



# ***NORTH AMERICAN INTEGRATION MONITOR***

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## **North America at Two Speeds**

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What lessons could European integration have for North America? One may be in managing integration among economies that begin at different levels of development.

In the 1970s, when the European Community (EC) expanded to include Denmark, Ireland, and Britain, there were concerns over the speed at which national laws and economic policies would be brought into conformity with EC standards—newcomers wanted time to adjust, while some established members felt that their own economies would be at a disadvantage as newcomers were adjusting. West German chancellor Willy Brandt proposed that the EC accept *Abstufung der Integration* (graduated integration) in which each member country would advance toward the community's standards in stages according to a timetable that was agreed to by the other members. In 1976, Belgian prime minister Leo Tindemans chaired an EC study commission that recommended that the European Community adopt a two-speed formula backed by conditionality—phasing-in certain benefits to new members as they met EC targets.

The flexibility of the Europe at Two Speeds formula was critical to the success of the EC expansion in the 1980s, when three less-developed former dictatorships—Greece, Portugal, and Spain—were invited to join. Many in the wealthier EC countries feared that low-wage labor and substandard working conditions would give these countries an unfair advantage that might result in firms relocating production and jobs to these markets. To address this, the accession of the less-developed countries was managed in stages during which the wealthier countries agreed to provide fiscal transfers for capacity building and adjustment assistance to workers and firms, as incentives to their poorer

cousins to meet targets for full compliance with EC standards.

Fiscal transfers were justified by the importance of convergence to European standards. Without the pledge to converge, the flexible approach to integration derogated to what the British government coined as “Europe à la carte”—a situation that allowed governments to pick and choose how far and in what areas they would adjust their policies, virtually guaranteeing that no convergence would take place where adjustment costs would be significant. This surfaced in cases in which the EC did not apply the two-speed principle and found that, without it, progress was limited.

Still, as the number of agreements and protocols governing European integration multiplied in the 1990s, it was perhaps inevitable that some would be adopted à la carte, while others came to be viewed as mandatory for membership in the renamed European Union. The result has been called the “variable geometry” of Europe—an eloquent term for the tangled web of rules and standards that persists even as Europe prepares to expand to the frontiers of Russia under the terms of the Treaty of Nice.

With just three members bound by one major trilateral agreement (albeit they are linked by many more agreements that are bilateral in nature), the North American community has a simpler geometry than Europe. Yet, particularly in the wake of the September 11 terrorist attacks on the United States, there is evidence that North American integration has begun to progress at two different speeds.

Canada and the United States are North America's developed economies, and Canada at least seems

eager to move ahead with deepening integration in a managed fashion. Already highly integrated before the North American Free Trade Agreement, these two countries are currently coping with the effects of information technology, lean production, and just-in-time logistics. Brief border closures on September 11, 2001, forced auto plants in both Canada and the United States to shut down and send workers home because critical parts were not available. The action plan set out in the 30-point Smart Border Declaration signed by both countries in December 2001 is mostly complete, with officials in the two countries now sharing an unprecedented amount of information (including intelligence on potential immigrants and refugees) in real time. Under the Container Security Initiative, U.S. and Canadian inspectors have formed joint teams in the ports of Halifax, Montreal, Vancouver, Seattle, and New York to ensure that shipping containers do not conceal weapons of mass destruction. The FBI and RCMP (Royal Canadian Mounted Police) cooperate in joint investigations, including counterterrorism and old-fashioned criminal cases. Interoperability with the U.S. military is the declared goal of Canada's military planners, and Canada is seeking to develop a close relationship with the new U.S. Northern Command, including NORAD (North American Air and Aerospace Defense Command), which first integrated Canadian and U.S. air defenses in the 1950s.

Many Canadians are calling for even closer economic ties with the United States that would guarantee greater access for Canadians to the U.S. market. In a series of reports over the past year, the Toronto-based C.D. Howe Institute suggested moving toward a Canada-U.S. customs union, an agreement to provide full labor mobility between the two countries, and even a common competition policy to avert the use of anti-dumping and countervailing duty laws between the two countries.

Mexico would also like to move forward on labor migration, but politicians in the United States are reluctant, and the Bush administration has not been eager to move ahead on the Fox administration's proposals. The U.S.-Mexico border remains highly patrolled, and inspection times are measured in hours rather than in minutes. Mexico signed a 22-point

Smart Border Agreement with the United States after September 11, 2001, but to date, a substantial number of items remain unfinished on its action plan.

As demonstrated by the very different U.S. experiences in managing its northern and southern borders, North American integration is already operating very much on a *de facto* two-speed basis. What is missing is the promise of convergence—so that the high standard of the U.S.-Canada border is the explicit model for improvements on the U.S.-Mexico border.

It is worth making an effort to avoid fostering North American integration à la carte, a model that can succumb too easily to a mindset that President George W. Bush has described in other contexts as “the soft bigotry of low expectations.” The U.S., Canadian, and Mexican governments should consider future steps to deepen integration or to manage its effects trilaterally, to agree to new policy targets, and then to set up *de jure* mechanisms and timetables for eventual convergence on continent-wide standards—providing Mexico with technical and other assistance, if necessary. If Canada is prepared to negotiate new integration agreements with the United States, Mexico should be at the table, helping to develop the roadmap that each country would follow eventually, at an agreed upon pace.

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