Globalization and North America 2.0

By Alan Bersin

The low-cost model of globalization that shaped the first wave of North American integration is over. How can North America build a prosperous and accountable future in its next phase now that the era of Globalization 1.0 has ended?[1]

North America 1.0 (NAFTA) and Globalization 1.0

The fall of the Soviet Union in 1989 and China's entry into the World Trade Organization in 1993 materially shaped an international environment conducive to the rise of globalization. However, it was the North America Free Trade Agreement (NAFTA) in 1992 that first produced at a regional level an existence proof of the actual globalization proposition.

The idea of North America as an economic entity unfolded in tandem with globalization which it both defined and by which it was defined. Capitalizing on the benefit of coupling more market integration and more deregulation, with ever lower production costs and ever enhanced logistical capacity, NAFTA generated tremendous wealth for certain communities across North America.

When NAFTA catalyzed North American integration in the 1990s, the trade pact embodied a then-pathbreaking approach to international regionalism in how it connected disparate and asymmetric economies. NAFTA achieved its intended goals of massively boosting trade and creating a friendly environment for U.S. and Canadian investment, especially in Mexico. Over this period, NAFTA fostered the creation of a trilateral business community; in turn, these businesses built a shared continental production platform of imposing stature and resilience. Trade among the three countries now exceeds $1.5 trillion annually, but the commercial connections are more multifaceted than even that enormous figure suggests. It has

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become commonplace to observe that the three countries do not so much trade with one another as make things together, especially in automobile, aerospace and medical device manufacturing. Over the next thirty years, Asia and Europe followed suit and galvanized by the U.S. market and facilitated by its financial system, Globalization 1.0 reshaped the world.[2]

Supply chain outsourcing restructured the global economy. Driven by considerations of cost efficiency and working capital optimization, the global supply chain grew in complexity, opacity, and interdependence. Consumers benefited from decades of secular price deflation, fed by cheap labor from the transition of manufacturing to low-cost labor environments, by the flood of commodities from the developing world, by the ready availability of low-interest capital, and by the analytical capacity furnished by contemporary data management, itself derived from exponentially improving information technology.

The Limits and End of Globalization 1.0

Globalization 1.0 delivered countless benefits. It lifted billions from extreme poverty, democratized access to work, and generated a global supply chain network that harnessed entrepreneurial energy with logistical efficiency to improve productivity and generate wealth.[3] The result was an unprecedented, historic expansion of trade and commerce among nations.

But this came at a cost and with a dark side. Globalization 1.0 spawned sprawling, indiscriminate, financialized, and opaque global economic networks that were optimized purely toward profit. These networks generated wealth – but they also caused massive collateral effects and unanticipated consequences that contained the seeds for its own decline. These include a) massive wealth inequality; b) significant labor and human rights violations, c) severe environmental and social externalities; d) inherent supply chain vulnerability and fragility; e) accelerated decline in the Westphalian nation-state system accompanied by significant non-state risks such as terrorism and organized crime; and f) a debilitating deterioration of truth and trust in both society and politics.[4] As these unintended consequences of Globalization 1.0 worsened, the strain on the social fabric and international order intensified -- broad challenges to the governing order of the post WWII period over the past seventy-eight years -- with opposition to immigration, international trade, and neoliberal institutions widely in evidence both in North America and across the world.

Developments at the international level hastened the demise of Globalization 1.0. The accelerating splintering of the last generation's world order, evident in the re-emergence of great power rivalry, has been highlighted by Russian aggression in Ukraine and China's pivot away from the West and vice-versa. These developments, coming on top of a stubborn pandemic, threw global supply chains into drastic disarray and set the stage for dramatic transformation in the global trade environment, including North America.

Supply Chain Disarray and Opacity

This current turmoil has revealed severe structural problems that preclude the major participants in Globalization 1.0—across private and public sectors—from being able currently to meet the challenges they now confront.

These issues flow principally from the pronounced lack of visibility in existing global supply chains that resulted from the way they were constructed. Supply chains have operated within the interstices of existing regulatory systems – no single supply chain is fully controlled nor understood by any one actor, whether public or private – meaning that even when actors in the Globalization 1.0 era have sought to control supply chains, they have lacked the means to do so. Despite their immense impact on our everyday lives, supply chains remain fundamentally ungoverned. A patchwork system of corporate pledges and trade agreements can mitigate some of the worst supply chain problems – but these have proven inadequate to resolve fundamental issues derived from the manner in which Globalization 1.0 unfolded.

The sense and reality of a lack of control stems from the lack of visibility that was a core part of Globalization 1.0. In the Globalization 1.0 paradigm, actors in global supply chains have had no incentive to share data with one another, meaning that even the most well-informed and well-intended actors in global supply chains often do not know what is occurring within their immediate supply chain relationships. Companies do not know their supplier's supplier—let alone two or three levels removed in their supply chains. The results of this deficit show up daily in the news – operational catastrophes, human rights abuses, national security vulnerabilities, and worse lurk just one degree of separation from nearly every business and government participating in our current system of global commerce.

Global Supply Visibility and Transition to Globalization 2.0

Remaking globalization will require re-wiring the logic of supply chains, and of the economic networks they represent. This does not mean re-imagining capitalism from the ground up – the logic of comparative advantage and competition to provide goods and services in a system of mutual benefit will continue to prevail, as it has for the entirety of economic history. And, our economies, social networks, information exchange, and finance will continue to be characterized by global networks of exchange working collaboratively when they can—and competitively otherwise--to exchange goods in a system of mutual value creation.

What will change is the nature of these networks. Opaque, uncontrolled global networks will be replaced increasingly in the United States and Europe—including their major trading partners—by more transparent, collaborative, and trusted global networks bound together by data exchange, shared visibility, and common standards. Trusted Networks will be organized across the five (5) dimensions of (a) supply chains; (b) environmental and social impacts; (c) national security and compliance; (d) data governance and information sharing; and (e) financial systems.

These Trusted Networks will form and align to major economic blocs, such as those forming around China, Europe, and the US. While each bloc will have different requirements and priorities, these will shift over time as definitions of trust evolve and the behavior of the various networks evolve within and between themselves.

North America 2.0, Trusted Supply Chain Networks and Federated Learning

Trusted Networks will be enabled by new technological advances in federated analytics. These innovations in data architecture have made it possible to share "signal" and learning from vast data sets without comingling any of the underlying data.

Valid concerns over privacy, intellectual property, and sovereignty have until now prevented most information sharing in the public and private sectors both within and between them. As a result, supply chain data has never been assembled in one place. Today, with the advent of federated learning, it is possible to bring machine learning computation directly to siloed data – rather than the other way around. This privacy-preserving approach enables learning across previously inaccessible data to create a dynamic, intelligent model of the world's supply chain network that is accessible to regulators, the private sector, and civil society alike. This federated learning approach is transforming the world's public and non-public supply chain information into an increasingly coherent map, through which stakeholders across the supply chain will gain visibility and then be able to set rules, collaborate, and build trusted networks.

The Promise and Opportunity for North America as a Proving Ground for Globalization 2.0

What are the prospects—challenges and opportunities—for North America in this emerging era of Globalization 2.0? At a global level, now may be a propitious time to reassess strategy for getting North America the attention it deserves—particularly in the United States. The accelerating splintering of the past generation's world order, evident in the re-emergence of great power rivalry, revitalize the strategic "geoeconomic" logic for North America and its importance to the U.S. economy as well as its national security.

The core countries of North America—Canada, Mexico and the United States—are bound by rich interconnections in their history, institutions, and cultures. They are home to marked continental comparative advantages in terms of trade, energy, and advanced technology. Blessed with abundant natural resources and home to youthful, energetic, and inventive populations, North America is the ideal place to put forward a new vision for the future of supply chains – built around an ESG-oriented agenda of visibility, resilience, sustainability and avoidance of forced labor abuses.

In doing so, the three countries should broaden the region's geographic canvas to include what Abe Lowenthal refers to as the "near abroad" in the calculation. This would begin with incorporating Central America and the Caribbean basin into the existing shared production platform creating a North America economic region stretching from Colombia to the Arctic and from Bermuda to Hawaii.

Supply chains are the places where our continent connects – commercially -- but they can be so much more. They can be turned into transparent systems that isolate bad actors and destructive practices. Instead of fragile systems that buckle under pressure, they can be converted into resilient economic links. And rather than contributing to the worsening of the world's climate, they can be built from the ground up to improve sustainability around the world.

As the world grapples with new models, North America can evolve into a beacon of best practice. And in creating a new model for relations among the three principal economies of North America and the region they inhabit, we can set a template for the rest of the world to follow.

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[1] The views expressed here were first presented in this form at The Cross-Border Threat Screening and Supply Chain Defense Center (CBTS) annual meeting held on May 23, 2023, at the Bush School of Government in Washington DC. CBTS is a Center of Excellence sponsored by the Science & Technology Directorate at the Department of Homeland Security and administered at Texas A&M University under the direction of Dr. Gregory Pompelli.

The views, for which I am solely responsible, are drawn from countless discussions and a number of articles and papers written separately or with colleagues and friends—in and out of government--over the years which have sharpened both my thinking and my pen on the subject of North America. These individuals include Jim Ackleson, Guadalupe Correa-Cabrera, Theresa Brown, Evan Smith, Edgar Ramirez, Laura Dawson, Richard Kiy and the co-authors below:

(a) *North America 2.0: Forging a Continental Future*, Alan Bersin and Tom Long Eds. North American Institutes at the Woodrow Wilson International Center for Scholars (2022) https://www.wilsoncenter.org/publication/north-america-20-forging-continental-future;

(b) Alan Bersin and Thomas Ewing, "Transparency," *USMCA Forward 2023,* Brookings, February 2023, https://www.brookings.edu/essay/usmca-forward-2023-chapter-8-transparency/

(c) Chappell Lawson and Alan Bersin, "Collaborative Border Management", *World Customs Journal*, Vol. 14, No. 1 (April 2020), https://www.worldcustomsjournal.org/archive/volume-14-number-1-april-2020/

(d) Alan Bersin, "Lines and Flows II: The Beginning and The End of Borders in North America" *North American Borders in Comparative Perspective*, Guadalupe Correa-Cabrera and Victor Konrad Eds, University of Arizona Press, 2020;

(e) Alan Bersin and Diego Marroquín Bitar, "Need to Make North America a Priority," *Informador.MX*, June 4, 2022 - 02:15 hrs. Necesario hacer de Norteamérica una prioridad (informador.mx)

(f) Alan Bersin, "Trump just might be giving us the opportunity to make NAFTA even stronger," *Dallas Morning News*, June 7, 2017.

(g) Nathan Bruggeman, Benjamin Rohrbaugh, and Alan Bersin., "Globalization: The Evolution of Borders and the Interconnected World of Trade, Travel, Money, and Information," in *Border Security & Management*, self-study course, Center for Homeland Defense and Security, last visited June 4, 2023, https://www.chds.us/selfstudy/lessons/mod-2-globalization-the-evolution-of-borders-and-the-interconnected-world-of-trade-travel-money-and-information/

(h) Alan Bersin, "Cross Border Economies: A Blueprint for North American Competitiveness" Regional Insights, *William J. Perry Center for Hemispheric Defense Studies*, 2013 Edition, No. 3 (October)

[2] Shannon O'Neill, is the Nelson and David Rockefeller Senior Fellow for Latin America at the Council on Foreign Relations, argues that globalization largely has been a function – cause and effect – of regional trade (rather than global commerce) and development. This regional development has centered on North America, the European Union, and East Asia. Shannon K. O'Neil, "The Myth of The Global: Why Regional Ties Win the Day," *Foreign Affairs*, (July/August 2022); *The Myth of Globalization: Why Regions Matter*, Yale University Press (October 2022)

[3] The impact on Mexico is both illustrative and instructive. It now has the (15th) largest gross national product in the world ($1,269 billion) although, as in the United States and elsewhere, it is unequally distributed. Mexico's growth has adjusted to and transcends changing conditions: when low-cost manufacturing relocated to Asia, its industry upgraded accordingly; and it has become an attractive site for near-shoring/friend-shoring of manufacturing facilities in contemporary circumstances.

[4] Regional integration in North America similarly has generated growth but too many North Americans—particularly but not exclusively in the United States – feel left out of that prosperity—or worse that it has come at their expense. During the first phase of Globalization—from the 1990s through 2020—North America exported most electronic (and much other) manufacturing to Asia driven by considerations of cost. Promised transitional job retraining and community redevelopment programs never materialized. This led in the United States to the hollowing out of middle-class neighborhoods in the Middle West and shifting job markets that left a devastating fentanyl-stricken rust belt in the heart of the country.