

We're neglecting our North American neighbors

BY ROBERT A. PASTOR

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At the Asia-Pacific Economic Cooperation (APEC) Summit, President Obama declared the United States a Pacific nation and sought more trade with an increasingly dynamic Asia. This is a sensible goal, but his strategy for achieving it — a Trans-Pacific Partnership (TPP) — is flawed.

The road to completing the TPP will be long, and it will have a minimal effect on trade or on China. To double exports and give a positive jolt to the U.S. economy, the Obama Administration should give priority to forging a seamless market with Canada and Mexico. But for the second time in two years, the North American leaders postponed their summit without setting a new date.

While President Obama stressed the importance of trade with 21 APEC countries — 61 percent of U.S. exports — he neglected to mention that more than half of that went to Canada and Mexico. Few Americans realize that the two largest markets for U.S. goods are not China and Japan, but Canada and Mexico. Moreover, the expansion of trade with our neighbors has a more favorable impact on the U.S. economy because a much larger portion of our imports from them are actually composed of our exports to them. We no longer just trade products; we make them together.

Unawareness of our neighbors' importance may explain why the Obama administration proposed a "Buy American" provision in its Jobs Bill, violating NAFTA, and repeating the same mistake that it made two years ago. The president should have proposed a "Buy North American" provision and a "North American Infrastructure Fund" rather than a "U.S. Fund."

Instead, the U.S. has given priority to negotiating TPP with 8 other countries, four of whom — Singapore, Australia, Peru, and Chile — already have free trade agreements with the United States. The other four — Brunei, New Zealand, Malaysia, and Vietnam — have small economies.

All eight countries have a combined gross product of about one-seventh of Canada and Mexico. Japan's decision to take part in the talks probably will make it more difficult to reach consensus because of their agricultural protectionism. Canada and Mexico also decided to take part as a defensive measure to ensure that they protect what they gained from NAFTA.

If the TPP's purpose is to put pressure on China to open its market, that won't

work because the TPP's small economies and some of its provisions — e.g. on state-owned enterprises — are aimed at China. A reinvigorated North America is more likely to get China's attention just as NAFTA persuaded Europe and Japan to complete world trade talks in the 1990s.

North America emerged as a formidable region by 2001, just seven years after NAFTA. Trade tripled, the number of U.S. jobs expanded at historic rates, and the region's share of the world product increased from 30 percent to 36 percent. However, rather than move forward on a new, more complex agenda, the three governments turned their attention elsewhere. By 2009, the growth in trade and investment declined, and North America's share of the world product dropped to 29 percent, which is still larger than the other APEC economies combined.

In retrospect, North America peaked in 2001 because of new 9/11 barriers, Chinese commercial power and a lack of investment in infrastructure, but the main reason is that the three leaders of the United States, Canada, and Mexico reverted to unequal and ineffective dual-bilateralism. Rather than negotiating a common approach to border efficiency and regulatory convergence, the U.S. is negotiating these issues separately with Canada and Mexico, and progress is measured in the number of meetings, not by results.

The three leaders have shown little imagination or even interest in dealing with a continental agenda that would regain the growth we lost. Despite their pledge to meet last year, the three leaders did not, and they scheduled a meeting in Hawaii at the tail-end of the APEC meeting and then postponed it indefinitely when President Calderon cancelled his trip because of the death of his interior minister. Now, the decision to pursue the TPP will divert scarce political capital and attention from North America, which generates the most jobs in the United States to a distant goal with smaller economies.

The best path to freer trade in China and Asia is, paradoxically, for the United States to build on the region in which we draw our greatest strength — North America. The fastest way to create jobs and double exports is for the three governments to work together on continental plans for transportation, education, and infrastructure.

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