

Closer Integration Between Canada and the United States?

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A once politically unmentionable concept in Canada is receiving attention in light of the increased awareness of interdependence between the two North American trading partners, following hard upon the concerns over border issues and security after the terrorist attacks in the United States on September 11, 2001.

Background

In 1989, a bilateral free-trade agreement between the United States and Canada—the United States-Canada Free-Trade Agreement (CFTA)—entered into force. The full effects of the CFTA were to be phased-in gradually over a 10 year period. However, the process was intensified in 1994 when the bilateral CFTA was broadened and deepened with the inauguration of the North American Free Trade Agreement (NAFTA). NAFTA honored the CFTA tariff liberalization commitments, and the bilateral aim of essentially duty-free trade was accomplished in 1998.

Under both the CFTA and the NAFTA, bilateral commerce increased between the United States and Canada, and the already significant flow of goods and services across the border was strengthened further. Canadians and Americans became more aware of the prominence of each other in their trading relationship. However, because the United States accounts for almost 80 percent of Canada's foreign trade, that awareness is particularly acute on the northern side of the border. The events of September 11, 2001, and the increased consciousness of issues such as border security, immigration, and safety have only dramatized the relationship between these two NAFTA partners. It is not surprising then that observers have begun to explore the nature of the trading relationship between these two North American countries and cast an eye to its future in light of the present concerns.²

¹ The views expressed in this article are those of the author. They are not the views of the U.S. International Trade Commission (USITC) as a whole or of any individual Commissioner.

² The information for this article was largely taken from three sources: an Ottawa conference entitled "The Ties That

Closer Relations

This year, an annual conference—sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University in Ottawa—focused on the economic relationship between Canada and the United States.³ Specifically, the conference highlighted the possible intensification of the U.S.-Canada economic relationship. Such an explicit discussion of "closer" relations marks an evolution of the relationship to a new plane. As recently as 1988, the outcome of a Canadian national election turned on the issue of the closer economic ties brought about by agreements such as the CFTA and NAFTA accords. The election amounted to a referendum on Prime Minister Mulroney's decision to intensify the trading relationship with the United States. Now, in 2002, following a tumultuous period of questioning border security, reliance on geopolitical allies and partners, airline safety, etc., Canadians are raising the issue of initiating a joint strategy to manage the North American relationship and achieve a common goal of physical and economic security.

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Bind: Closer Economic Relations Between Canada and the United States," sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University, Apr. 18, 2002; a paper by Wendy Dobson, "Shaping the Future of the North American Economic Space," *The Border Papers*, C.D. Howe Institute Commentary, No. 162, April 2002; and an article by Stephen Blank, "Building the North American Community: The Next Steps," *Looking Ahead*, vol. XXIV, No.1, pp. 8-12, National Policy Association.

³ The conference "The Ties That Bind: Closer Economic Relations Between Canada and the United States," was sponsored by the Center for Trade Policy and Law (CTPL) of Carleton University. It took place on, Apr. 18, 2002, and consisted of a number of panels devoted to different aspects of the U.S.-Canadian economic relationship.

The CTPL conference focused on the possible forms of any new economic relationship, as well as on two of the areas where national policies would need coordination in the event of any closer relationship—trade in services and the area of unfair trade, particularly trade remedies and competition policy. While the traditional economic understanding of integration covers different *forms* of association,⁴ the discussion in Ottawa was supplemented by also considering the importance of political considerations in any decision toward economic association. It was pointed out that the Treaty of Rome, the original pact that set in motion in 1957 the original European Economic Community (EEC), composed of 6 member states, explicitly addressed issues of politics. Indeed, “the driving force behind the European movement was political.”⁵ Neither the CFTA nor the NAFTA envision anything like the political entity that the original 6 EEC governments did—an entity now known as the European Union (EU) and currently numbering 15 member states since 1995. Nor has continental institution-building been a priority in the CFTA or the NAFTA. As a result, there is really no basis for some of the more ambitious and more integrative forms of association in North America. Unlike Europe, North America has never taken political integration as an explicit goal. Therefore, a political and economic association like the EU—with supranational institutions like the European Commission, Council, and Parliament; free movement of factors of production; and now with a common currency—is not envisioned for either Canada or the United States. The issue in need of further exploration—in the absence of a political commitment to the EU form of political integration—is whether there can realistically be a North American community of another sort.

It became apparent following the terrorist attacks of September 11, 2001, that there was no clear enunciation of the common interests that the NAFTA nations share in a freer, continent-wide economic system. Recent events in Canada indicate that observers recognize

⁴ Economists typically consider free trade areas (where member states lower trade barriers among themselves), customs unions (where member states present a common external tariff to all other trading partners), and common markets (where, in addition to a customs union, factors of production are allowed to move freely among member states) as the three main stages of integration. Further integration is possible through steps toward greater economic cooperation—anything from harmonized or more common trade regulations to a common currency—or through steps oriented more toward social, legal, or political cooperation—perhaps more common technical standards, combined administrations for common functions regarding movement of labor or capital, or common approaches to property ownership, etc.

⁵ Stephen Blank, “Building the North American Community: The Next Steps,” *Looking Ahead*, vol. XXIV, No.1, pp. 8-12, National Policy Association, p. 9.

this shortcoming and are taking steps to raise consciousness on the issue and initiate a dialogue. The CTPL conference and the publication of the first in a new series of papers by a prominent Canadian research institute mark the beginning of Canadian consideration of how to achieve closer integration in a world of heightened security concerns.

Many CTPL speakers pointed to the fact that the need for closer economic integration continues to exist after September 11, 2001. Canada’s challenge is to help map out for its as well as other North American citizens the route between autonomy and integration. Political and cultural differences will remain between trading partners, and the economic inequality among NAFTA partners is also not likely to recede quickly. Nevertheless, other structures and institutions supportive of the concept of closer economic relations can be developed.

The need for further thinking, clarification, and elaboration on the possibilities for North American integration is recognized in *The Border Papers*, a new project initiated by the C.D. Howe Institute, a noted Canadian research organization.⁶ The series is to examine “how Canada, the United States, and perhaps Mexico can achieve greater physical and economic security without loss of sovereignty and the erosion of the distinctive political and cultural institutions the people of each country hold dear.”⁷ The first paper in the series was recently released, and it attempts to provide a framework for the ongoing discussion.⁸

It has been argued that to date integration in North America has been essentially “bottom up.”⁹ That is, the process of building closer trade ties and the emergence of complex, cross-border networks of both production and distribution has been driven largely by changes in business strategy and structure. Companies sought to position themselves in such a way that they could take better advantage of the changes made by both CFTA and NAFTA and also heighten efficiency and reduce excess capacity. This progressive evolution in the economic structure has been marked by a strengthening of continental infrastructure, as evidenced by changes in sectors such as railroads, electricity and gas transmission, highways, airline routes, telecommunications, standards and other regulations. This evolution is continuing.

⁶ Wendy Dobson, “Shaping the Future of the North American Economic Space,” *The Border Papers*, C.D. Howe Institute Commentary, No. 162, April 2002.

⁷ *Ibid.*

⁸ Future papers in the series will address such topics as: border issues, mechanisms for resolving trade and investment disputes, the exchange rate regime, energy, immigration, labor mobility, taxes, and defense policy. All the papers will examine available options in each area of interest and offer policy recommendations as well.

⁹ Blank, p. 8.

The C.D. Howe paper is an attempt to contribute to the rationale for a “unique North American initiative to achieve even deeper integration” between Canada and the United States in particular. The Dobson discussion¹⁰ begins with an examination of sovereignty, a notion of special interest to Canadians, and especially so in any consideration of their relation to the United States. The reality of exercising Canadian sovereignty is acknowledged at the outset. However, a new and somewhat different perspective is presented. In the early discussion of closer economic association between Canada and the United States, sovereignty was always considered as an aspect of political independence. Any threat to that independence to Canada, coming particularly from its superpower neighbor, would be viewed with general alarm and stiff defensiveness. Now, however, the notion of sovereignty in an interdependent world already characterized by a high degree of economic connectivity, can have another meaning. Dobson maintains that an emphasis exclusively on governance and the issue of independence might cloud the possibilities of other expressions of sovereignty in a more interdependent relationship.¹¹

It could be argued, in fact, that past emphasis on political issues like sovereignty has held Canada back rather than contributed to a stronger force internationally and hemispherically. The traditional definition of sovereignty refers to a country’s own determination of policies and questions of national control. In the area of trade and investment, this definition has been affected by recent measures of liberalization. Sovereignty can arguably be diminished by a country voluntarily adhering to multilateral codes, agreements, etc. For example, a government that is a member of the World Trade Organization (WTO) agrees to be bound by WTO dispute-settlement procedures. This more significant impact on sovereignty is the result of governments becoming more accountable to one another through the “rules and procedures of the internationally agreed regimes that they had a hand in constructing.”¹² In this sense sovereignty is not simply a matter of what a country gives up; it is an issue of what it gains as well in terms of greater transparency, more efficient production, larger markets, more effective resolution of disputes,

increased protection of intellectual property, etc. Dobson captures the essence of this “nuance of twenty-first century economic policy:”

Economic advantage no longer flows only from natural endowments, as the theory of comparative advantage implies. It can be *created* by investing in physical infrastructure and in human knowledge and skills. The economic structures of the advanced industrialized countries are shifting from natural resources and goods production to knowledge-based activities. These economies are increasingly tied together by trade and capital flows and by production processes and value chains strung across borders, with business segments located where they can act most efficiently.¹³

As a result, the debate over economic integration causing an erosion of national sovereignty needs to be recast to reflect this new, pro-active brand of sovereignty, where nation states are the architects of their own constraints by means of the decisions they make and those they avoid by “failing to *exercise* their sovereignty.”

Dobson presents three possible scenarios for possible further integration between Canada and the United States: a customs union, a common market, and a “strategic bargain,” which in fact is a composite of the first two, a “pragmatic mix” of customs union- and common market-like proposals, coupled with some Canadian initiatives in areas of strength that ought to be of particular interest to the United States. The examination of each option in the first of the Border Papers includes a brief discussion of Canadian and U.S. items of special interest, as well as items that would be particularly problematic for either side—essentially the pros and cons for each option as viewed from each side. The C.D. Howe monograph endorses the “strategic bargain” option and explains it in terms of a proper exercise of Canadian sovereignty.

According to Professor Blank, a clear example of an area that needs clarification and elaboration prior to further integration, is the area of trade and more specifically, trade disputes. While the free-trade agreements have established mechanisms for addressing such inevitable disputes, certain high-profile disputes continue to test the strength of the commitment of both parties to the arrangements under the CFTA and now the NAFTA. Either narrowly focused sectoral interests or more broadly defined national interests seem to prevent a harmonious resolution of certain disputes. Absent

¹⁰ Wendy Dobson is the president of the C. D. Howe Institute, and Director of the Institute for International Business at the University of Toronto. She is a former associate deputy minister in the Canadian Ministry of Finance.

¹¹ “. . . a nation that merely reacts to events is likely to see its sovereignty erode and its future determined by others. A nation that exercises its sovereignty anticipates change, prepares options that promote the key interests of its partner, but channels actions in ways that best serve its own interests.” Ibid., p. 18.

¹² Dobson, p. 3.

¹³ Ibid.

from any of these discussions is any consideration of a North American interest. As currently set out, Blank argues that there is no North American strategy for developing new trade relationships.¹⁴

The term “trade remedy law” applies specifically to the use of antidumping and countervailing duty measures in the arsenal of fair trade or protective instruments available to a nation state. Canada has been highly critical of the United States and its use of such measures in the bilateral trade arena.¹⁵ When the CFTA negotiations were concluded, the parties were unable to bridge their differences on the issue of trade remedy law. A bilateral dispute settlement mechanism was established and was accompanied by a commitment on the part of both parties to seek a resolution of those differences within a 5 year period.¹⁶ The movement toward a common competition policy is a major step and one that needs to be explored carefully and in light of its effects on sovereignty.¹⁷

Among the issues that Professor Dobson believes Canada could consider engaging the United States are: energy, border security, immigration policy, and anti-terrorism. It is suggested that these are areas in which the two NAFTA partners might have common interests; they are certainly areas, following the events of September 11, 2001, where an alignment of policies might be possible.¹⁸ The paper argues that the events of last fall present an opportunity to both Canada and the United States—an opportunity, through joint effort,

¹⁴ The commitment of the Western Hemisphere nations to a Free Trade Area of the Americas (FTAA) seems to be overlooked in the Blank analysis.

¹⁵ Indeed, the notion of “contingent protection” was often raised in U.S.-Canadian bilateral negotiations on both the CFTA and the NAFTA. The removal of such protection and the guarantee of market access was a Canadian objective in economically aligning itself more closely to the United States. It is interesting to note that, among the major industrialized nations today, Canada was the first to formally institute a statute against dumping—in 1904.

¹⁶ The time period passed without any alteration in the arrangement.

¹⁷ An interim measure, mentioned in the Dobson paper, would be the completion of a definition of permissible, commonly accepted subsidies.

¹⁸ Significantly, Dobson does not suggest any complete alignment of policies in certain areas. The aim of closer economic integration is neither a common market nor a customs union, so congruence of policies is not needed.

to advance the long-term agenda for North American security.

Conclusion

One of the discussants at the CTPL conference made some particularly salient points in challenging Canadians to face the issue of closer economic relations with the United States. Perrin Beatty, a former Federal Cabinet minister and now the chief executive officer of Canadian Manufacturers and Exporters, maintained that the process of continental integration is no longer a question of possibility or even probability—it is already a reality. Canadians have to make a choice: no longer can they define themselves by what they do *not* want to be. Perrin cited the vigor of the new Fox administration in Mexico as one that is out in front of issues, stating its position and its desires in terms of NAFTA. Prior to September 11, 2001, Mexico was effectively setting the NAFTA agenda. Perrin argued that Canada in a similar way also has to direct the discussion toward its own political objectives. “If we do not know what we want, we are unlikely to get it.”

A foundation of vision, ideas, and legitimacy needs to be built to point out the commonalities that exist in North America. Linkages need to be formed and institutions need to be created.¹⁹ The challenge facing Canadians in the post-September 11 era is one of clarification and discernment—defining for themselves the degree of economic closeness they want with their major trading partner as well as forging the elements of any new strategic policy agenda with the United States in a way that complements the increased anxieties and concerns of the United States over security issues along its Northern border, while at the same time remaining true to Canada’s own national interests. Such is the ongoing task on any economic partner—NAFTA or otherwise—in this new age of measured partnership, increased cooperation, and deepening integration.

¹⁹ Professor Blank offers suggestions for specific institutions that could be created to encourage the building of a North American community. See p. 11. Professor Dobson also calls for further institution-building. See p. 28.