

Wanted: a Big Idea for the U.S. relationship

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By Wendy Dobson

The softwood lumber battle with its many twists and turns is symptomatic of a growing political and economic problem. U.S. trade remedy law in this case and differing standards and regulatory regimes in other areas – often associated with the new economy -- are stunting the growth of trade and FDI flows and realization of our full economic potential.

Make no mistake. Solving these problems is not a panacea for our weak made-in-Canada economic performance and stagnating living standards of the past decade. We have to solve those problems ourselves. But even when we do, access to the U.S. market will be essential to our future. Paradoxically, while the September 11 effect has been to raise border costs for security reasons, it has also opened a window of opportunity for a great leap forward in managing the bilateral relationship. The United States is more receptive now to its immediate neighbors than at any time in the past decade.

But any policy initiative that Canada might push through this open window has to be a Big Idea. Reactive fixes such as those we sought in the softwood lumber battle are quickly orphaned in the US political system. The highly dispersed power among the executive and legislative branches, the bureaucracy, states and powerful interest groups makes sustained focus on an issue difficult, if not impossible, without the powerful backing and a champion. More to the point, the system is understandably exclusively focused right now on homeland security and the offensive against global terrorism.

What might constitute a Big Idea? Some of the ideas being advanced are based on European experience with a customs union and subsequently a common market. The common market was created over a 50-year period to replace domestic markets and institutions in a great vision of eventual political union.

A customs union establishes a common tariff and possibly a common external trade policy toward the rest of the world, allowing free circulation of goods and services within the common area. A common market allows people, as well as capital, technology and trade to circulate freely in the common area. Common institutions are necessary to administer these common standards, regulations and policies.

The basic issue in North America is that even if such ideas interested Canadians, they would also have to attract and retain political support in the United States. Canada and United States have a common goal that resembles that in Europe, to promote economic efficiency and economic security. And North America is already more deeply integrated than Western Europe was at the beginning of its project. Production networks in the auto industry are almost fully integrated; a sectoral customs union already exists in computers

and related products; capital markets are highly integrated; infrastructure in the energy sector is North American in scope, to take a few obvious examples.

The choice of instruments for deeper integration is greatly constrained by strong attachments to political independence and distinctive national institutions in both countries. The US congress would have to pay attention to these ideas for a customs union or common market because of what they would imply for domestic sovereignty. But such attention is likely to be dismissive rather than receptive for two reasons. First, such proposals would imply the modification or elimination of US trade remedy laws and offend the powerful interest groups that use them. Second, the political system has a laser-like focus on homeland security and defense.

A Big Idea is needed to wrap what we want -- very necessary customs union-like and a common market-like arrangements -- in exchange for what a wide swath of US political interests want -- joint continental defense, closely aligned immigration policies toward third country migrants, border security and energy security.

Canada should initiate such a Strategic Bargain. Such an initiative would require considerable homework. For example, a national debate on defense policy is required that maps out areas for public choice. What should be our objectives in NORAD? What land and maritime capacities do we want? What mobile capacities? Or do Canadians wish to be free riders on US capabilities? If not, what are the policy alternatives and what will they cost?

The December 2001 Smart Border Declaration marks a good start towards reducing the vulnerabilities of the open border while minimizing the transactions costs for people and goods that cross the border daily. But Canada should be mobilizing its technical and electronic capabilities to create a *seamless* border that would eliminate the border as a consideration in trade and investment decisions. It should also give Canadians a competitive edge. The Declaration is based on an unprecedented degree of cooperation among officials in both countries. This cooperation should not end with the scheduled progress report to the Prime Minister and President in June 2002. Bureaucratic contributions to homeland security, such as the Visitor Sign-in and Sign-out proposal of the Immigration and Naturalization Service, could still throw a wrench in the works.

Energy security is another strength on which Canada could build in a strategic bargain. For the foreseeable future, regardless of what one thinks about the potential for energy conservation, U.S. energy demand will outstrip domestic supply and require import dependence. Canada is the leading energy supplier. Supply disruptions from non-North American sources are a distinct possibility in the months and years ahead. The bilateral energy relationship is driven by market forces, but a supply disruption would require an interventionist policy framework in North America. Instead of waiting to be told what we would be expected to do, Canadian governments and industry should consider this possibility in a proactive way. Considerable federal-provincial homework would be

needed to agree on a policy framework and to flesh out what is possible with respect to resource and infrastructure development, skills training and international commitments.

Canadians should not sit complacently on their hands, hoping that incremental and reactive fixes will work when things go wrong. A nation that merely reacts to events will see its sovereignty erode and its future determined by others. Canada should *exercise* its sovereignty by anticipating change and initiating a Big Idea that serves the major interests of its partner while channeling action in ways that best serve its own interests. The common goal should be North American security. Our interest in greater domestic efficiency and productivity is best served by enhancing access to the U.S. market. Only a Big Idea will attract the necessary attention in the U.S. political system to our challenge of managing deeper integration. The window of opportunity is open, but it will not stay open indefinitely.

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