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Punching Below Their Weight

Why Canada and Mexico are so important to the United States yet so impotent in Washington

By Stephen Clarkson and Matto Mildenberger

The paradox of North America's skewed development is that, although Canada and Mexico make extraordinarily large contributions to the United States' economic strength and homeland security, they have virtually no influence in Washington's corridors of power in the sense that U.S. policy is made with scant attention being paid to Canada or Mexico.

In our new book, *Dependent America? How Canada and Mexico Construct U.S. Power*, we address three principal questions:

- To what extent do Canada and Mexico construct U.S. power?
- Do these contributions create a dependency that makes the United States vulnerable to its neighbours' withdrawal of their support?
- Has Washington been able to neutralize its neighbours' capacity to leverage this dependence into actual influence over it?

Our findings developed in six steps.

1. The Periphery Constructs the United States' Economic Strength

Because of the trade and investment opportunities offered by their markets, their abundant renewable

and non-renewable natural resources, and their ever-replenished supplies of skilled and unskilled labour, Canada and Mexico are by far the largest of the United States' external sources of its material power.

Although the GDP of present-day Mexico and Canada taken together would constitute only the fifth-largest economy in the world, their intense, proximity-driven economic ties with the United States make them by far the largest foreign consumers of its exports and the biggest suppliers of its imports. Taken together, Canada and Mexico accounted for almost 27% of total U.S. exports and about 24% of total U.S. imports in 2010 — slightly more than the United States' trade relationship with all twenty-seven countries in the European Union and considerably more than its trading relationship with China over which its elites presently agonize.¹

In a recent study commissioned by the Canadian government, slightly over 8 million U.S. jobs were found to derive from U.S.-Canadian trade, with the majority in the service sector but about 450,000 jobs in manufacturing. These figures accounted for between 4% and 5% of each state's labour market and 4.4% of the national labour market.²

When American corporations had developed the entrepreneurial, technological, and administrative capacity to operate multi-branch facilities in the United States' major regional markets from sea to sea, they

first learned how to become *trans-national* corporations by setting up plants just across the border to the north in Canada. As the first foreign site for U.S. investment abroad, Canada remained centrally important through the twentieth century, American foreign direct investment largely focusing there on the mining, manufacturing, finance/insurance, and information-technology sectors.³ The northern neighbour was still the single largest site for U.S. FDI in the early 1980s, having received \$43.5 billion (over 20% of total net U.S. FDI) by 1982. At that point, U.S. investment in other jurisdictions was increasing at a faster pace, so that, by 2009, when total U.S. investment in Canada had accumulated to \$260 billion, this significant sum represented only 7.4% of total net U.S. direct investment abroad. Yet, if Canada was a diminished destination for U.S. investment, it still generated substantial revenues from the management fees, royalties, and licenses charged to the Canadian branch operations. In addition, increased access through these investments to the Canadian and Mexican consumer markets yielded economies of scale which raised the productivity of U.S. TNCs.⁴

Our review of the mainstream economic research which estimates that gains reaped by countries from their foreign trade suggests conservatively that the United States' success in extending its economic perimeter into the Canadian and Mexican markets raises U.S. gross domestic product by some 2% to 3%. Translated into dollars and cents, this means the annual income of the average American is about \$1000 higher thanks to the United States' complex but intimate relationships with its two neighbours' economies.⁵

While the availability of their resources have fluctuated with the passage of time and the evolution of technology, Canada principally and Mexico secondarily are the United States' economy's largest foreign vendors of oil, and Canada its principal external source of natural gas. Canadian exports have increased steadily over three decades to a high of over 2.5 million barrels per day in 2010. Imports from Mexico are smaller both in absolute and in relative terms but still account for a noteworthy share of total U.S. supply from abroad. Having been insignificant until the mid-1970s, Mexican energy exports increased until 2006, after which they declined owing in large part to the exhaustion of Mexico's principal reserves.⁶ By 2010, Canadian and Mexican exports accounted for over 32% of U.S. imports of crude and petroleum products.

On the human-power front, the North American periphery has for decades been the largest purveyor of skilled and unskilled men and women to the U.S. labour force. Some eight million Mexican immigrants comprise 30% of the foreign-born workers in the United States, with the next two largest contributing countries — the Philippines and India — a distant second and third, at 5% each. By contrast, only 300,000 Canadian immigrants are reported in the U.S. workforce, just 1.5% of the foreign-born labour force.⁷ Undocumented Mexican workers alone account for 17% of the total agricultural workforce, 17% of cleaning jobs, 14% of construction labour, 12% of the food-preparation sector, 9% of industry workers, and 7% of transportation employees in the United States.⁸ Whether legally or illegally immigrated, Mexican workers constitute one-third of the U.S. agricultural labour force.

This low-cost, flexible, and highly productive labour, primarily from Mexico, has become indispensable to the competitiveness of many American production and service chains.

In sum, without Canada and Mexico, the U.S. economy would be markedly smaller and less competitive vis-à-vis the rest of the world.

2. The Periphery as Security Ally

Geographical contiguity turns Canada's and Mexico's land and populations into a potential U.S. security threat, but this proximity also makes the Canadian and Mexican governments Washington's closest allies in securing the U.S. "homeland."

In the past, the two countries have sometimes supported the United States' military power (Canada in the Cold War integrating its air force with the U.S. Air Force under Norad) and sometimes resisted it (Mexico blocking United States' interventions in Central America during the same period). Large differences between their military institutions, defence capabilities, and strategic doctrines highlight the historic disparity between Canada's hand-in-glove and Mexico's hand-on-sword defence relations with the United States. At its extreme in the Cold War, Canada was so integrated in the American military system that the U.S. defence perimeter's anti-Soviet early-warning systems extended right up to the Canadian Arctic. Washington's pressure on Ottawa and Mexico City to toughen anti-terrorism

measures, in effect harmonizing Canadian and Mexican security practices with U.S. standards, has turned both countries into Washington's prime associates in its wars on terror and drugs.

Without Canada's and Mexico's agreeing to harmonize their immigration policies and integrate their intelligence capacities, thus pushing the U.S. anti-terrorist defence perimeter out towards the periphery's far-flung frontiers, the United States' perceived exposure to terrorist threats would increase markedly.

Ottawa focused on financing joint border-toughening measures, harmonizing its visa policies, supplying the Department of Homeland Security with police records on suspects and data about its citizens' air-travel movements, and integrating its counter-intelligence capacities with Washington's.

Mexico's more restrictive immigration stance made it less attractive as a route for al-Qaeda's recruits, but it nevertheless upgraded and integrated many of its data systems with those of the United States and started to militarize its southern border with Guatemala to extend the U.S. security perimeter southward.

When the Nixon administration first declared a U.S. war on drugs, Mexico was reluctant to cooperate. But with the largest American intake of the most socially dangerous and addictive narcotics coming across its southern border, the United States had no compunction about acting unilaterally, whether by sending U.S. agents into Mexico or by tightening its border without Mexican agreement.

Once Mexico recognized that its own public's safety was so jeopardized by the narcotics scourge so that it shared interests with the United States in controlling the cartels, it joined the fray. Soon after his election in 2006, President Felipe Calderón's sent the Mexican army into action against the most violent gangs, a measure seen by Washington as an important gesture in support of its ever-escalating war on drugs.

In sum, the security puzzle of the United States' geographical periphery is that Canada and Mexico simultaneously present the greatest menace and provide the greatest support for the United States in defending its home territory against potential military enemies and non-traditional, non-state terrorist threats to its societal safety.

3. The Periphery as Constraint

Implicit in the notion of construction is its opposite — the possibility of constraint.

Within the energy realm, both countries have at times attempted to reduce their U.S. exports. The outright nationalization of Mexico's oil sector just before the Second World War represented the extreme case of a neighbour constraining U.S. economic power. Canada's most ambitious effort to extract greater national benefit from its domestic resources was the comprehensive 1980 National Energy Program, which was designed to restructure the country's (meaning in practice Alberta's) oil and gas sectors by redirecting them from the U.S. market to servicing the populations and industries of central and eastern Canada. Since what was to provide a gain for Canada's internal market ipso facto represented a loss for its external market to the south, this zero-sum trade-off signalled a constraint on U.S. energy supply and security.

The NEP was a specific example of a general truth. Any foreign law or regulation that explicitly restricts American companies' room for manoeuvre by favouring domestic enterprises can be considered a constraint on that part of U.S. power derived from its TNCs' operations abroad. Nominally, the two neighbours may also be deemed to constrain the United States' economic power when they decline to give its corporations license to make more gains in their economies. For example, not further liberalizing intellectual-property-rights laws to expand the monopoly profits of U.S. pharmaceutical corporations can be construed according to this counterfactual logic as constraining U.S. power. Washington's continuing pressure on Ottawa to extend the intellectual property rights for Big Pharma at the expense of cheaper generic drugs underscores this point.

Constraints from the periphery on U.S. military security have largely come from Mexico's opposing the Pentagon's strategic vision. The impact of the Mexican military — either by not cooperating with or by actively seeking to block U.S. designs — has been uneven in light of its marginal military importance in U.S. eyes. If societal strength is integral to a country's global power, Canadian gangs and Mexican cartels constrain the United States' power when they funnel illegal drugs into the veins of American addicts. As a result of their

huge profit margins, the drug cartels have become so rich, so lethally armed, so ruthless — in a word, so powerful — that they can corrupt or fend off any government effort to inhibit them. Horrendous levels of violence along the Mexican frontier add to the societal insecurity created by the impact of narcotics addiction on the physical security of Americans in the border regions.

4. The Periphery as Multilateral Help and Hindrance

In pursuing what they deemed their own national interests, Canada's and Mexico's economic and political diplomacy have both supported and opposed U.S. global objectives on different issues over time.

Without first Canada's and then Mexico's cooperation in developing the path-breaking North American Free Trade Agreement, the United States would not have managed to pull off its remarkable post-Cold- War achievement of transforming the limited and weak General Agreement on Tariffs and Trade into the intrusive and muscular World Trade Organization.

With its own commercial diplomacy, Mexico subsequently supported U.S. efforts to spread neoconservative economic norms throughout Latin America. Canada also negotiated trade-liberalization and investment-protection agreements that further strengthened the rights of Canadian TNCs vis-à-vis weaker host governments. Given the way that bilaterally negotiated new international norms spread through the most-favoured-nation principle, what strengthens the power of Canadian foreign investors strengthens the position of U.S. transnational corporations.

Revolutionary Cuba presents a country-specific example of Washington's foreign policy being constrained by its two neighbours. While the complete Cuba story is laced with back-channel ambiguities, Washington's embargo of Fidel Castro's regime was undermined by Mexico and Canada providing moderate but regime-saving levels of both political and economic support which stymied initial U.S. attempts to get hemispheric sanction from the Organization of American States for its military intervention to overthrow Castro and later kept the island economy from collapse when it was on the ropes after the Soviet Union's demise.

While examples of Canada's and Mexico's effective opposition to U.S. policy make the point that the North American periphery is not condemned to play patsy, overall the two countries constrain U.S. power internationally far less than they construct it.

5. The United States Is Not Politically Dependent

Despite its material dependence on its neighbours for a surprisingly large part of its wealth and security and a smaller part of its foreign-policy effectiveness, the United States cannot be said to depend on its periphery in the sense that the latter can exert power over the former by withdrawing this support.

Absent trade with and investment in Canada, the U.S. economy would suffer, but it would hardly go into shock. Deprived of Canadian oil, the U.S. economy would find more suppliers offshore, albeit they are politically far less stable and economically less reliable.

While Canada was able to shape the Smart Border negotiations in the aftermath of September 11, 2001 so that the ultimate agreement focused on maintaining commercial flows across the border, this process did not so much illustrate a one-way dependency of the United States on Canada as it demonstrated its recognition of the need to reconcile U.S. economic prosperity, on which the country's military security is based, against the more intangible issue of anti-terrorism security.

A clear example of the United States' freedom from policy dependence on its periphery is Mexico's inability to leverage its emigrants' centrality to the U.S. economy into political influence. With the exception of its bargaining success during the Second World War, when it resolved U.S. claims over Mexico's oil-company nationalization by offering support for U.S. military security, Mexico has been unable to translate the key role played by its migrant labour into even such minimal concessions as preventing their harassment by some U.S. political constituencies.

6. Washington's Efforts Have Pre-empted its Dependence

A large part of the explanation for the importance/ impotence paradox derives from the sustained efforts made by Washington over the decades to neutralize any possible dependency it might have on Canada or

Mexico. If the United States is not 'dependent' on its two neighbours in the sense that it is subject to their influence over its policy, this is in good part because, Washington has successfully managed to blunt their capacities to take actions that would prejudice its interests.

From the first days of its gunboat diplomacy, when U.S. Navy warships opened up foreign markets through the threat of force, Washington has been assiduous in pushing its international partners to lower their barriers to U.S. enterprise, to help build its security, and to support its foreign policies.

That Canada and Mexico have so little leverage on Washington does not prove their objective and material unimportance in constructing U.S. power. Rather, this impotence speaks to the United States' success in shaping the political, economic, and military structures within which continental policy processes play out. Washington consistently resists establishing transborder governance institutions that could give the perimeter a voice in making policies for North America and so affecting U.S. priorities. When it did agree to some dispute-settlement mechanisms that gave its neighbours a role in resolving economic conflicts, Washington declined to comply with important judicial rulings that it lost.

In this regard, the United States has followed a dual strategy. Positively, it has worked to make the Canadian and Mexican economies complementary to its interests by obtaining for its corporations full access to the periphery's raw materials and extending their operations into the periphery's manufacturing and consumer markets. Negatively, Washington has sought to prevent the periphery from emerging as a competitor.

Institutionalizing its two bilateral relationships with CUFTA and NAFTA was a masterstroke of U.S. agency. Although the negotiations were formally initiated at the request of Canada, then Mexico, the U.S. government resolved long lists of irritants by transforming its ad hoc complaints into general rules that constitutionally bounded Canada's and Mexico's behaviour.

Washington often finds local allies when working to countermand unacceptable actions by its neighbours. When the U.S. State Department was deeply alarmed by the prospect of Prime Minister Pierre Trudeau's

National Energy Program diverting what it had believed to be a secure and stable supply of western Canadian petroleum, it cooperated closely with Alberta's government and petroleum sector which were just as outraged by what they saw as Ottawa's power grab.

U.S. agency is less effective in constraining the periphery when Canada and Mexico act against U.S. interests in the multilateral domain than when they do so bilaterally where a consciousness of their own extreme dependence creates a feeling of great vulnerability to U.S. retaliation and where a sense of shared ideology or global purpose generates a willingness to cooperate among the periphery's elites. U.S. efforts to undermine what it felt were the International Criminal Court's constraints on its power by coercing weaker states to sign bilateral immunity agreements backfired in the Western hemisphere when Mexico refused to toe Washington's line. Similarly, U.S. diplomacy proved ineffectual in disabling the periphery's resistance to its Cuba strategy.

Washington's behaviour towards these two neighbours demonstrates neither deference towards its benefactors nor concern about their continuing to supply the assets it needs. Armed with a self-confident political culture developed since their Revolutionary War, American citizens and politicians have seen themselves unquestioningly as agents in the world, not as objects — as masters, not servants. While President Barack Obama changed the United States' official discourse vis-à-vis the rest of the world by emphasizing his country's need to cooperate with its international partners, consciousness of this interdependence has not caused Washington to take its continental periphery any less for granted since 2008.

The last episode was Canada's whimpering about U.S. Buy-America provisions excluding Canadian firms from bidding for contracts under the Obama administration's 2009 stimulus program. This gestalt showed the reciprocal dynamic of the United States' disregard for its periphery's interests and Canada's propensity to cave in by making large concessions to U.S. demands for access to federal, provincial, and municipal governments' procurement markets in exchange for paltry Canadian access to the U.S. counterpart market.

On the other side of the same coin, its two neighbours constantly demonstrate dependent-country comportment towards the United States. Mexican and Canadian politicians may complain about U.S. behaviour and become angry at American politicians, but they never try to flex their economic or security muscle to achieve their objectives with Uncle Sam. If Washington complies with a Canadian demand, it is either because it accepts Ottawa's rationale or because domestic U.S. pressures have pushed it in the desired direction.

In recognizing how much agency Washington exerts in boosting Canada's and Mexico's constructive role and containing their potential to constrain it, we can understand why its neighbours so consistently punch below their weight in their own region, perpetuating the paradox of their intertwined material importance and political impotence. On a steadily changing global stage where the United States has lost its unchallengeable predominance, it is time for the Canadian and Mexican governments to deal with their continental interests with a self-confidence that matches their countries' substantial and continuing contribution to American economic wealth, homeland security, and international effectiveness.

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Notes

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