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The New Dynamics of North America: US-Mexico Relations and the Border Economy

**Public Policy Forum Executive Study Tour
May 10-17, 2002 Ottawa, Southern US & Northern Mexico**

Overview

The May 2002 Public Policy Forum (PPF) Executive Study Tour brought together a group of eleven participants from Canadian federal and provincial governments, and non-governmental think tanks for one week of meetings throughout the US-Mexico border region. The tour provided a unique opportunity for these Canadians to achieve a better understanding of US-Mexico relations on issues such as border management and security, economic integration and trade, environmental management and sustainable development, and mobility of people. It especially served to encourage participants to learn more about Mexico's realities, as well as Mexico and Canada's positions in a gradually integrating North American continent.

Meetings were organized with a wide variety of institutions and interlocutors, including: local and regional economic development agencies, chambers of commerce, local governments, academics, journalists, business leaders, and industries. The tour began in Ottawa, passed through San Antonio Texas, the Mexican cities of Nuevo Laredo, Monterrey, Saltillo, and Tijuana, and concluded in San Diego California.

Overall, discussions underscored the distinctiveness of the US-Mexico border region. It is a region where trade, commerce and transport attain an enormous importance. It is an environment of opportunity where individuals find work in multi-national companies and where the multi-nationals use national differences in labour and environmental standards to pursue their advantage. The border marks the place where adjacent nations meet. This separation of territory and national laws and customs creates a zone in which movements of goods and people are greatly regulated, examined and discussed.

Individuals find more work enforcing or avoiding the laws that regulate the movement of these goods and people. It is also an environment where smuggling, and legal and illegal immigration are of accentuated concern. The border itself can be described as politically closed, but economically open. It is also culturally/socially open in that the region is characterized by strong interpersonal relationships and family ties that cross the border.

Discussions resulted in an agreement amongst participants that despite poverty levels, and disparities in income and regional development, Mexico is a large vibrant market with a highly educated and capable workforce. Mexico is gradually overtaking Canada's North American market share, not only in low-end (assembly plant) manufacturing, but in heavy manufacturing and high technology industry. Competition aside, the country also presents a huge and timely opportunity for Canadian trade and investment. Canadian prospects are especially opportune in the areas of agro-foods, other food related products and services, engineering, consulting, and education.

Discussions further revealed that the US-Mexico border region is integrated in certain geographical areas –for example much of the Texas-Mexico border region is essentially an economic, cultural, and to an extent, political entity- but in other geographical areas –namely California-Mexico- two distinctly separate entities remain. On the whole, the border relationship is extremely complex and multi-layered. US-Mexico cooperation is often limited by a long tumultuous history between the two countries and by negative US perceptions toward the Mexican migration phenomenon, as well as security concerns around drug trafficking, crime, and corruption. Yet, perceptions notwithstanding, Mexicans clearly have a tremendous economic, social, cultural, and political impact on the southern United States.

Finally, border (and US homeland) security naturally dominated study tour discussions. Both Canada and Mexico's economies depend on increased cooperation with the United States on security. As Americans feel more and more unsafe, they will tend to demand actions to stifle the borders. Security is proving to be an incredibly complex issue whereby the United States has tremendous expectations with seemingly little knowledge on how to move forward or how policies will affect the Canadian and Mexican economies. At the US-Mexico border security and migration are intimately related. The United States has not come to terms with how to handle the over 3 million undocumented Mexicans residing on its soil and does not seem to realize that it cannot ensure homeland security without knowing who is residing in that homeland.

Summary of Issues Discussed

The North American Relationships

Mexico

Over the last year a substantial amount of debate and dialogue about the complex issues involved in North American integration has taken place amongst governmental and non-governmental actors in Canada, the United States, and Mexico. While Mexico's President Vicente Fox initiated this debate and dialogue during his first North American visits, a "two-speeds" argument is gaining strength in the United States and especially Canada. Proponents argue that Canada and the United States should proceed to increase integration bilaterally with an invitation to Mexico to join once on a solid path to modernization. Simply put, what can be done between the United States and Canada cannot yet be done with Mexico. Indeed, Mexico is presently in a period of political/democratic consolidation. The reform-minded government must deal with outdated and undemocratic institutions, and learn to negotiate with Congress and other political actors. Corruption is still a major problem, the country is in dire need of judicial reform, and powerful drug cartels have wreaked havoc on Mexican law enforcement institutions. Moreover, one half of the country's 100 million people live in poverty, income distribution and development are extremely uneven, and the country suffers from high underemployment, low levels of education amongst the poor, and an extremely low tax collection rate.

On the other hand, the Mexican peso has grown strong over the past seven years, and the economy has remained stable due to sound economic management. Much of the other half of Mexico's population is young, urban, and sufficiently bilingual. It is becoming a highly educated, innovative, and industrious workforce with a genuine desire to see Mexico rise to its potential. While still a country of haves and have nots, Mexico is moving full force ahead in industry, manufacturing, and technology. It is skipping most of the 20th century technologically and could potentially become an economic tiger within the next 20 years. This would create an enormous consumer market for US and Canadian products and services. In short, the United States and Canada need to give serious thought about where Mexico fits into a North American strategy. Ignoring the country at this particular moment in its history could prove to be a big mistake.

Mexico-US

Not long ago, President George W. Bush called Mexico America's most important friend among world's nations. The US-Mexico bilateral relationship is now much more amicable. Mexico has been elevated to a new level of policy-making by President Bush, and President Fox has pledged to make his country a more significant player on the world stage by emphasizing positive relations with the United States and by attempting to cast aside traditional positions of sovereignty and non-intervention. The relationship, however, is far more complicated than a handshake between two ranch loving heads of state. On the US side progress is hindered by a preoccupation with Mexico's illegal migration (as well as corruption and drug trafficking.) On the Mexican side it is limited by a strong sense of history and identity.

Some 35 million Hispanics reside in the United States. The Hispanic community is taking over from the African American community as the biggest ethnic minority in the country. Over 23 million of these people are Mexican. Mexican migrants are essential to the US economy. The US demand for workers attracts Mexican migrants, US consumers benefit from Mexican migration, and Mexican migrants are more likely to be economically active than other minorities in the United States. Yet, the United States spends billions of dollars trying to keep the migrants out. There are 2, 500 Border Patrol Agents on the San Diego-Tijuana border alone, along with a 36 km fence that extends into the ocean. There have also been an average of 329 migrant deaths per year since 1998. Moreover, while the United States tends to take Canada for granted, it often degrades Mexico and dehumanizes the undocumented Mexican residents. Negotiations between Bush and Fox to increase the number of permanent visas for Mexicans and legal status for at least some of the 3 to 4 million undocumented Mexicans living in the United States, are currently stalled.

As for history and identity, it is difficult for most Mexicans to see the United States as a friend after so many years of being taught that this powerful neighbour is the aggressor. Mexico's more open and activist foreign policy has not erased its history of anti-American sentiment. That history showed its public face in Mexico's Congress and the media immediately following the attacks of September 11 and more recently vis-à-vis President Fox's apparent willingness to sacrifice long-standing relations with Cuba in favour of a partnership with the United States. Areas in Northern Mexico, particularly the city of Monterrey, appear very keen to integrate as much as possible with their northern neighbour, but conflicting attitudes toward the United States in Mexican society and party politics prevail.

Mexico-Canada

The bilateral relationship between Canada and the United States is larger and more complex than ever with the two countries sharing fundamental beliefs and values, along with the world's largest trade relationship. Canada, however, demonstrates only minimal interest in Mexico's agenda vis-à-vis the United States and the potential in the Canada-Mexico relationship is growing, but still largely unrealized. Canada-Mexico political linkages are now informal and natural, and a book-length innovatory of bilateral cooperation initiatives between Canada and Mexico could be composed. Yet there is much more that two countries could do together.

Economically, NAFTA has injected tremendous amount of new energy into the relationship. Total trade is \$18 billion Can/yr., with \$12 billion worth of imports from Mexico and \$6 billion worth of exports to Mexico, and 4% of Canada's total foreign investment goes to Mexico. There is, however, a tremendous opportunity for more trade and investment between the two countries. Canadians should develop a long-term strategy when setting up business in Mexico, and cannot go for the purpose of chasing cheap labour. They need to be dedicated and not pack up and leave at times of political and economic instability. It is also important to note that in the past 10 years Mexico's auto production has doubled giving it an 11.7% share of the North American market, and putting it on track to overtake Canada by the end of the decade. Magna International, Canada's largest autoparts producer, has poured an estimated US \$5.6 billion into the Saltillo area since 1994, creating 60,000 jobs. Mexico is now outperforming Canada in virtually every automotive variable.

The Border Region

An Integrated Border Region?

It could be plausibly argued that the US-Mexico border region is integrated in certain geographical areas. Southern Texas and the states of northern central Mexico are linked by trade and commerce, family ties, culture and language. The pro-NAFTA city of San Antonio, having embarked on an aggressive economic development strategy, sells itself with great enthusiasm to the outside world as the door to Mexico and searches for ways to take advantage of transport trucks passing to and from the border. The city of Monterrey, the industrial motor of Mexico, sells itself as a NAFTA success story, the door to North America, and the "wealthiest, most developed city in Mexico". Overall, this border region is a peculiar socio-economic phenomenon in that the US side of the border is also somewhat underdeveloped and economically depressed, with per capita income lower than the rest of the United States, and lower education levels. The region's infrastructure and environmental degradation are problems for the United States as well.

Southern California and the north-western Mexican states appear to be less integrated, with San Diego and Tijuana being a model for the meeting of the first and third worlds. While San Diego is beginning to cooperate with its Tijuana neighbour on a number of issues, the city continues to primarily look east and west rather than south. The San Diego-Tijuana border underscores the stark reality of a first world-third world division. San Diego is very affluent city. Inequalities, and an economic and sustainable development gap between the two cities give the sense of two distinct economies. The makeshift fence dividing San Diego and Tijuana represents a tremendous psychological barrier between two cities and two nations. Yet, as previously mentioned the family connections established at this border region cannot be underestimated. They are continuous drivers of a process of “silent integration”.

Industry

The US-Mexico border region is known for its abundance of maquiladoras or offshore assembly plants. Advantages of setting up these companies in northern Mexico include: geographical location (close to US); Mexico's multiple free trade agreements (particularly with the EU); the country's ongoing economic growth; a flexible, well educated workforce (once they are trained they often prove to be more productive than their US or Canadian counterparts, the motivated young workers and co-operative unions allow plants to substitute rigid job classification with flexible production methods); high-tech know-how; Mexico as the gateway to Latin America; political and economic stability (though the political process will take years to get to where it wants to be); and a growing domestic consumer market. Disadvantages include: underdeveloped infrastructure, difficulties in obtaining local raw materials; few government incentives and an ongoing political transition.

Maquiladoras account for 8% of Mexico's total employment and approximately 52% of total exports. Though, up to 25% of maquiladoras have recently moved in search of cheaper labour in Central America, and other areas. China's new WTO membership is also threatening to pull business away from the Mexico-based maquiladoras. Eight years after the signing of NAFTA, Mexico can no longer sell itself as a destination for cheap labour, nor can it continue in the long-term to assemble products using imported technology and raw materials. A long-term strategy is needed to develop Mexico's industrial sector, moving it away from light/ assembly industry to heavy manufacturing and high technology industry using local inputs and highly skilled Mexican workers. With the objective of making Mexico the centre of North American production, many maquiladoras now do their own industrial design and develop their own innovation and technology. They invest in their workers, train engineers on site

through distance university education programs and use local managers. Canada's Magna plants in the Saltillo area and Japan's Sony plants in Tijuana are examples of this new approach.

Many of Mexico's large domestic companies –the ten most powerful based in Monterrey- are also innovative and technologically advanced. However, small and medium-sized companies, responsible for the majority of jobs in Mexico, continue to be problematic. The country's productive sector continues to be characterized by a dual structure, with a dynamic export sector made of large competitive enterprises (both domestic and multinational), which have easy access to financing including from abroad, and a far less efficient domestic market-oriented sector. The latter comprises those medium-sized to very small enterprises, which suffer from financing constraints, exacerbated since the 1995 peso devaluation and banking crisis, and poor infrastructure support.

Natural Resources

The water shortage in the border region is alarming with only 0.1% left for the population after contamination and inaccessibility. Rivers and reservoirs are running dry as a growing population fights over a shrinking source of life. Cooperation is becoming routine in the San Diego-Tijuana region as both the United States and Mexico search for secure water sources for importation. The water shortage at the remaining border region has grown into a test of bilateral relations. Under the terms of a treaty signed half a century ago, Mexico currently owes the US 456 billion gallons of water from the Rio Grande/Rio Bravo. Years of drought have made it impossible for Mexico to deliver the water.

Energy is also in short supply and high demand. The United States, Mexico and Canada are beginning to work together through a North American Energy Working Group to develop a region-wide approach to energy development. The push for a regional approach comes as the Bush administration seeks to increase US energy sources through more oil and gas exploration and the construction of refineries, pipe and transmission lines. Mexico faces its own energy crisis. The Fox government estimates the country needs investment of \$70 billion US in this decade to boost oil production and another \$25 billion US to bolster the electricity sector. The country is the world's fifth crude oil producer, but has been forced to import high priced US gas to meet domestic requirements despite its massive resource. The Mexican Constitution virtually forbids foreign control of the energy sector, leaving the state-owned electricity and oil industries lacking investment capital.

Environment and Sustainable Development

Eight years after the signing of NAFTA, environmental problems are severe along the US-Mexico border, with some of the worst third world conditions found on the Mexico side. There is little or no sewage treatment in most populated areas, the Rio Grande/ Rio Bravo is the most polluted river in hemisphere, and Mexico's burning of sulphur-laced fuels -which are illegal in the US and Canada, are but a few of the environmental problems.

The North American Development Bank (NadBank) is a political entity that was initially designed to appease the concerns of environmentalists during NAFTA negotiations. Mandated to support environmental projects (mainly water treatment) in a small geographical area (100km radius on either side of the border) the bank has not been tremendously successful and receives a great deal of criticism. Capitalized at US \$3 billion in equal parts by the United States and Mexico, the bank cannot provide better than market lending rates, and has more bureaucratic red tape than normal banks. Grants are therefore given more than loans. Discussions are underway to expand the mandate to areas such as infrastructure and housing, and eventually to expand the geographical area to the rest of Mexico. The biggest challenge facing the NadBank is that the funding is there but the projects are not. Communities along the border generally do not have the capacity to develop, and implement projects. For example, if Ciudad Juarez has never had a water treatment plant where does one find the technical capacity to implement and manage such a project? Technical assistance is given to communities to overcome this problem, but it is a long process.

Border Management

Infrastructure

Achieving a balance between the seemingly contradictory policy objectives of controlling the illegal flow of goods and people, while easing border congestion for legitimate movement, regularly challenges policy makers in Canada, the United States, and Mexico. Both the United States and Mexico are aware that the border is not efficient and new infrastructure cannot be built at the same pace that trade and commerce is growing. The focus therefore needs to be on process -better services and smarter processes to make crossings quicker and more efficient.

Unlike the US-Canada border which revolves around the movement of transport trucks, the US-Mexico border is driven by the movement of people. Some 48 million pedestrians per year cross the border, many of them crossing daily for work, school, and shopping. New "SENTRI" lanes for quicker border crossings now exist at major ports of entry (much like Canada's NEXUS system). The SENRI cards are in high demand and now involve lengthy security checks.

New legislation under discussion in Washington to enforce the documentation of inbound and outbound border crossers could have serious implications for the efficient movement of people and goods, and could bring the border- and border economy- to a standstill. Such a policy would be difficult to implement and cost billions of dollars. Finally, border measures to control crossings of undocumented migrants have had limited effect. Increasing the number of INS agents at one spot also increases the number of apprehensions, but despite the added human resources the migrants simply cross elsewhere. Unfortunately “elsewhere” is the harshest part of the desert and deaths result.

Security

The United States has committed \$6 billion US for new border and airport security measures. In March 2002, Presidents Bush and Fox signed a new border security agreement similar to the one already in operation between the United States and Canada. The main features of the Smart Border Initiative will be increased intelligence cooperation, a greater border security presence on both sides of the frontier and the expansion of fast-track (SENTRI) ID passes for trusted individuals that frequently cross the border legally. While drug trafficking, undocumented migration and a reputation for corruption make the US-Mexico border relationship more complicated than that of US-Canada, the agreements have many points in common, leading Mexico to request more trilateral cooperation on border issues. Circumstances have led Mexico to pay much more attention to the US-Canada border.

As Mexico looks outward to cooperate with the United States on security issues, it is attempting to address serious security threats of its own. There has been a major increase in high-level drug arrests and extraditions of criminals to the United States, and Mexico also keeps a closer eye on the border “coyotes” or people smugglers. Mexico is very aware of the need to combat corruption acknowledging that it is difficult to cooperate with the United States on border controls when for a small bribe a Mexican border official will look the other way while a dubious character comes in. Finally, Mexico must also face a public that, for the most part, remains suspicious of the security objectives of the United States.

Conclusion: Could North American Integration Become A Reality?

The PPF Study Tour of the US-Mexico border region served to initiate thought and discussion about the long-term objective of a more integrated North American continent. For those participants who have been involved in integration-related discussions throughout the past year, the study tour

presented a tremendous opportunity to “think outside the box” - that is to move beyond arguments and proposals that are becoming increasingly redundant, to witness new realities, and to hear a variety of points of view. Having completed the series of organized meetings the following broad questions come to mind:

Is The Southern Border Region Representative of North America?—Clearly an integrated border economy or border region could be seen as a model for broader continental integration, and there is little doubt that the US-Mexico and US-Canada border regions would be the focal point or driver of broader integration. However, these regions- especially the US-Mexico border region- are not necessarily representative of the countries and societies at large. As impressive as northern Mexico and its NAFTA jewel -Monterrey- may be, economic success has not treated the rest of Mexico so kindly. Trade and foreign investment have not reached southern Mexico. Moreover, just as Canadians need to learn more about Mexico and the Mexico-Canada/ Mexico-US relationships, Americans (in the southern United States) and Mexicans should be educated about Canada. Canada was not given a great deal of mention by US and Mexican interlocutors during the study tour. The knowledge gap was particularly evident in the San Diego-Tijuana region.

Who Wants A More Integrated North America?-- Is a more integrated North America in the interest of all three nations (both governments and society at large)? Is there a common starting point or a common interest among the three NAFTA partners that is positive and not defensive, i.e. common prosperity as opposed to security concerns?

Do Integration Proposals Make Sense?—Is it appropriate to propose trilateral institutions and trilateral cooperation when it is evident that the series of bilateral relationships that presently frame North America are in need of more effort?

Whose Decision Is It To Integrate?—It is assumed that to integrate or not to integrate is something contingent upon government decisions. It could be argued that discussions would accomplish more if they started with the basic premise that integration within North America was a fact that confronted the three governments. Economic integration in particular, is growing to the point where the current multilateral framework (NAFTA) may eventually become insufficient to address the size and complexity of the commercial relationship. The challenge to governments is what policies to adopt in the face of commercially, socially, and culturally driven integration—all of which are expanding and deepening regardless of the views and policies of the three governments.