



“A Special Relationship”:
Canada-U.S. Trade in the 21st Century

By Allan Gotlieb

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The concept of trade corridors as an overarching metaphor – to borrow a phrase from your literature – is both imaginative and useful. You describe trade corridors as “streams of products, services and infrastructure moving within and through communities in geographic patterns.” You link corridors, quite rightly, to the cluster model of economic geography visualizing them as critical masses of geographic concentration of closely linked industries and entities. The corridor and associated cluster concepts come as close as any I know to providing an adequate description of the geographic, demographic, economic, social and cultural realities that characterize the border between Canada and the United States.

The formation of various “trade corridor” organizations in Canada and the United States reflects a profound reality that underlines the history of our relationship: North American integration has resulted not from high-level public policy nor central direction but from activity that is overwhelmingly bottom-up, reflecting the vast preferences and habits of our population, from one end of our country to the other. To put it in its starkest terms, it is these habits or preferences, not the policies of government, that turned the economic axis of Canada from East–West to North–South.

In the process, our continent, dominated by corridors and clusters, has become the world’s largest trading bloc. One-third of the trade of the United

States, the world's pre-dominant economic power, is conducted with its two geographic neighbours. Astonishing Canadian – US statistics, - such as our bilateral trade averages 1.7 billion Canadian dollars a day - are cited so often as to become a cliché of the relationship.

But the density of our integration is not fully revealed by trade figures. By a number of measures, the integration of the Canada-US economy exceeds the economic integration of the European Union's principal members. As Stephen Blank has pointed out, North America, crisscrossed by electricity grids and pipelines, has become the largest integrated energy market the world has ever seen. As we know from Ontario's automotive industry, the integration of our economies is deeply structural because what flows across our border is not mainly finished goods, but rather the components of cross-border production systems., linked together in a highly calibrated supply chain.

I refer to these facts as something of a cliché. I use that term because I believe that even after the events of September 11, 2001, we Canadians tend to take for granted the access we have to the US market and economy. This assertion may surprise you because it hard not to be aware that since September 11, 2001, there has been a booming industry in Canada called Canada-US relations. Every university, every think tank, every business association, has

convened conferences and commissioned studies about the relationship.

Unfortunately, the value of the output does not equal the effort of the input.

Much of the discussions have been obsessively concerned with Canada's role and place in the world, our independence, our sovereignty, our values, our identity and everything except the most fundamental questions in the post 9/11 environment. How do we secure our access to the US market? How do we ensure that it grows, not shrinks? And how do we overcome the existing barriers so as to make our markets more efficient and competitive in the world of tomorrow? Even when our public intellectuals and experts do manage to address these questions, the debates are often hesitant, even constipated. There is, I believe, a fearfulness that pervades these discussions, and a lack of imagination. There is a fear of thinking big. But we will get nowhere by thinking small.

In my many years of experience in dealing with Canadian foreign affairs, as Canadian Ambassador to Washington during the Reagan years, as undersecretary of state for External Affairs under Pierre Trudeau and Departmental Legal Advisor, I have always advocated the need for Canada to have a reality-based foreign policy. In last year's CD Howe Benefactor's Annual Lecture, my theme was that geography was the pre-eminent fact that we need to take into consideration in defining our national interests.

A reality-based foreign policy requires Canada to recognize the paramountcy of Canada – US relations in our foreign policy. This does mean, as some fear, that Canada must support the US in all dimensions of its foreign activities. Far from it. But it does require us to base our relations with them on an assessment of our own national interests. What does our national interest require? It demands that we be sensitive to the vital interests of the United States and try to take them into account in our foreign policy. We must ask ourselves – repeatedly -why would we expect the US to be sensitive to our agenda if we are not sensitive to theirs.

One would have to live on another planet not to recognize that national security is the principal concern of the US in its dealings with the rest of the world including its allies. At a conference I attended in Washington just last week, Vice President Cheney's and Donald Rumsfeld's remarks were devoted about exclusively to combating terrorism. The events of September 11, 2001 were transformative in many respects but US concern about security goes back a very long way - as far as the Monroe Doctrine, the Theodore Roosevelt Corollary, the Ogdensburg Declaration, the formation of NATO, NORAD and other defence alliances. On the big issues of peace, war and defence, Canada has had a long history of successful collaboration with the US. We have rarely put our real

interests in jeopardy by being insensitive to their real interests when there is no conflict with our own.

It is bizarre to pick fights with the US regarding issues where it believes its national security interests are at stake.

As was well expressed in a recent study paper on Canada-US relations and the battle over soft-wood lumber and by Eliot Feldman and Carl Grenier:

For Canada, whose prosperity and security are completely dependent on relations with the United States, sovereignty can no longer be defined by occasional defiance on matters that ultimately have little consequence for Canada and great consequences for the United States. Canada must be more selective and strategic when it parts company.

Unfortunately, Canada was being neither selective nor strategic when it declined to participate in a North American defence missile system.

One would also have to live on another planet not to recognize that the flow of goods, services and people across our border into the US is becoming more constrained, rather than simpler. Compare the obstacles today to earlier years – but not that long ago – when the border was almost seamless. Compare the Canada-US border to the border within the European Union, where there are almost no barriers whatever to the free movement of people, goods, services and capital. The European experience puts our border to shame.

While it is true that Europe is striving for political union, there seems no reason why we don't have our own "Swengen" agreement – named after the city

where the process of eliminating barriers to the movement of people began. But instead of “Swengentalization” we are at risk of experiencing the “Mexicanization” of our border, as the US puts more enforcement officers at our boundaries and creates new restrictions and requirements, such as the newly announced requirement for passports for all returning US citizens and visitors. Already, the additional cost of doing business across the boundary – estimated at some 10-12 billion annually -comes close to equally the amount of the tariffs that the Canada-US free Trade agreement abolished.

The truth of the matter is that Canada, the US and Mexico planned for NAFTA but did not plan for its remarkable success. Trade exploded but the infrastructure that supports it - the physical infrastructure, roads, tunnels, bridges, railroads, border-crossings, institutions to speed the flows of people and goods, regulatory processes and coordination mechanisms, redundancies and overlapping jurisdictional competencies - all belong more to the pre NAFTA era than the post.

No one is more familiar with these realities than people like yourselves involved in making the trade corridors work. Heroic efforts to smooth the system, relieve the pressure points and expedite the flows are the hallmarks of the many organizations working groups, partnerships and coalitions which, thanks to grass-roots pressures on both sides of the borders have sprung up in

recent years in order to create, seamless inter-modal trade and transportation corridors.

But the reality remains. The combined effects of the success of NAFTA, the continued movement towards deeper integration and the security impacts of September 11, have resulted in a North American border that reflects twentieth century realities, even nineteenth, rather than twenty first.

As you all well know, only five of all our major border crossings carry more than 70% of all bilateral trade. I find it astonishing that 27% of all our trades crosses one bridge, the Ambassador Bridge at Windsor-Detroit, which is a structure that is over 75 years old. I find it equally astonishing that the Peace Bridge Authority in the Niagara-Buffalo region has been planning a second border crossing in the area since 1992 and is still discussing it. I find it astonishing that of all of our border crossing infrastructure, only two are under the jurisdiction of a binational authority of some sort.

While bilateral partnerships such as the Canada-US-Ontario-Michigan Transportation group struggle valiantly to improve the situation, there have been no reforms I am aware of that address the need to establish coherent binational management mechanisms to smooth the vast flow of goods, services and people across our borders.

Bottom-up efforts have been impressive, even remarkable, and they were greatly assisted by the leadership shown by our governments in establishing the Smart Border Accord of 2001. But there is an urgent need for ambitious and top-down leadership on the part of our two national governments. There is, I would submit, the need to work towards establishing a single economic and security space which would make the Canada-US border an insignificant factor in the movement of people, goods, services and capital across our boundary.

Shortly after Paul Martin's inexplicable and unexplained rejection of Canadian participation in North American missile defence, the Prime Minister did address the border issues in a dramatic and high-profile way. He announced the Declaration and Partnership Agreement with George W. Bush and Vincent Fox in Crawford, Texas on March 23. This represented a new departure in the policies of our Government.

The Partnership Agreement demonstrated a willingness on Canada's part to embark on a single comprehensive set of discussions or negotiations simultaneously on a very broad range of issues – border security, transportation, financial services, infrastructure, regulatory overlaps and redundancy, the flow of trade, rules of origin, the movement of people – in fact about almost all the problems that create costs and cause bottlenecks at our border.

This comprehensive approach towards dealing with the US was, I am glad to say, strongly reaffirmed in the foreign policy review released last week by the Canadian Government. Rather refreshingly, the Intentional Policy Statement firmly roots our foreign policy on the foundation of our national interest. It speaks explicitly of the need for a common economic space in North America if our countries are to remain competitive in the contemporary world.

In articulating the need for a comprehensive approach to the challenges of border security, the Crawford Declaration acknowledges at least implicitly, that issues are interrelated and can be bargained for or traded off. The potential is thus established for the elements of a deal or deals to be brought together.

I believe this represents forward movement in the management of our relationship because it is very difficult to make progress on resolving differences with the US, small or big, by approaching them on an isolated, ad hoc, incremental basis.

“Incrementalism”, or *ad hocery*, has its advocates in our country but I am not one of them. When public policy differences arise in two democracies, and they are in conflict, it is extremely difficult to resolve them and becoming more so. I call this the conflict of legitimacies. No elected legislator in democracy wants to be seen to subordinate his or her constituents to the interests of a foreign state. This is particularly true for the United States where individual Senators and

Congressmen wield so much power, often independent of party deception. Hence disputes like the softwood lumber conflict can last for years or decades. They can, in fact, become virtually unsolvable.

Many of the files I dealt with when in Washington – softwood lumber, border broadcasting, wheat, hogs, asbestos, the Garrison dam in North Dakota, the Skagit River in Washington State, had or have been around for a very long time or were prone to be revived after seeming to be resolved. It took 50 years to settle the Skagit River. The Garrison Dam dispute, now reborn in the Devil's Lake Diversion, bedevilled the relationship since Franklin Roosevelt. To apply Yogi Berra's aphorism, in the Congress of United States, "its never over till its over" and its never over.

Hence "decrementalism" is as likely to occur as "incrementalism" - that is to say, steps backward, rather than forward in dispute settlement. This characterizes the softwood lumber dispute where, after 22 years of debate, negotiation and litigation, the US position has hardened against Canada on both ends of Pennsylvania Avenue.

Anyone who believes the US system can be managed by fighting special interests in the US on a one-on-one basis is out-of touch with the realities of the Congress. As the NY Times editorialized a couple of weeks ago: the lobbying industry in Washington has doubled in size in just six years. An estimated 240

former members of Congress and federal agency heads and senior officials are now lobbyists, as well as 2000 other former senior officials. In the past 6 years 13 billion dollars has been spent on lobbying. This is the nature of representative government in the US today.

I am somewhat skeptical about the increasing emphasis being placed by Ottawa on the importance of Canadian lobbying in Washington. There certainly are situations where it is worthwhile doing so. Indeed, when Ambassador, I once described myself as Canada's chief lobbyist in Washington. But generally speaking, a US special interest can out-lobby a Canadian one any day of the week.

This is even more true for so called 'advocacy' missions, for which our new foreign policy review expresses enthusiasm. Frankly, I think that they can often be a waste of time.

I believe in the importance of public diplomacy and would claim it to be its principal architect in Washington. But advocacy is another matter. The key to public diplomacy is to build understanding, while advocacy amounts to pleading a case. Experience demonstrates that this is often counterproductive and serves only to galvanize coalitions against us. For this reason I have been opposed to calling our senior public affairs official in Washington Embassy a minister for 'advocacy'.

The role of public diplomacy is to assist in building alliances with sympathetic interests in the US. The current issue of imposing passport controls at our border is an example where building alliances is of critical importance. Elected US politicians, senators, congressmen, governors, as well as US commercial interests, have clout in Washington and their support is critical to the success of our effort.

But strategies must differ on a case by case basis. On many issues, our greatest opponents are Senators and Congressmen from northern or bordering states. Think of Daschle of South Dakota, Dorgan of North Dakota, Baucus of Montana, Dingell of Michigan. Representing, as they often do, single interest lobbies, whether on wheat, cattle, forest products, hogs or, in former days, acid-rain controls, no amount of advocacy could ever change their position.

This is why the bringing into a negotiation a very wide number of issues and setting broad political goals is more likely to succeed in dealing with the US than trying to resolve issues one by one. This was the experience of Canada in our Free Trade Agreement. There were myriads of opposing single-interest groups, so broad trade-offs become possible. Big initiatives often do better in Washington than narrow ones because narrow ones are dominated by single interest lobbies.

It might seem paradoxical but the reality is that in the US political process, the narrower the special interest, the more successful it is likely to be.

Hence the decision of this Martin Government to seek to embark in a broad ranging initiative to reduce an enormously wide variety of barriers to the flow of goods, services and people is a welcome development.

While, as I will explain in a moment, the initiative taken at Crawford hardly represents “a big bang” in our negotiations with the US, as many hoped it would be, it is certainly a lot more than a whimper.

Beyond the breadth of issues to be addressed, this initiative is significant in several other respects as marked:

1. It recognizes that “security and prosperity are mutually dependent and complementary.” Put simply, the interdependence of the US agenda – security – and the Canadian agenda – the economy is recognized. This represents a move toward realism on Canada’s part in the conduct of our relations with the United States.
2. The partnership establishes a common approach to security to protect North America.” This is another move toward realism, and an essential step if our border is not to become a barrier to the movement of goods and people.
3. The agreement establishes ministerial level responsibility for achieving progress on their issues under negotiation – a necessary development. It seeks to address the problem of bureaucratic paralysis and the entrenchment of positions within silos.
4. And finally, while establishing that the “concept” of this partnership is trilateral, the leaders foresee the possibility of a two-speed (Canada-US) approach.

But I personally believe that the initiative taken at Crawford does not go far enough and is unlikely to achieve the desired results. It suffers a number of weaknesses, at least as far as Canada is concerned.

In the central issue of border security and prosperity, the initiative falls well short of providing a political vision for guiding the work to be undertaken..

Its agenda:

- a) fails to establish clearly that the goal is a single economic and security space;
- b) fails to embrace the concept of a security perimeter;
- c) fails to call for the establishment of common external tariff (a custom union);
- d) fails to call for termination of anti-dumping and countervail laws and other forms of procedural protectionism, and their replacement by a single competition policy and common rules about subsidy practice;
- e) fails to treat defence as part of security;
- f) fails to envisage new bilateral institutions to ensure the smooth functioning of the economic and security space, and the management of our borders; and
- g) fails to call for any sort of improved dispute-settlement mechanisms.

Although the partnership agreement sets a three-month target for initial ministerial reporting, and calls for semi-annual reports thereafter, the initiative creates an open-ended process. Without a time frame for achieving for achieving targets or objectives, the initiative is likely to lose momentum.

Perhaps most importantly, the initiative does not confer on any central authority in each country the responsibility for achieving progress. Without

direct White House responsibility, the agenda will not be realized. While ministers are to report results to the three leaders, there are no personal “sherpas” to spur the process under the leaders’ direction. As a result, the process may, at best, lapse into “incrementalism.”

The leaders’ failure to endorse the holding of annual trilateral summits raises the question of how deep is their commitment to the trilateral process.

Although the Canadian Government’s International Policy Statement uses language which seems to inch toward the concept of a single North American economic space, and thus represents further progress to some degree, it does nothing to address the weaknesses in the Crawford Declaration.

The key to progress lies, of course, in Washington. Unless George W. Bush is prepared to devote substantial political capital to the initiative, our expectations should be very low. We will have a triologue about our continental challenges but perhaps not much more than that.

But we must recognize that the outlook for progress in our dealings with the US is not promising. The winds of protectionism are blowing in the US and they promise to blow stronger and stronger. Staggering under unsustainable trade, current account and budgetary deficits of unparalleled amounts, bombarded by messages from politicians deploring the export of American jobs, facing enormous challenges from the influx of manufactured products from

China and the Far East, the US might well rise to the challenge that all these forces present. But in the period ahead, the climate for access to US markets will become more difficult for an increasing variety of goods. The brutal reality is this: economic protectionism is joining with national security concerns to make US boundaries more constraining rather than less.

This is why I believe that, for Canada, the notion of a “special relationship” with the US becomes all the more necessary to cultivate and pursue. This is why I believe Canadian leadership is so critical at this time. The visionary factor, if there is to be one, must originate in the north and travel from north to south.

Unfortunately, our view of Ottawa must be very clouded at the time. The future, or more precisely, the survival of Paul Martin’s Government is in doubt and the composition of any new government cannot be predicted with confidence. Hence the future of the trilateral initiative, so far as Canada is concerned, has to be very much in doubt. But whatever happens in the political arena in Ottawa, we are unlikely to see the emergence of a closer and more harmonious economic and security space, unless the Canadian leader, whoever it might be, advocates a political vision that is more compelling than that can be found in the Crawford Declaration.

It will be very important for our well-being and prosperity to continue the strenuous bottom-up efforts to forge cross-border partnerships that have so dramatically increased in the past half-decade or so. But the reality is if we are to achieve major progress and breakthroughs, top-down must reach bottom up. We cannot in Canada accept the failure of our leadership. We must press as vigorously as possible for our politicians to accept their responsibilities and provide the leadership that is the necessary condition for securing our economic prosperity.

While we should vigorously commit ourselves to a North American framework for the negotiation of a common economic and security space, I believe it is in Canada's national interest, at the same time, to maintain and strengthen our bilateral channels of communication, collaboration and partnership with the United States. I, for one, am an unapologetic believer in the view that a special relationship with the United States is in Canada's national interest.

Americans and Canadians retain a common commitment to values, principles and way of life that marks our relationship as different from that of most other nations, even the most friendly. Time and again, history has shown that the special relationship has served Canada well. It may well prove to be the case that Canada and the US can make progress on trans-border border and

other issues that eludes the Mexican-US bilateral relationship at this time. But just as our Canada-US Free-Trade Agreement led to NAFTA, our future collaboration on the Canada-US border can serve as model to be embraced in time by our southern neighbour.

Trilateralism and the construction of a North American community is a compelling goal for Canada, but if it is to be realized, Canada and the US must, once again, show the way. Canada must privilege its bilateral channels if we are to succeed in a deeper, more secure, more predictable relationship with the United States.



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