

Introduction

Policymakers in North America are taking a hard look at where regional and global trends are taking their economies. All three countries are reevaluating both the impacts of relatively open trade with lower-wage developing countries like China and India and the impact of relatively open borders on domestic labor markets, real income levels, and other key macroeconomic variables. Global security issues and domestic politics in the three countries are also increasingly coming into play, along with global and domestic economic considerations, and will impact the direction of policies. Yet a lack of comprehensive studies to inform policymakers on the impacts of alternative scenarios of trade and migration policies much less the interactions between migration flows and trade competitiveness. In addition, the role of remittances has long been ignored in the discussion of migration policy reform and regional development, even though these flows have overtaken the flows of foreign direct investment in magnitude. Decisions with far reaching consequences for North America integration and development are thus being made with far less than complete information. We hope this paper will be a start towards improving on the “conventional wisdom” and informing policymakers as to the need to conduct more comprehensive modeling analysis, both with respect to migration and trade flows, as well as regional and global dynamics.

This work builds on several recent studies have highlighted the impact of NAFTA on production, employment, and trade in North America.¹ What is needed now is to go beyond a NAFTA and trade focus to look at how emerging and continuing trends in trade, demographics, migration and remittances, foreign direct investment, and other aspects of globalization in North America and beyond are changing the character of North American labor markets and competitiveness. This study poses and attempts to answer three main sets of questions concerning the evolution of North America over the decade since NAFTA, with implications for current policy debates:

1. How has the comparative advantage of North America evolved, vis-à-vis other key competitors? What has been the impact of the emergence of China and India as globalizing competitors? Which economic sectors, broadly defined, have been impacted significantly?
2. Given recent demographic trends, are there opportunities to harness regional complementarities in North America? To what extent might these international

¹ Burfisher, M., Robinson, S. and Thierfelder, K. “The Impact of NAFTA on the United States,” **Journal of Economic Perspectives** 15, no. 1 (Winter 2001): 125-144.

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complementarities provide potential answers to sectoral problems and domestic macroeconomic imbalances?

3. How is economic integration, broadly defined, progressing in the region? How does “regional integration” in trade and investment flows under NAFTA fit into a larger picture of globalization in the three economies?
4. What is the impact of alternative scenarios of migration and remittance policy reform in a regional and global context? What policies can best result in an “upward convergence” of wages, productivity and social inclusion in North America, and what policies could lead to a negative cycle of income inequality, lower growth and social exclusion?

In each of these areas, we will carefully analyze post-NAFTA trends in the data and highlight the role of public policy in shaping the dimensions of interaction. Alternative scenarios will reveal the impact of policy decisions on the evolution of production, employment, earnings, etc. However, it is important to acknowledge that our model does not yet reflect all the “stylized facts” of the post-NAFTA era. Important planned extensions to the model are discussed in the concluding section.