

# Toward a North American Economic Union

Mar 12, 2025 | **NOURIEL ROUBINI**

NEW YORK – Trade and political tensions between the United States and its immediate neighbors, Canada and Mexico, are at historic highs, raising fears of a full-scale trade war and a collapse of the US-Mexico-Canada Agreement (USMCA), which itself was a renegotiation of the North American Free Trade Agreement. The way President Donald Trump tells it, both countries could be doing more to rein in the flow of migrants and fentanyl. Moreover, since each runs a large trade surplus vis-à-vis the US, he accuses them of unfair trade practices, and of serving as a foothold for Chinese exporters seeking to circumvent US tariffs.

But Trump is not only pressing these concerns. He is also insulting both countries, by arguing that Canada should give up its sovereignty and become America's 51st state, renaming the Gulf of Mexico, and threatening US military operations against drug cartels inside Mexico.

While the most likely outcome is an eventual renegotiation of the USMCA that leads to some modest tariff increases but mostly maintains the free-trade area, this would be a sub-optimal scenario. To resolve the fundamental sources of tensions, avoid future conflicts, and increase growth and welfare for North America, all three countries should start drafting plans for a North American Economic Union: a single market with full free trade not just in goods – as in the current free trade area – but also in services, capital, labor, technology, data, and information.

Obviously, this would not happen overnight. The first steps following economic union would be to harmonize regulatory policies, with Mexico and Canada largely adopting the standards in place in the US (by far the largest of the three economies), align industrial policies to reshore and friend-shore production to a larger North American single market, and agree on common trade, technology, and financial policies to de-risk relations with China. This could then be followed in due course by a fixed exchange-rate regime – like the early European exchange-rate mechanism – and a full monetary union (like the eurozone) that allows seamless payments across the area. North America is an optimal currency area – even more so than the eurozone – and a common currency would end the trade tensions that arise from regular destabilizing exchange-rate fluctuations that exacerbate trade imbalances.

Sign up for our weekly newsletter, PS Economics

Every Thursday in PS Economics, we offer a concise selection of essential reading on the most important issues related to economics and finance.

By signing up, you agree to our privacy policy and terms of service.

Make your inbox smarter.

Select Newsletters

Next would come a full banking union, a capital markets union, and various other forms of risk sharing, pointing ultimately to the possibility of a fiscal union. Eventually, elements of a common foreign and defense policy would probably also be needed to manage issues such as immigration,

law enforcement, and drug-related matters. Finally, a few decades down the line, these arrangements could allow for a consensual form of political union – “USA” would become a federated United States of the Americas – if all sides agree to it. Sovereignty could be maintained, like in the European Union, but greater political coordination of a range of policies could be achieved over the long term.

For now, though, a full economic union makes eminent sense, given how deeply integrated the North American economy has already become. Moreover, each party brings unique advantages (and needs) to the table.

Canada has an abundance of land and natural resources relative to the size of its population; but its macro and structural policies have led to sluggish growth and a smaller domestic market compared to the US. At the same time, the US has a large skilled labor force, massive stocks of physical and financial capital, and the world’s leading technology industry; but with highly populated swaths of its territory vulnerable to climate change, it will need to move people northward. Finally, Mexico has a large supply of low-cost skilled labor and some important natural resources; but weak governance and a lack of structural reforms have hampered growth and led to festering social dysfunctions – not least drug-related corruption, violence, and criminality.

A North American Economic Union could address all these issues and increase the region’s overall productivity, potential growth, and welfare. Fully liberalizing the services trade should not be controversial, since the US dominates digital services. Nor should it be a problem to allow full capital mobility or free trade in technology, data, and information, since Canada and the US are already security and intelligence allies.

The trickiest issue would be free migration within the union. While labor mobility between the US and Canada is unlikely to be controversial, given the latter’s small population and similar per capita income, free migration from Mexico would need to be managed carefully. Not only is Mexico the conduit for massive migration flows from Central and South America (as well as China, Africa, and elsewhere); it also has a much lower per capita income.

Fortunately, the EU has already demonstrated how to manage this issue. Its newer, poorer members accepted a multi-decade transition period before migration was fully opened. Likewise, fully open migration for Mexicans would be allowed only after Mexico reaches a certain threshold of per capita income, improves its governance, undertakes structural reforms, and adopts common security policies (with joint Mexican and US forces on its southern border).

Why should Canada and Mexico go along with any of this? Simply put, without a North American Economic Union, their own potential growth will remain limited, and their per capita incomes will diverge further from America’s. The US is poised to become an even more powerful technological juggernaut this decade, with its growth potential moving well above 3%. But the US does need what Canada and Mexico can supply (natural resources, land, and low-cost skilled labor). An economic union thus would make all three much better off – economically, socially, politically, and geopolitically.

Over time, other regional economies could also join, starting with Panama, which has already been dollarized for over a century. Likewise, Greenland might voluntarily join a North American Economic Union to unlock the value of its abundant natural resources, thus alleviating tensions over its future status. Its membership would allow North America to dominate the new Arctic trade routes and economic opportunities that are expanding with climate change. Eventually, other countries in Central and South America could join this economic union.

The unstable equilibrium of the USMCA – with the US alleging a litany of legitimate and less legitimate complaints, and the lack of a true single market – could lead either to a disorderly unraveling or a trade war. Why not start pursuing a more ambitious, visionary, stable, and optimal

long-term arrangement that benefits all sides? If Europe's fragmented, war-torn economies could do it, surely North Americans can achieve the same vision – or better.

*The author worked with Stephen Miran at Hudson Bay Capital until Miran's selection as the oncoming chair of President Donald Trump's Council of Economic Advisers.*

## NOURIEL ROUBINI

Nouriel Roubini, a senior adviser at Hudson Bay Capital Management LP and Professor Emeritus of Economics at New York University's Stern School of Business, is Co-Founder of Atlas Capital Team, CEO of Roubini Macro Associates, Co-Founder of TheBoomBust.com, and author of *Megathreats: Ten Dangerous Trends That Imperil Our Future, and How to Survive Them* (Little, Brown and Company, 2022). He is a former senior economist for international affairs in the White House's Council of Economic Advisers during the Clinton Administration and has worked for the International Monetary Fund, the US Federal Reserve, and the World Bank. His website is [NourielRoubini.com](https://nourielroubini.com), and he is the host of [NourielToday.com](https://nourieltoday.com).

<https://prosyn.org/mtCydI0>

Support Project Syndicate

Subscribe Upgrade Donate

Get our weekly newsletter

Sign up

Make your inbox smarter.

Select Newsletters

Content

PS Quarterly

Sections

Topics

Archive

Columnists

Videos

Podcasts

[Subscriber Exclusive](#)

[OnPoint](#)

[Longer Reads](#)

[Insider Interviews](#)

[Big Picture](#)

[Global Bookmark](#)

[Rewards](#)

[Project Syndicate](#)

[About Us](#)

[Contact](#)

[Careers](#)

[FAQ](#)

[Submission policy](#)

[Newsletters](#)

[Member Publications](#)

[Network](#)

[Syndication](#)

[PS Magazines](#)

[PS Events](#)

[Institutions](#)

[Corporate](#)

---

© Project Syndicate - 2025 [Privacy Policy](#) [Terms & Conditions](#) [Cookie Policy](#)

