

EXECUTIVE SUMMARY

In Search of a New Equilibrium in the Canada–U.S. Relationship

In February 2003, The Conference Board of Canada proposed a step-by-step approach to improving Canada–U.S. relations, challenging the realism of negotiating a single “grand bargain.” The need for a new equilibrium in our bilateral relations has been widely recognized, and President Bush’s recent visit has created a climate of goodwill that can help to make it happen. Thus, it is timely to elaborate the practical steps that need to occur.

Four major challenges must be addressed:

- First, economic integration has outpaced the capacity of institutions, policies and infrastructure to manage the sharply increased volumes of trade, giving rise to concerns about the physical border even prior to the terrorist attacks of September 11, 2001.
- Second, the end of the Cold War diminished Canada’s strategic importance to the United States and made the traditional Canadian role of middle power obsolete.
- Third, “9/11” led the United States to focus on its physical security, and the new security environment has altered Canadian expectations and assumptions about security of access to the U.S. market.
- Fourth, differences in both style and substance between the first George W. Bush Administration and the Chrétien government resulted in a cooling of official relations. This was exacerbated by the unpopularity of the current president among Canadians and the fashionable thesis that Americans’ and Canadians’ values are diverging.

Access to the American market remains the key to Canadian prosperity. More than 80 per cent of Canada’s merchandise exports are destined for the United States. However, since 9/11, the border has created new and unanticipated costs and risks for Canadian-based firms shipping their goods to the U.S. market.

New U.S. priorities in security have also unsettled the Canada–U.S. equilibrium of the past. During the Cold War, Canada mattered to the United States in

terms of security because of its membership in NATO (North Atlantic Treaty Organisation) and NORAD (North American Aerospace Defence Command). The events of September 11 have resulted in a new security agenda; Canada is now lower on the U.S. list of priorities. Despite Canada's illustrious past contributions to continental and global security, today these contributions are unclear, as in the case of ballistic missile defence (BMD), or are much more modest than in the past (international peacekeeping).

Canada–U.S. relations must confront some inherent dilemmas. The extremely unequal power relationship between the two countries is a fundamental reality, but that does not mean that Canada must always follow American policies. For example, Canada and the United States have different perspectives on security, despite considerable common ground.

Canada's economic security depends on our future as a trading nation, so the best course would be for Canada to pursue opportunities both in North America and more broadly. This will require strong support for multilateral economic institutions such as G7/8—and possibly a new L20—as well as further trade and investment liberalization through the World Trade Organization (WTO). But Canada also needs to work closely with the United States to make critical infrastructure safer, ensure the smooth flow of both goods and people across borders, and address the deficiencies in the North American Free Trade Agreement (NAFTA).

Canada's economic security depends on our future as a trading nation. Access to the American market remains the key.

A number of key principles should guide Canada in making North America more secure. Above all, Canada and the United States need to maintain trust in each other. The confidence that each country will look out for the other must never be shaken. We need to take steps to safeguard the Canada–U.S. border while facilitating trade, including processing immigration claims and appeals more efficiently, making new investments in border personnel and infrastructure, extending hightech processing of goods away from the border, and introducing new forms of defence co-operation, both within the continent and beyond.

Clearly, a European Union–style model would not

work in North America. Indeed, there are practical limits to formal integration in North America—Canadians and Americans have strong attachments to their respective countries. It should also be remembered that there are three nations in North America. While overshadowed by the United States, Mexico is an important and growing trading partner and is the only major emerging market nation that is seeking to strengthen ties with Canada.

Canadian policy must keep pace with the evolution of the economy and international opportunities. Services now account for 65 per cent of Canada's gross domestic product (GDP). Regulatory barriers rather than tariffs impede trade in services. To ensure future prosperity, Canada should actively pursue opportunities for liberalization in services, especially through the WTO's General Agreement on Trade in Services as well as through bilateral agreements with the United States. Particular gains could be made through creating a seamless North American transportation sector.

Finally, a new Canada–U.S. equilibrium must be set on firm institutional foundations. These will not be supra-national structures, as in Europe, but more effective domestic ones. Canada should focus on influencing domestic perceptions in the United States, particularly on trade issues and protectionism.