

Security and Growth: The Core Issue in Canadian-US relations

CIIA Talk March 29 2003

At the substantive heart (as distinct from style) of events of the past few weeks in Canadian politics is the core issue of security and growth in the Canadian-US relationship. Are they linked? Should they be linked? And if so, how?

The United States has been our most important foreign partner for most of our history as a country. As next-door neighbors we cannot move somewhere else – though Australians would kill for such proximity. Hence *we* must manage this relationship to ensure it unfolds in ways that serve our national interest.

Despite these immutable facts, the federal government chose to stand aside from helping the United States in the conflict in Iraq unless it was UN-sanctioned. Such a decision is the indisputable right of a sovereign nation. I am not privy to the polling data, but there may be indications that a majority of Canadians prefer this stand. Of course, it is difficult to tell if that is true because no real leadership was provided on the dimensions and implications of the choice. The impending Quebec election may have played a role; public opinion there diverges from that in the rest of Canada. Canada's uncertainty about its relationship with the United States may also have played a role in the light of US-European disagreements over issues such as Kyoto, the International Court of Justice and now a unilateral approach to conflict.

But the *execution* of this foreign policy decision marks a low point in the history of our relationship. Some claim we redesigned Canadian sovereignty, whatever that means. It would be more accurate to say that we abdicated our responsibilities to the United Nations Security Council. What we actually did was to announce our decision in Parliament with little national debate about its strategic context or consequences. Undisciplined anti-American outbursts by elected officials followed. Was the American administration given a heads up diplomatically before this announcement? Were

Canadians given an explanation of why our position might matter to the American people? The Canadian leadership and many Canadians have failed to understand how vulnerable the American people feel about being invaded and how determined is the Administration to prevent a dirty bomb from being detonated in Manhattan. The administration feels abandoned by some of its strongest allies, including Canada, and this feeling is shared by many American people.

Yet despite the political posturing, security and economic interests in the bilateral relationship are perhaps even more urgent now. In the rest of my remarks I will touch on two issues: “sovereignty” and where we should go from here.

Sovereignty

Try as I might, I do not see, in the execution of what has happened, as redefining our sovereignty. I see it as a foreign policy blunder that will erode our sovereignty.

Why do I say this? Because the meaning of sovereignty has changed in a globalized, and since September 2001, an increasingly vulnerable, world. The traditional definition of sovereignty refers to national control over decisions affecting a country's governance and determination of key national policies. But globalization has had two different impacts on sovereignty. One is to diminish it in a fairly routine way: tariffs are bound in WTO negotiations, for example, in exchange for reciprocal bindings by one's trading partners. Complaints arise, not because of sovereignty diminution, but because "other" countries are not living up to the commitments they have made. Sovereignty may be diminished but it is not given up.

The second impact, and arguably more significant, is to make governments more accountable to the rules and procedures of the internationally agreed regimes which they had a hand in constructing. Governments become more accountable to each other through the WTO, for example. International regimes tie governments' hands in beneficial ways, such as to prevent backsliding on domestic reforms. In other words, sovereignty is not

just about what a country gives up, but about what it gains, with respect to more efficient production, larger markets, freer flow of investment, swift resolution of disputes, greater protection of intellectual property, to name a few of the benefits.

Thus, the simplistic theme in the current national debate – that interdependence has eroded national sovereignty and the room for maneuver by the nation state – is outdated. **States are the architects of their own weaknesses through the decisions they make – such as to support international regimes that make them more accountable to other public and private sector participants – and the one they do not, by failing to exercise their sovereignty.**

The issue now is to reduce the strains and mend the bilateral relationship as we move ahead.

Moving forward from here

There are two things on which we should concentrate going forward. One is to move forward to secure the increasingly common North American economic space. The other, and perhaps more immediate, is to cooperate on the reconstruction of Iraq.

Let me begin with some of the metrics of growing North American interdependence:

- 87 percent of our exports go to the US
- The Province of Ontario alone is America's fourth largest trading partner after Canada, Japan and Mexico.
- Michigan is Canada's largest export destination in the US
- For 38 US states, Canada is their leading export market.
- Canada is the single largest energy supplier of the US
- The auto industry alone accounts for 1/3 Canada-US trade; this sector has had free trade for nearly 40 years.

- A larger share of US exports goes to Canada and Mexico than to the top 15 members of the European Economic Union.

One possible way to understand our recent foreign policy blunders is to see them in a strategic framework of distancing ourselves from the United States. But that would have to be backed up by evidence that Canadians prefer to see Canadian corporations, and indeed cities and industrial clusters, do business elsewhere. Yet there is no new third option strategy that I know of. I do know that the third option strategy of the early 1970s was a dismal failure. Our exports to the United States were 65 percent when it was announced and 80 percent when it was abandoned for a strategy that culminated in the FTA of the late-1980s and the related economic boom in the 1990s.

Because of the deep economic interdependence in North America, it is unlikely that the US administration or congress can retaliate economically without shooting themselves in the foot. The deep linkages in the energy and auto industries provide two examples. It is also unlikely that the border would be closed – a catastrophe for us – without a compelling security reason. But there are disturbing anecdotes turning up in reports and letters to editors of Canadian newspapers indicating that American businesses, on their own, are turning their backs on their traditional Canadian suppliers. And there are Homeland Security bureaucracies that are constructing onerous reporting requirements that will raise the costs and the risks of cross-border business. We had hoped to be exempted from these. At the same time, it has to be noted that the strong Canadian economy has peaked and we have nowhere to go but down. Yet I don't see Canadians indicating that they prefer higher unemployment and lower incomes that will surely follow from a slower Canadian economy exacerbated by higher costs of cross-border transactions that are like tariff hikes.

At the same time, we do face a predicament:

- Growth in living standards lag US
- Made-in-Canada weaknesses (lagging productivity growth)

- Even as we do our homework, US market access is essential
- NAFTA has outlived its usefulness because of
 - Growing services and knowledge-based trade and FDI
 - Cross border production networks and knowledge-based clusters
 - NAFTA didn't take account of services trade
 - Cross-border flows of services, technology and people now essential to firms' success
 - Canada not getting its share of FDI headed to N America from the rest of the world

Americans are looking for ways to rebuild bridges with long time allies. I have suggested a strategic package that promotes the common goal of a secure North American economic space that addresses US security concerns along with our economic concerns.

1. Secure low risk cargo and people: Hi-tech border processing for low-risk business and tourist traffic (away from the border)
2. Unique Canadian contribution to North American defense
3. A secure North American natural resources area: Cooperative development of infrastructure; Mutual recognition of each other's regulatory regimes (oil, natural gas, electricity, forest products); Harmonize where necessary, but not necessarily harmonize.
4. Promote North American economic efficiency: (a) Harmonize/ eliminate bilateral tariffs; common tariff with rest of the world; (b) Extend business and professional visa to technicians; (c) Common competition policy (NAFTA precedent)

Criticisms of this approach:

- Threatens our sovereignty; forced to harmonize (Déjà vu all over again (that was FTA criticism too); Principle is to harmonize where we are creating needless obstacles, but not necessarily harmonization. Mutual recognition of respective laws, standards etc an under-utilized tool
- Already too dependent on US market; better to diversify thru FTAA

- Need to deepen beyond FTAs

- Too big; “Americans won’t be interested”. Having briefed some American audiences, I have not found evidence for this assertion. However, I doubt that now would be the time to raise it. There are other things that should be done first. One is to keep the idea alive through private sector support (essential while leaders are distracted and until there is regime change); through the closely linked industries: (Auto and energy industries; Trade corridors/transportation industries; Border provinces, states and cities)

The second way to move forward is in the reconstruction of Iraq. We should cooperate with the Americans (inside the UN or outside). We have much to offer reconstruction – from constitutional/ governance advice to police and other services – as well as humanitarian aid. We should develop a clear strategy -- based on our abilities and strengths -- but carry it forward cooperatively. We can also provide some leadership on this strategy in the G-8 summit to be held in Evian, France on June 1.

I will close by returning to my opening questions. There is a close relationship in the post-September 11 world between security and prosperity. And Canada has cards to ply; we should play them. But first we have to return to the game. As former Ambassador Allan Gotlieb has observed “If there is no game, what good are the cards?”