North American Economic Integration and Globalization

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The June 11, 2001 cover of the Canadian edition of *Time* magazine featured "Welcome to Amexica: What's Happening on the U.S.-Mexico Border is Changing a Continent". The text inside (p. 23) declared that "the American Century could give way to the Century of the Americas and the border might as well have disappeared altogether". The text described "NAFTA prospectors" who saw the opportunity to make their fortune by opening factories along the border — factories that otherwise would have gone to Asia. It also talked of the rise of the "NAFTA manager" — the new breed of managers who are equally at home in Mexico or the United States.

The same cover featured "Canada and Silicon Valley", with the story inside showing a map of silicon circuits connecting major Canadian and U.S. cities. The story referred to the "integrated tech world of North America" (p. 61) and it highlighted numerous Canadians who interact continuously with Silicon Valley and various Canadian high-tech nodes. The approximately 80,000 Canadians who live in Silicon Valley have established invaluable networks, especially with respect to venture capital, and are "bringing home their knowledge and their contacts — either by returning to Canada or by sharing their expertise and Roladexes with U.S. and Canadian colleagues" (p. 61). Such networks are fostered by the Venture Capital Advisory Board — an informal collection of Canadians who work at some of the Valley's most powerful venture capital firms. Others are fostered by the informal "toque

Financial assistance from the Government of Canada funded project on Regional Aspects of Employment Relations Policy in Canada is gratefully acknowledged.

parties" at local bars. Perhaps the integrated aspect of this economy is best illustrated by the fact that some Canadians who have made their fortune in Silicon Valley are sharing their philanthropy between Canada and the United States. Jeff Skoll, the co-founder of the Internet auction eBay, has donated $4.9 million to his alma mater, the University of Toronto, and is also financing an inner-city craft-school program in Pittsburgh, Pennsylvania that is a springboard to college for disadvantaged children.

These Mexican and Canadian features illustrate that one aspect of globalization involves markets across North America becoming more integrated. This is true for markets for goods and services, financial capital, physical capital, human capital, labour and ideas. Such integration results from the rationalization of production to exploit the comparative advantages of different countries and to obtain the economies of scale for world production. Not surprisingly, North American market integration has implications for a wide range of issues, from income distribution to national sovereignty.

The purpose of this paper is to highlight the various dimensions of economic integration and its implications. Reflecting the comparative advantage of its author, the focus is on labour issues. The paper begins with a discussion of the various dimensions of economic integration as well as the existing and proposed forms of economic integration. It highlights the implications for internal integration as a precondition for external efficiency under globalization. The new regionalism is discussed, as is the declining importance of border effects. Issues pertaining to policy integration and harmonization across countries are discussed, as are international responses in such areas as the labour side accord in the North American Free Trade Agreement (NAFTA), social clauses in trade agreements, corporate codes of conduct, social labelling, consumer boycotts, transnational actions amongst unions, social groups and non-governmental organizations (NGOs), and union-to-union co-operation. The paper concludes with a discussion of the main policy issues that merit consideration.

Concepts of Integration

Economic integration has both a *deepening* and a *widening* dimension (see Gomez and Gunderson, 2001; Hoberg, 2000; Weintraub, 1994). The deepening dimension refers to the expansion of the different aspects or functional areas and market dimensions that are involved in expanding exchange. These aspects include:

- freerer trade in *goods and services*, usually enhanced by reductions in tariffs and non-tariff barriers to trade, leading to expanded exports and imports;

- freerer flows of short-term *financial capital* in response to investment opportunities;

- increased flows of longer-term *capital* in the form of foreign direct investment and plant location and investment decisions, often enhanced by relaxation of foreign ownership rules;

- enhanced flows of *human capital* embodied in labour sometimes through temporary visas for professional, technical and managerial personnel or intra-company transfers, and sometimes, more permanently as part of a brain drain;

- enhanced *mobility of basic labour* in general, sometimes through temporary work permits and sometimes through permanent immigration and emigration;

- *integrated operations of multinationals*, with head offices and research and development often done in one country, outsourcing to suppliers in other countries, production and assembly done in another country (sometimes through their own plants, sometimes through local companies), and warehousing in other countries, all facilitated by advanced transportation and communications systems; and

- enhanced flows of *ideas and technology transfer*, facilitated by the other aspects of integration as well as by the advanced communications systems of the new knowledge economy, and often involving issues of intellectual property rights.

The *widening* aspect of economic integration involves the expansion of these different dimensions of deeper integration across different countries and regions. In North America, examples include:

- the Auto Pact of 1965 involving integrated production in one industry,
- the Canada-U.S. Free Trade Agreement of 1989, and

- the expansion to include Mexico under the North American Free Trade Agreement, signed in 1992 and ratified by Canada in 1993.

Other aspects of widening as part of North American integration may also include:

- further expansion of NAFTA to include countries such as Chile, Argentina or Columbia, as well as possible existing regional trade blocs such as MERCOSUR (Argentina, Brazil, Paraguay and Uruguay), the Andean Pact (Bolivia, Columbia, Ecuador, Peru and Venezuela) and CARICOM (the Caribbean Basin countries); and

- complete widening through a Western Hemisphere agreement to involve North, Central and South America including the Caribbean Basin.

In theory, the different dimensions involved in the deepening of economic integration can act as complements or substitutes. Free trade, for example, can be a substitute for labour mobility since the goods can embody the labour that otherwise would move.[1] They can also be complementary, however, if immigration fosters backward linkages to suppliers and customers in the country of origin of the immigrants, as well as enhancing technology transfers and capital and investment flows (Head and Reis, 1998). In practice, it appears that the complementarities dominate with enhanced exchange in goods, services, capital, human capital, labour and ideas increasing together in a self-reinforcing fashion.

Similarly, regional trading blocs can be a substitute for more general multilateral trade expansion. Again, however, they appear to foster expansion as other countries join the blocks or they merge.

[1]The fact that the recent brain drain is not as large as it was earlier and that may be expected based on the large income and unemployment rate differences between Canada and the United States (Helliwell, 2001) could occur in part because free trade is a substitute for such mobility. The mobility that did occur tended to be in non-tradable sectors like health and education, reflecting the cutbacks in those areas in Canada and the tax rate differences at higher income levels.

Internal Integration and External Competitiveness

Deeper and wider economic integration can also foster the internal integration within a country since such integration is generally regarded as a precondition for external competitiveness. North American economic integration, for example, provided impetus for Canada to develop the Internal Free Trade Agreement of 1994, with the aim of fostering the internal trade and capital and labour mobility. Such an internal arrangement is designed to help rationalize production and achieve the economies of scale necessary for successful competition in the global economy. However, the extent to which it has been effective in removing internal trade barriers, especially provincial procurement policies, is open to question.

Within Canada, increased attention is being paid especially to removing barriers to the interprovincial mobility of labour.[2] Such barriers exist in various forms. Professional licensing and certification[3] requirements especially amongst self-governing professions often create barriers in such forms as educational requirements, intern training periods, licensing examinations and residency requirements. Licensing and certification can also exist for particular trade and occupational groups such as electricians (licensed) or mechanics (certified). Interprovincial mobility is often restricted by the different licensing or certification requirements, the different trades that are licensed or certified, and the failure to recognize qualifications from other provinces. For the licensing and certification of both professionals and trades, there are also failures to recognize the qualifications of immigrants.

In addition to these constraints, preferential hiring practices can also exist whereby governments often give preferences to the hiring of local residents as public employees. Such preferential practices can also apply indirectly to the private sector through government procurement practices in the awarding of government contracts or through the granting of permits for natural resource projects. The extent to which preferential hiring practices and occupational barriers have an important impact on deterring internal mobility is open to debate in part because there is little systematic analysis of their effects.

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[2] For an expanded discussion see Gunderson (1994) and references cited therein.

[3] Under occupational licensing only the licensed professional can practise (i.e., they have an exclusive right to practise) while under certification others can practise but only the certified professional can use the professional designation (i.e., they have an exclusive right to title).

Income security programs can also deter interprovincial mobility. They can do so directly, through residency requirements (sometimes informally through administrative practices) and limits on portability. And they can do so indirectly by reducing the post-transfer income differences that otherwise may provide the economic incentive to move. While public pensions are completely portable, private employer-sponsored occupational pensions may not be completely portable because of vesting requirements and because of the loss of service credits and benefit accruals if people leave "early".

In Canada, differences in the education system across the provinces may also deter interprovincial mobility. At the elementary and secondary level this can occur because of differences in the curriculum and testing standards. At the university level it can occur through implicit or explicit quotas as well as residency requirements for financial aid.

In many of these areas, attempts are being made to reduce the barriers to labour mobility, in part to foster the internal competitiveness that can facilitate external competitiveness in the global economy. The Red Seal program involving the mutual recognition of trade qualifications across provinces is expanding. Efforts are being made to recognize the qualifica-tions and credentials of immigrants. Preferential hiring practices are being curbed, as are the preferences in government procurement policies. Pension regulations have required earlier vesting periods, and there has been some shift to defined contribution plans that are completely portable.

New Regionalism

The previously discussed changes were in the direction of fostering the internal mobility of labour that in turn can foster internal competitiveness as a precondition for external competitiveness under increased globalization. Thus, the external integration fosters internal integration.

The forces of integration within North America, however, are also changing the axis of integration, creating new regional alliances and shifting the traditional trade patterns and orientation of Canada from east-west to north-south. The east-west pattern was fostered by somewhat artificial factors such as the protective tariff and non-tariff barriers to trade as well as the building of the transcontinental railway, both being part of the National Economic Policy of 1878. More recently, however, new regional alliances are being formed, based on more natural economic trade and investment patterns. Examples include: the Cascadia region involving the British Columbia, Washington and Oregon triangle (Goldberg and Levi, 1993); Winnipeg increasingly regarding itself as the northern end of a transportation corridor via Interstate 29 to Mexico and a north-south rail network linking Canada and Mexico;[4] Quebec fostering ties with New England, especially for the sale of its natural resources including hydro power (Konrad, 1995); and Alberta increasingly looking south for the sale of its oil and natural resources. The Golden Horseshoe surrounding Toronto, which provided manufactured goods to the rest of Canada under the protective tariff, increasingly aligns itself south of the border. As stated by Krugman, "Industrial Ontario is aptly considered by geographers to be part of a common American manufacturing belt" (1991, p. 71). The Golden Horseshoe is essentially ten hours driving time from major U.S. markets in cities like New York, Boston, Philadelphia, Baltimore, Washington, Pittsburgh, Cincinnati, Cleveland, Detroit and Chicago. Courchene and Telmer describe the region as a new region state, replacing the old nation-state. In fact, they describe it as the "premier economic region state within North America" (1998, p. 2).

Whether one goes so far as to say that the new region states and city-states are replacing the now defunct old nation-states (Ohmae, 1996), the fact remains that in Canada new north-south regional alliances are forming, and the traditional east-west orientation is shifting towards one that involves more integration with the United States and Mexico.

Border Effects

This changing orientation is further illustrated by the declining importance of borders although, as Helliwell (1998, 2001) emphasizes, borders still matter with respect to various aspects of exchange. Border effects[5] are estimated via gravity models where trade flows are a function of the distance between

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[4]This was recently fostered by the approval in 1999 of Canadian National's proposed US$ 2.4 billion acquisition of the Illinois Central railroad which would create a continental rail network linking Canada, the United States and Mexico. This highlights the north-south economic integration of the service market. The integration of the capital market is illustrated by the fact that the majority of shares in the expanded Canadian company are held by Americans (Handelman, 2000, p. 21).

[5]See McCallum (1995) and Helliwell (1998, 2001) and references cited therein.

trading partners and their size. The empirical evidence indicates that borders matter in that internal trade flows across provinces within Canada in the late 1980s were about 18 times larger than were external trade flows across the Canada-U.S. border, even after adjusting for differences in distance and size of the market. That is trade between cities within Canada was about 18 times larger than was trade between Canadian and American cities of the same size and distance from each other. This preference for internal trade compared to external trade can be attributed to a wide range of factors including familiarity, networks, exchange-rate risks, customs regulations, laws, regulations and institutions, and perhaps the legacy of earlier preferential tariffs.

What is important for the purposes of illustrating the significance of integration, however, is that border effects were reduced dramatically after the Canada-U.S. Free Trade Agreement (FTA) of 1989. That is, the east-west internal trade flows across provinces were reduced from being 18 times greater than were the north-south external trade flows with the United States in 1990, to 12 times greater by 1993. The importance of "the border" was cut by one-third over a brief three-year period of time surrounding the FTA. The effect of the FTA seems to have been "one shot", with the ratio of internal to external trade levelling off fairly quickly in the post-FTA era.

The north-south versus east-west orientation and the change in that orientation differs substantially across the various regions of Canada.[6] Prior to the FTA, the importance of internal trade within Canada relative to external trade with the United States was greatest for Ontario and Nova Scotia, but below average in all other provinces, especially for Alberta and British Columbia. The restructuring away from internal east-west trade and towards external north-south trade was greatest in Ontario and Quebec and the least in British Columbia and Saskatchewan.

Overall, the following trends have emerged:

- a dramatic shift away from internal east-west trade to external north-south trade occurred in Canada over the brief period surrounding the FTA;

- that shift towards economic integration with the United States was most pronounced in Ontario and Quebec;

[6] Calculations given in Gunderson (1998b, p. 210) based on data from Helliwell (1998).

- after the shift the four western provinces were most integrated with the United States (as they generally were prior to FTA) in the sense of having the lowest ratio of internal trade within Canada relative to external trade with the United States; and

- in spite of this greater integration with the United States, as Helliwell (1998) emphasizes, borders still matter as Canadians still seem to have a preference for internal versus external trade. While borders are "coming down" throughout the world, they nevertheless remain important for a variety of markets — goods and services, physical and financial capital, human capital, and labour in general.

Policy Integration

Integration can also occur on the policy front, sometimes as part of a conscious design to harmonize or standardize policies to facilitate exchange, and sometimes as an indirect by-product of the other aspects of integration.

Adopting a *common currency* such as with the euro in the European Union, or under a North American Monetary Union[7] is a form of monetary integration designed to facilitate exchange.[8] This can also occur less formally through the increased use of the currency of a particular country for exchange purposes, as is currently occurring through *dollarization*. Other standardized policies could also facilitate exchange within a country as a precondition for external competitiveness. As discussed previously, in the labour area this can occur in such areas as occupational licensing, health and safety standards, qualification recognition, education and training standards and the elimination of preferential hiring and procurement practices.[9]

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[7]For an expanded discussion see Harris (2000).

[8]Because there essentially would be no exchange rate under a monetary union, it would also make it more difficult for inefficient employer practices to prevail under the "protection" of a devalued Canadian dollar.

[9]Various articles in Bhagwati and Hudec (1996a,b) discuss harmonization of standards in other areas such as products, technology, commercial transactions, intellectual

Integration on the policy front can also occur through the emulation of "best practices" (or "worst practices" depending upon one's political views!) in the policy arena. Engaging in various forms of exchange with other countries provides greater exposure to the policies of those countries, making them more obvious contenders for adoption.

Policy harmonization can also occur if particular policies could be interpreted as unfair subsidies and hence subject to trade sanctions. There would be pressure to reduce such policies to the levels of those of the trading partner, with harmonization being a natural result of this process.

The same applies to the reduction of non-tariff barriers to trade. Under the policy of "national treatment" governments are under an obligation to impose the same regulations on their domestic producers as they impose on imports, with harmonization being a natural by-product.

The strongest pressure for policy integration, however, comes from the indirect effect that other forms of integration place on governments in establishing and administering their policy initiatives. With freerer trade and capital mobility, firms have a more credible threat of relocating their plants and business investment away from countries with the higher regulatory costs and into those with lower regulatory costs. Political jurisdictions are under more pressure to compete for that business and its associated jobs, with the reduction of costly legislative and regulatory initiatives being one instrument in that competitive process. Hence, there is concern on the part of some that harmonization will be to the "lowest common denominator" — that there will be a "regulatory meltdown" with Canadian labour laws and regulations conforming to those of the right-to-work states of the U.S. South, or of the Mexican maquiladoras. In essence, the concern is that our policy initiatives are also shifting from an east-west orientation to a north-south one. At this stage, however, there is insufficient evidence to determine if harmonization is leading to the lowest common denominator.[10]

The north-south shift as it relates to labour policy is an important issue — *the* most important *labour* issue with respect to integration. In fact, it may be the most important consequence of trade liberalization and globalization — more important than the conventional gains from trade. For those who eschew such government initiatives, this is, of course, a positive development. It is essentially subjecting the policy-making process to the same scrutiny of the forces of competition that apply to business and labour. This

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property rights, tax policies and environmental protection.

[10]The stringent conditions for downward harmonization, and examples of mixed evidence is given in Gunderson (1998a, 1999). Studies in the political economy tradition that conclude that Canada still has considerable control over its domestic policy initiatives even in the face of greater economic integration include Banting, Hoberg and Simeon (1997); Banting and Simeon (1997); and Hoberg (2000).

perspective is buttressed by the fact that the laws and regulations that will be under the most pressure to dissipate are those that are the most inefficient in that they protect the rents of particular interest groups and impose costs without offsetting benefits. Laws and regulations that have an efficiency rationale and foster competitiveness will not only survive, but indeed thrive under such political competition. This *may* be the case, for example, with policies that provide a social safety net or that compensate those who lose from efficient changes and hence reduce their resistance to such change. Workers' compensation can be associated with costly payroll taxes but it *may* also save on the costs of the tort liability system since workers essentially give up their right to sue their employer under such a system. Advance notice requirements for plant closings or mass layoffs *may* foster efficient job search. Guaranteeing wage payments that are due *may* foster the contractual arrangements that are so important in facilitating exchange. Occupational health and safety regulations *may* offset the information asymmetries that can inhibit compensating wage premiums for risk from ensuring the optimal degree of workplace health and safety.

It is even possible that multiple equilibrium can prevail with different jurisdictions providing different Tiebolt-type combinations of regulations with their associated costs and benefits, with firms and workers sorting into the jurisdictions based on the extent to which they are affected by the costs and benefits. While such markets are likely to be "thin" given the various combinations of regulations, they likely can be packaged into combinations involving low costs and low regulations, and high costs and more regulations with their associated benefits.

One area where there can be a serious "market failure" in such political competition is with respect to distributional or equity-oriented policies that do not have positive feedback effects on efficiency (Gunderson and Riddell, 1995). Some policies may have such positive feedback effects, for example, if they reduce resistance to otherwise efficient change or save on social costs elsewhere, such as crime. But some simply do not "pay for themselves". In such circumstances, it will be difficult to sustain such equity-oriented policies under globalization even if the citizenry generally desires them. Corporations may find them laudatory, but they may find it difficult to pay the corporate taxes to sustain them when competing with other countries without such high taxes. Financial capital is seldom willing to "pay the price" except in the case of "social funds". Individual citizens may be willing to pay their share of the tax burden, but this can be compromised by the fact that individuals with a high embodiment of human capital may have the mobility to "escape" the high taxes, leaving only the immobile factor of production (middle and low-wage labour) bearing the burden of the tax. These issues are compounded if the more generous equity-oriented policies serve as a magnet to attract more disadvantaged persons. They are further compounded by the fact that increased adjustment consequences and polarization of market outcomes have occurred because of trade liberaliza-tion and especially skill-biased technological change (see Campbell, Haces, Jackson and Larudee, 1999; Jackson and Robinson, 2000). In essence, the demand for equity-oriented initiatives may have increased at the same time as the ability of governments to provide them is circumscribed.

Global problems require global solutions. However, the international institutions are largely not there to provide such solutions, and to the extent that they are present, they often have other associated problems. Nevertheless, there has been a wide range of international responses to the potential policy vacuum created by globalization and integration.

International Policy Responses

Of particular relevance to labour policy under NAFTA is the *labour side agreement* — the North American Agreement on Labour Cooperation. The agreement essentially obliges each country to enforce its own existing labour standards (Compa and Darricarrère, 1996; Diamond, 1996). As such, there is no formal loss of sovereignty since each country is simply required to do what it is legally supposed to do internally in the first place. The sanctions are minimal, and mainly involve adverse publicity in the "court of public opinion". Other trade agreements in Latin America and the Caribbean are also including side agreements on labour policy (Aparicio-Valdez, 1995).

Such side agreements can take on many faces. Depending upon the perspective of the viewer,[11] they can be regarded as:

· "toothless" token gestures designed to give the appearance of forestalling downward harmonization, but doing little in reality;

· token "bribes" designed to reduce the opposition to trade liberalization by offering minimal concessions required to obtain free trade;

· "diversion tactics" to redirect pressure from consumer advocacy groups that threaten boycotts, Internet "outing" and other publicity campaigns;

[11] This viewer regards each of these perspectives as containing a grain of truth.

- “image advertising” to portray a good corporate image;
- “stepping stones” for building the infrastructure for more meaningful regulations with sanctions and enforcement procedures;
- a form of “minimal protection” designed to reduce the most egregious concerns;
- “thin-edges-of–the-wedge” for ultimately establishing more costly regulations with sanctions and enforcement procedures;
- “thinly disguised protectionism” requiring the poorer countries to harmonize upwards and hence to lose some of their comparative advantage of low-cost labour; and
- a “viable adjustment strategy” that slows down the rapid adjustment that otherwise would ensue because of large labour cost differences.

Stronger sanctions can be involved in *social clauses as part of trade agreements* when there are enforcement mechanisms across the countries as is the case with the European Union.[12] Cases can be brought to the European Court of Justice, with the results binding on the parties and setting precedence for the interpretation of the laws in each country. In the case of the EU, countries like Germany and France that already had high wages and labour standards advocated such clauses. The intent was to compel “upward harmonization” of such standards in the lower wage, new entrants like Spain and Portugal as a condition of entry into the EU for those countries. This also highlights the concerns that such practices are simply thinly disguised protectionism designed to reduce competition on the basis of labour costs (Bhagwati, 1994). To assist in such upward harmonization, however, the EU also provided “social funds” to the poorer country.

[12]The history of including social clauses in trade agreements is discussed, for example, in Servais (1989), Swinnerton and Schoepfle (1994), and van Liemt (1989).

Corporate codes of conduct have also been advocated for multinationals that do business across less-developed countries, and that often subcontract to locally managed operations often accused of being “sweatshops”.[13] Both the Organisation for Economic Co-operation and Development (OECD) in 1976 and the International Labour Organization (ILO) in 1977 set out voluntary guidelines for multinationals emphasizing that they should adhere to local laws and provide wages and labour standards at least as good as those provided locally. These are largely redundant recommendations since multinationals tend to try to be “model employers” in the first place, being particularly sensitive to the public image. The ILO and OECD guidelines also refer to freedom of association; non-discrimination in employment; consultation and information-sharing; preferences for and training of local employees; and of a greater potential constraint — refraining from threatening to transfer operations so as to influence bargaining.[14] While the latter is likely to be the most important credible threat of multinationals, it is not likely to be one that has to be overtly threatened; it is a threat that is obvious.

In 1998, the ILO also followed up with its Declaration on Fundamental Principles and Rights at Work, obliging all members to follow and promote basic core rights: freedom of association and the right to bargain collectively; the elimination of forced or compulsory labour; the abolition of child labour; and the elimination of employment discrimination.

Social labelling, the modern variant of the old “union label”, has also been advocated as a way of informing consumers of the working conditions under which the product was produced (Freeman, 1994; International Labour Office, 1997). For economists, such procedures have appeal since they provide information and otherwise adhere to consumer sovereignty. Those who want to purchase that attribute, possibly paying a positive price for the “social content” of the product can do so. Some people may be willing to pay a positive price for an alligator logo on a shirt, or a Gap label, or a social label — no accounting for tastes. There is, of course, the issue of the effectiveness of such labelling given the incentive to “support the cause” but buy the cheapest elsewhere. Evidence, however, suggests that consumers are willing to pay a positive price for the “social content” of the goods they consume (Elliott and Freeman, 2001).

[13]Corporate codes are discussed, for example, in Compa and Darricarrère (1996); Erickson and Mitchell (1996); Liubicic (1998); and in various articles in Blanpain (2000).

[14]For discussion of the ILO and OECD codes of fair competition see Gunther (1992); various articles in Blanpain (2000); and at <http://oecd.org/daf/cmis/cime/mneguide.htm>.

Consumer boycotts against products produced under sweatshop conditions can also be particularly effective especially against multinationals whose products are marketed through the creation of an image.[15] In a world where image is everything, those who live by an image can die by an image. Such boycotts can be particularly effective in a world of "Internet outing" as can occur, for example, with <www.corpwatch.org>. They can also put pressure on multinationals to ensure that they cannot distance themselves through outsourcing to local suppliers — employers who can be the modern-day equivalent of the overseer under slavery in the U.S. South.

Unions have been involved in many of the previously discussed initiatives. They have also engaged in efforts to share information and co-ordinate with counterpart unions, social groups and NGOs in the other countries. With respect to NAFTA, this has taken various forms: "site visits, educational tours and workshops, meetings attended by representatives of organizations from the three countries, regular communication and exchange of information (aided by faxes and access to computer networks), joint political strategizing around NAFTA, solidarity actions around specific conflicts, pressuring of government officials and politicians to concern themselves with events in the other countries, and so on. Cross-border collaboration has taken place at both the grassroots level of people-to-people contacts and amongst organization leaders" (Cook, 1994, p. 146; see also Brooks, 1992; and Thorup, 1991).

These efforts are part of transnational actions on the part of unions, social movements and NGOs to deal with international issues especially amongst trading partners to try to fill some of the void left by the weakened role of sovereign states in dealing with these issues (Sikkink, 1993). Especially prominent are issues pertaining to human rights since they garner the most publicity and broadest political support. Some transnational union-to-union efforts have also occurred (Cook, 1994), although these have generally involved simply sharing of information and acts of solidarity over specific conflicts. Broader efforts at coordinated bargaining or international union mergers have been hampered by legal and institutional differences and traditional union rivalries that make international unionism less prominent (Murray, 2001).

In essence, to deal with the labour and social issues arising under globalization, considerable actions have occurred in various dimensions: labour side agreements; enforceable social clauses as part of trade agreements; corporate codes of conduct; social labelling; consumer boycotts; transnational efforts amongst unions, social groups and NGOs; and union-to-union cooperation. These have been designed to fill at least part of the void

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[15] Examples include campaigns against Nike, Reebok and Wal-Mart; see Elliott and Freeman (2001); Keck and Sikkink (1998); and Klein (1999).

left by the difficulty that national governments have in dealing with labour and social issues that arise under globalization, and their reluctance to relinquish sovereignty over laws and policies to international bodies. Whether these have much more than a symbolic effect compared to the ability of governments to establish and enforce laws and policies is an open and interesting question.

Policy Implications

Clearly NAFTA and globalization in general are fostering the integration of various North American markets — for goods and services, financial capital, physical capital, human capital, labour and ideas. This is occurring through both the deepening and the widening aspects of integration.

A variety of policy implications flow from the analysis.

- Internal integration is an increasingly important precondition for external efficiency under global integration. This implies more attention must be paid to barriers to labour mobility that can be fostered by such factors as licensing and certification requirements, preferential hiring practices, lack of pension portability, and the failure to recognize credentials and qualifications.

- New economic regions more closely linked with U.S. regions are forming with particular cities becoming more important in that realignment. Local labour markets in each region are thereby becoming more important, highlighting the need for more local labour market informa-tion on a "just-in-time" basis to serve the "just-in-time" needs of the employment relationship. Such local labour market information on skills mismatches and skill shortages can be particularly important for re-ducing the skill bottlenecks that can inhibit meeting the emerging global challenges.

- Skills development will be increasingly important in general, given that the effective use of human resources in the knowledge economy is the new comparative advantage for higher wage countries like Canada given the declining importance of traditional sources of comparative advantage such as access to raw resources and markets. With prices of goods, capital, human capital and labour increasingly being determined in world markets, the strategic use of human resources is one of the few remaining degrees of freedom.

- While still important, borders are becoming less important, shifting the former internal east-west orientation within Canada to more of an external north-south orientation to the United States. Policy initiatives must take account of that re-orientation, with U.S. policies and practices becoming more important as a benchmark.

- This implies pressure for the harmonization of policy initiatives in the direction of those of our trading partners, the United States and Mexico. This is fostered mainly by interjurisdictional competition for business investment and the jobs associated with that investment, with businesses now having a more credible threat at the political bargaining table (as well as at the collective bargaining table).

- While this raises the spectre that the harmonization will be to the lowest common denominator (the U.S. South, and the *maquiladoras* of Mexico), it is the case that regulations that serve an efficiency rationale will survive, while inefficient regulations, and especially those that protect the rents of particular interest groups, will be under the most pressure to dissipate.

- In that vein, governments should thereby delineate their appropriate role under these circumscribed circumstances, likely focusing on dimensions that will make markets more efficient such as through providing labour market information (especially at the local level), uniformity in trades and occupational certification and licensing, facilitating pension portability, supporting active adjustment assistance programs that facilitate adjustment in the direction of market forces rather than passive income maintenance programs that can deter such adjustment, and providing the efficient delivery of their own programs.

- The area of greatest social concern (in the view of the author) is that pure equity-oriented policies that serve an important social purpose, but which do not have positive feedback effects on efficiency, will also be more difficult to sustain. This can be particularly problematic since the polarization that is occurring because of trade liberalization and especially technological change may be increasing the need for such policies.

- In such circumstances, governments should again *focus* their more circumscribed role on policy initiatives with an equity-oriented focus to assist the disadvantaged who are being bypassed by the new opportunities under globalization.

- International responses in such areas as the labour side accord in NAFTA, corporate codes of conduct, social labelling, consumer boycotts, transnational actions amongst unions, social groups and NGOs, and union-to-union cooperation can play a role, but it is a limited role without the laws and enforcement procedures of governments, and such supranational institutions are not likely in North America since each of the three nations jealously guards their sovereignty, even if it is a more limited sovereignty.

- The interesting question that emerges from this new role of policy in a more integrated North American environment is whether this more circumscribed role of governments and greater role of market forces will, in the long run, benefit the more disadvantaged, including those in the poorest country, Mexico. So far, the greater emphasis on market forces seems to have left significant numbers of disadvantaged persons bypassed by the changes and unable to take advantage of the new opportunities that are created. Whether that will be true in the longer run, remains an interesting and open question — in fact, *the* interesting question associated with integration and globalization. The equitable sharing of the efficiency gains of deeper and wider economic integration will likely determine the long-run sustainability of this important and growing phenomenon.

- While there are grounds for optimism on this front, it is cautious optimism, based on the notion that an expanding economy will draw in the disadvantaged in the long run, and that if this does not occur through market forces, there will be a realization that the sustainability of the efficiency gains will require action on the social front.

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