To discuss the future of NAFTA, I am establishing three premises. The first premise is that since we introduced NAFTA, intra-regional trade and investment flows, macroeconomic convergence, and economic cycle synchronization among the three countries has increased. All of those things have increased.

The first graph we are looking at is the intra-regional trade and investment flows in the three countries. As you can see, in 1988 it was 100. I made that index to be 100 in 1988. Then, before NAFTA it was 144, and in 2007 it was 540. It multiplied by more than four times in these 15 years of NAFTA. So, it has happened.

Second is macroeconomic convergence. Inflation rates in the three countries are very similar, and they have converged. I have done economic tests where I prove that, as of 1989, inflation rates in the three countries — Mexico, Canada, and the U.S. — have converged.

Exchange rate volatility is the graph that shows the behavior of the Canadian dollar and the Mexican peso vis-à-vis the U.S. dollar. They have converged. Short-term interest rates, they have converged. I think it is fair to say that in these 15 years we have had market economic convergence in the region.

Then when you look at the economic cycle synchronization — you can see that graph there at the very right of that slide — and also after some test, you can conclude that we have economic cycle synchronization in the three countries, mostly in industrial products, between the U.S., Canada and Mexico. I think it is fair to conclude that the first premise is correct, that integration in terms of trade flows, investment flows, macroeconomic convergence, and cycle synchronization has happened.

The second is that while we are talking about NAFTA here, 90 countries, under Article 24 of the WTO, have established similar free trade agreements, so we have in the world a proliferation of similar free trade agreements. Today more than half of the world trade is being done under regional agreements.

Why am I bringing up this point? Because I do see a trend, and that is premise number two, towards regionalization of trade, because of this proliferation of trade agreements and the increasing cost of transportation with the increasing price of oil. This will give NAFTA countries a clear advantage, for instance, over Chinese products, which I think also shows that we are moving in the direction of more
regional trade flow rather than global. This is complemented by the proliferation of export restrictions that countries have introduced in the last years — two examples are the Argentineans imposing tariffs on bean exports and on wheat and the Chinese imposing tariffs on rice, grains, coke, and steel, and I could show you the long list of these trends — and by the fact that WTO has very weak disciplines on export restrictions and that the Doha Round is bound to fail. I think that when you put all of that together, it is quite possible that regional trade agreements will be dominating the scene pointing towards a trend that is premise number two: There will be a regionalization of trade.

Premise three is that among our three countries there is a huge degree of complementarity in factor endowment. Here, our Canadian friends and the Americans are capital abundant. We Mexicans are labor abundant, and that is a very natural complementarity.

Let me show you how shocking this is. These are the population pyramids of the United States, Canada, and Mexico. You can see that they are quite different. The United States and Canada are very similar. The Mexican is very different.

Then if you go to the fourth one, there is the NAFTA population pyramid that is much more balanced than the other three, so it would only make sense to allow for labor mobility. Right? And the point here is that we have allowed for very intense capital mobility under Chapter 11 of NAFTA, but we have not done anything to allow for labor mobility.

But today it might be important to deal with the issue of labor mobility for everybody's benefit. Here is the dependency ratio of these three countries for 2007 — that is, how many very young people and how many older people, vis-à-vis the people between 15 and 65 years, we have. For instance, the Americans today have 48.8 and the Canadians have 45.32. If we project those ratios to 2025, they will increase to 61 in both countries. Now, the contribution of Mexico could be relevant in lowering that dependency ratio.

So premise number three is that there is a great deal of factor endowment complementarity and that if we were to allowed to reach some sort of agreement on labor mobility similar to the capital mobility agreement we have, we could be having a much healthier population profile for the region.

That takes me to the following conjecture: the momentum in intraregional trade and investment, macroeconomic convergence, cycle synchronization in NAFTA, premise one; the regionalization of global trade, premise two; and the factor endowment complementarity, premise three, point towards further integration in the North American region. That is my prediction of what is going to happen.

How can that happen? My first conclusion is that economic integration in North America will naturally continue. It will happen. Second is that the financial crisis of 2008-2009 will slow it down but will not stop it. And third, the welfare gains of this integration will depend dramatically on what Mr. Obama's policies are. I see two opposite scenarios. One will call for a free trade policy, or a set of policies, which I associate with high welfare gains. And the other scenario is what I would call protectionist policies, which I
associate with lower welfare gains.

I will give you some examples. Under the free trade policy, I would go for a comprehensive migration agreement. However, in the protectionist policy, you have border walls being built and a watered-down migration arrangement.

The second is cooperative labor and environmental programs. The protectionist version would be linking labor and environmental measures to trade sanctions.

Third, and Mr. Manley talked about this, common competition regulations as contemplated by Chapter 15 of NAFTA. The opposite would be the proliferation of dumping cases on countries.

Fourth, we have a great deal of complementarity in agricultural activities in North America. You Canadians and Americans are very efficient producing grains. We Mexicans are very efficient producing vegetables and fruits. A common agricultural program would make sense. The alternative or protectionist approach to agriculture is that the U.S. continues with protectionist and subsidy-driven agricultural policies.

Finally, have free mobility of transportation and have a comprehensive transportation system in North America versus keeping on violating NAFTA under the pressure of the teamsters.

What is the point here? The point is that integration is going to happen, no matter what happens, because the factor endowment, the markets, the integration are there and have a momentum. That could be done really well. Now, for that to happen well, we need serious leadership thinking of the next generations, and not politicians thinking of the past and next elections. I am afraid, unfortunately, that the protectionist policy scenario is much more likely.

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