Now, what’s the prospect of this debate winning? Well, the interesting thing is that if you look at public opinion surveys in the three countries, that there is greater support among the public in all three countries for moving towards a North American partnership and collaboration than the leaders have even recognized or have acknowledged and are very different than what you hear on the radio talk shows or on cable TV. Public opinion in all three countries indicate a strong majority – well, first of all, that a plurality of the public in all three believe free trade benefits all three of our countries than NAFTA benefits. Of course, also, a majority believes that the other countries have benefited more than them.

Public opinion indicates that a strong majority believe in a common security perimeter. A majority in all three countries are in favor of moving towards an economic union, although I think they mean a customs union, if they felt that it would improve their standard of living and not harm their culture or their environment. An overwhelming majority would like greater coordination of environmental, transportation and defense policies. More modest majorities in favor of migration, energy and banking coordination among our three countries.

So I think that great silent majority that a leader once referred to is out there wanting some leadership by our president and by the other leaders towards greater cooperation with our neighbors, and such leadership would find resonance in our country

and hopefully might quiet some of the loud screaming that's going on against working with our neighbors.

So, in short, I agree with, I think, a consensus of most of the speakers here that the North American summit is a good thing but not enough. I would say, however, the strategy is deeply flawed, and it has led to the opposite of what our leaders would like, and that's because of a secretive, bureaucratic, incremental process which relies on just the CEOs rather than a more open public debate that brings all the stakeholders of our three countries to think about the future of our relationship with each other and think about ways that we could both become more secure and more prosperous.

Mark Twain once did a review of Richard Wagner's music, and he said that it's better than it sounds. (Laughter.) Similarly, I would say that the debate on the future of North America is better than it sounds right now, but to get really better, our leaders have to lead. Thank you. (Applause.)

MR. O'SULLIVAN: Thank you very much, indeed. Thank you very much. I'd like to thank all three speakers for three very powerful presentations. We now have some time for questions. May I take the first one? Do I see anybody raising their – yes, the young lady there.

Q: Yeah, Luiza Savage –

MR. O'SULLIVAN: Could you just say who you are, by the way?

Q: Yeah, Luiza Savage from MacLean's magazine. My question is for Mr. Fonte. You talked about your preference would be for reasonable cooperation between the countries but that they would rule themselves, and I would bet my lunch money that that's exactly what the people involved in these proceedings think they're doing, they're engaging in reasonable cooperation while the countries continue to rule themselves.

So I wonder what your criteria are for that, how you would define reasonable cooperation versus something that's unreasonable, and second, you raise the issue of the border crossing card, and I thought, to me, that's an example of precisely the opposite. You had the Congress of the U.S. sort of unilaterally, late at night, deciding all of a sudden that it would require passports of everyone crossing the land border, where historically this had not been the case.

Now you've got the passport agencies in both Canada and the U.S. can't keep up with the demand, people waiting and complaining in newspapers all over the country they can't go on vacations. You had northern border states saying, you've got to do something about this because people can't go visit Grandma across the border in Ontario, and then you've got individual states saying, let's try to work on some alternative documentation that isn't a baptismal certificate from some obscure place but it's some kind of lower-priced document than having a family of four buy passports for everybody to go to Niagara Falls.

So that struck me as an example of where, actually, one country worked unilaterally, without consultation, and despite the SPP, making the SPP totally irrelevant to what they were doing, and then in retrospect, it looked like, well maybe they could have benefited from some kind of coordination on that issue. So I'd like to know a little bit more about how you define reasonable cooperation versus unreasonable and where you see the countries not ruling themselves in this SPP process.

MR. O'SULLIVAN: John, it's addressed to you.

MR. FONTE: Well, I think countries are, as you pointed out, are ruling themselves at the present time. My general point here was, the SBP basically is all about movement of people, commerce, very little about security. It's essentially, how do we enact labor mobility? How do we make it easier for people to cross borders? That's been the main thrust. That certainly was a thrust of the North American Competitiveness Council report. That was the thrust of the reports to the presidents, the reports to the leaders. That's been the general thrust.

On the passport issue, well, that is an act of Congress in the United States. That's how we do things. If the Canadian Parliament enacted, let's say, legislation – even protectionist legislation – I would say that's their right to do so, as a sovereign state. Sure, we could have cooperation, we could have discussions with our nations and think this thing through, but in the end, the rules, the rules are determined by the nation-states, and in the United States, the Congress makes those rules, even if they're not – people in Canada don't like it, and if Canada makes some rules on energy or trade that we don't like, then that's absolutely in their power to do so.

I want to segue into – pick on Mr. Pastor a little bit. He can answer me because he said, well, this is – I never wrote things that, in a way, impacted on sovereignty.

MR. PASTOR: I said that I never proposed a North American Union.

MR. FONTE: Yeah, that could be, that could be. You did propose, however –

MR. PASTOR: Not just could be.

MR. FONTE: Okay, great. But you did propose, however, the quote, “three governments remain zealous” – the three governments, as you say, remain zealous defending of an aging concept of sovereignty. Are the three governments prepared to give up their sovereignty to a wider community? Sovereignty is not a fixed or a mutable concept. Sovereignty, in brief, is misleading. It is, if not a mistaken defense of an increasingly open integrated world.

Well, I would consider that a challenge to democratic sovereignty, to self-government. I think that's – it's good we're having this debate. I think that was the purpose of this meeting. That's what this argument is all about. Do we want to maintain

democratic sovereignty or not? And that includes for the Canadians and the Mexicans. They have the absolute right to, if they want to be protectionists, that's their business. It's not something I favor, but democracy trumps free trade, in the end.

MR. O'SULLIVAN: Dr. Pastor, do you want to respond?

MR. PASTOR: I don't mind responding, but I'd like to give a little time to some other questions. You can wrap the questions in – (inaudible).

MR. O'SULLIVAN: Absolutely. Are there – if anyone would like to ask a question, please raise their hand. I'm going to take – yes, there are two questions. Let me, first there and then there, and then I'm going to ask all three speakers to respond. Thank you.

Q: Al Milliken, Washington Independent Writers. There was concern expressed about the difference in prosperity for northern and southern Mexico. I'm wondering if there are any other similar concerns in the United States and Canada, as per geographic disparity there, and then also, the problem with the trucking, particularly between Mexico and the United States, that has not been implemented as planned. Does anyone have a solution for that?

MR. O'SULLIVAN: Yes, and before you answer the question, the gentleman right to the back.

Q: Jeff Gayner with Council for America. My question is for Mr. Pastor. You seem to have lower expectations of some grand design in the North American Union, but one of the specific proposals you seem to put forward or you said, we need to – that the income gap needs to close between the United States and Mexico, and I wonder exactly how you would propose about doing that. Would it somehow involve some major transfer of resources from the United States to Mexico to raise their wages? And related to that, if wages went up substantially in Mexico, would that not undermine precisely the advantages they've had in a North American Union, and Mexico would be far less able to compete, for example, with China if wage rates went up substantially in Mexico?

MR. O'SULLIVAN: Now, I haven't seen any other hands raised. Oh, in that case, I'm going to take – oh, I see, okay. (Laughter.) Let's take these two very – can you make these both brief?

Q: Very brief. Howard Phillips, the Conservative Caucus. My only comment is to thank John Fonte for single-handedly rebutting virtually all the presentations by all of the other speakers, and I thank you, John, for a terrific presentation.

MR. FONTE: Thank you.

MR. O'SULLIVAN: Gentleman in front of you.

Q: I guess I have a lot of questions, but one, from Cliff Kincaid, Dr. Pastor, one of your students, Marlon Brown, wrote a very interesting paper on your vision of a North American Parliament. He said he learned this from you, that you have this vision. You participate, you facilitate these organizational meetings where young people from Canada, the U.S. and Mexico come up here and participate in a model North American Parliament, sort of like a modeled UN. The literature you handed out at your meeting last January referred to creating supranational North American institutions like a North American Court of Justice. I mean, why don't you –

MR. O'SULLIVAN: Can you wrap the question up? Thank you.

Q: Yeah, I mean, the question is, explain all of that –

MR. PASTOR: (Inaudible) – North American Parliament.

Q: Explain all of that, if you would.

MR. O'SULLIVAN: But, yes, before you answer the question, could I just say, I'd like, perhaps the three panelists, beginning with Dr. Pastor, respond to the questions and then also make their final statements in the one package, if I could? Dr. Pastor?

MR. PASTOR: Well, I've got four questions here. Let me start with the last.

MR. : Turn on the mike.

MR. PASTOR: Yes. Is this working? Can you hear okay? There, I think that's better. Marlon Brown is a wonderful student, and I work with him, but I didn't – I don't propose a North American Parliament. What I have proposed is that the two longest-standing parliamentary committees of the United States that the U.S. has, which is with Mexico that was started in 1960 and with Canada, which started in 1961, that the time has come for us to merge those two inter-parliamentary committees into a North American parliamentary committee.

Separate from that, there is a model assembly, if you will, very similar to the UN model assemblies and the OAS model assemblies that students in high school and college participate in, in which we have encouraged, at American University, a North American model assembly or a North American Parliament, and the students have a chance to ask these broader questions about a broader North American agenda, and so I am not proposing a North American Parliament. I am proposing a North American inter-parliamentary committee, and I am encouraging students to think beyond simple isolationist or protectionist approaches to our problems in the world, to how to do collaborate better with our two neighbors?

I don't see a North American identity as exchangeable with our own national identity. I think people are capable of multiple identities. In Europe, they didn't exchange a French identity for a European identity. They added an additional identity,

and I think that, to the extent that our students and our people think of themselves by more than one identity, then the prospects for cooperation, recognition of diversity at the same time of partnership become greater.

A question was raised about the income gap and what did I propose. I do have a very long proposal on that subject. I will save you it. Let me just summarize it briefly. I think the United States, Canada and Mexico need to develop a North American investment fund. That North American investment fund, learning from what was done in Europe, both what was effectively done as well as what was wasted, would channel resources into infrastructure connecting the southern market of Mexico to the North American market through computer-generated models and World Bank studies, what the product would be, not only you could lift the southern part of Mexico up, creating a much larger market, and begin to close an income gap that would, over the long term, though not the short term, affect illegal migration and increase the market for the U.S., but it would be expensive.

And to succeed, it not only needs funds from the U.S., Canada, it needs half of the funds, half of the 20 billion a year for a decade from Mexico as by an increase of its own tax rate. Its tax rate is the lowest among all OECD countries, and Mexico would need to undertake a series of reforms which they understand they need but which their own political situation has made it difficult to do so. If the three countries of North America said there is a community of interest in lifting Mexico, then that could influence the debate in that country to implement the kinds of reforms that would make full use of those resources, grow the Mexican economy at twice the rate of the U.S. and Canadian economies and therefore begin to close that gap.

On the question of trucking, I think the solution has been set out clearly, both in NAFTA, in the Supreme Court decisions, in NAFTA dispute settlement mechanisms and protectionist forces in the United States have consistently tried to undermine it. And the solution is that trucks should come in from Mexico, but only those trucks that are certified by safety standards and that would adhere to rules of the country within which they would go to. And Mexico has agreed to that, and so therefore it's clear that the only thing holding it up is pure protectionism.

I think with regard to internal geographical disparities in Mexico, in Canada and the United States, there are, of course, but in Canada, they have an equalization formula that tries to correct that. In the United States, we have a number of other safety nets, too, that do that to a certain degree. Mexico, being the poorer country, does not have that.

Finally, the big question that was raised by Mr. Fonte at the beginning with regard to sovereignty. I think he did quote correctly. Sovereignty, as I look historically over time, is a term that is not fixed. It used to be that we – our states would claim sovereignty to deny human rights to African-Americans. It used to be that Canada would defend its sovereignty by saying that no international energy companies would be permitted. It used to be that Mexico said its sovereignty said international election observers were not permitted.

Well, all three countries changed that definition of sovereignty and have been enhanced by it. Canada is now the larger source of energy production and exports to the United States because it's opened up its energy sector. Mexico's democracy is one of the finest and best in Latin America. Indeed, in the year 2000, I observed elections in the U.S. and Mexico with other international observers, and sure enough, the international observers said that the elections in Mexico were free and fair, and you may recall that was not the consensus in the United States in 2000.

And, finally, the civil rights acts that passed in the United States did enhance America by guaranteeing the rights of all of its citizens. So that definition of sovereignty was transformed. All three countries benefited from it. I think we need to look more seriously at what people want. If you look at public opinion polls, they are very prepared to take steps moving much further towards collaboration with our neighbors than I have proposed if they felt that it would improve their standard of living, improve the culture, improve as well the environment. All three countries of North America, in short, are quite pragmatic and are also much more favorably inclined to their neighbors than those who would screech about a North American Union would lead us to believe.

MR. O'SULLIVAN: Thank you very much, indeed. We're in danger of overrunning the overrun, so could I ask the final two speakers to be fairly crisp in their summing up? Dr. Kotschwar?

MS. KOTSCHWAR: Yeah, just one comment, really, and that is that in this discussion about transparency, I find that sometimes those who are asking for transparency in this process are also sometimes quick to criticize people for throwing out ideas, and that seems wrong, somehow. I mean, when we're talking about, with Dr. Pastor, how can you think about a North American Union? Not that you proposed that, but this is a professor and papers written by students discussing these ideas. Well, that's what is supposed to happen. I think that both Dr. Pastor and Dr. Fonte should be celebrated for bringing out some controversial discussion-stimulating ideas, and I think that this has been a wonderful forum for those ideas and would thank the hosts.

On Mexican trucking, I think we don't really have time to get into that. I'd be very happy to talk about that at a later date. There is a pilot program that continues to have its funding taken away by being slipping into larger bills, which seems to me also a lack of transparency somehow. So if that process of implementation of agreed-upon provisions could become more transparent, perhaps that could lead to a clearer discussion about this.

MR. O'SULLIVAN: Thank you very much. John Fonte?

MR. FONTE: On the income gap, I think the Mexican government has estimated it might take 80 years to level that off, and that might never happen. That's always an issue. I think Mr. Pastor was confusing sovereignty and policy. When Canada has a

sovereign right to exclude energy companies, they still have that sovereign right; they just decided it was bad policy. Those are two different things, sovereignty and policy.

Just two points, I'll wrap. This is about, wanting to answer one more of Mr. Pastor's theories of – he said we need rule-based North American institutions. I agree completely, and I think we have them. The rules in the United States are set by the Congress of the United States, the rules in Canada are set by the Canadian Parliament, and the rules in Mexico are set by, I guess, both the president and the Congress. So different countries have their own rules and their own, essentially their own democratic sovereignty, and that's, as free people, we should welcome that.

MR. O'SULLIVAN: In thanking the three speakers, I'd also like to thank Christopher Sands – he's the chap in the back wearing the collar and the tie – for arranging this event and for being one of the authors of the paper which is the basis of it. I think it's been a very successful morning. I think this panel has been terrifically good ending to the day, and I'd like to thank the three speakers and Mr. Sands very warmly, indeed. (Applause.)

(END)