

'You can't change geography':

Taking the Canada-US Relationship to the Next Level

Remarks on Trade Innovation and Prosperity Working Paper 14 of the Institute for Competitiveness and Prosperity

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My appreciation to the Institute for Competitiveness and Prosperity and to the authors of the working paper that we discuss today: *Trade, Innovation and Prosperity*. It is consistent with the fine scholarship of the Institute, whose research I have mined with profit over the years. My appreciation to Roger Martin for his excellent presentation and to my fellow commentators, Jason Langrish, Executive Director of the Canada-Europe Roundtable for Business and to Sarah Kutulakos, Executive Director of the Canada China Business Council, for their thoughtful remarks

I concur with much of the commentary of Sarah and Jason. As Roger and the paper underline, trade is like an expanding pie and as a nation of traders, the skills we apply in one market can readily be applied elsewhere. We should seek alternate markets. The Canada-EU negotiators are to be encouraged, although as the paper points out, if we carve out agriculture I'm not sure how big a deal we're going to get.

We really do have to deal with our supply management 'problem'. It makes no sense that we pay twice as much for milk as those living 100 miles south of us. It is not just an unnecessary cost to Canadians but it is now handicapping us in our efforts to find potential markets and expand our trade abroad. Europe, but also Asia. The Obama Administration has embraced the Trans Pacific Partnership. We turned down an opportunity to be part of the negotiations at the outset. Now we want in, but the price of admission is going to be giving up supply management. The Australians showed us the way in the 90s, when they abandoned their milk marketing boards. Today, they export their dairy products throughout the world.

The Asian dragons and tigers have already shown their prowess – look what Hong Kong and Singapore have done with entrepreneurship and a port. China has awoken from its three hundred year slumber. India is, that is shaking off a half century of statism. They are using their size and ingenuity to reclaim their place in world commerce.

Thankfully, we did not have to wait three centuries, but rather a little over three years, before PM Harper 'discovered' India and China. In the meantime, those vital relationships were sustained by the business community and, what I like to describe as our 'hidden wiring' – the relationships forged between our provinces with counterpart sub-state jurisdictions in China and India.

We've natural advantages in our outreach to Asia. Pearson's Colombo Plan has given Canadian universities alumni associations that have shown remarkable generosity to

their alma mater. Now, thanks to enlightened immigration, we are principal members in the overseas Indian and, especially, Chinese diasporas.

Since 1980 half our migration has come from Asia. It is a combination of pull and push. Push for sanctuary and security, as I learned while working at our Commission in Hong Kong in the wake of Tiananmen Square when the lineups in Exchange Square ran around the block. Pull, in that we have created a wonderful nation in which to live. As the Aga Khan certifies, we do pluralism better than anyone else. This latter virtue is going to matter more and more as a business 'asset' in our increasingly multi-centric world.

Migration is changing the face of Canada, especially in our big cities – notably Toronto and Vancouver. The challenges of integration are more than offset by the dynamism that new people with new ideas brings to our country.

The closest comparative example of this dynamism is California – yes, the currently 'hapless state', at least in terms of government and governance.

But California is still the most dynamic place in the world for ideas and imagination – think Hollywood and Silicon Valley. Silicon Valley is still the cradle for patents and innovation and Palo Alto continues to be the destination for those seeking venture capital.

California will reinvent itself, indeed the 'remake' is already happening, in large part because of migration. Like Canada, one in four is born outside of America. Peter Drucker, whom I visited in Claremont before he died, once remarked to me that 'demography is destiny'. Migration, smart migration, skills-based immigration policy serves us very well.

We get it by being one of the most desirable places to live in the world but, as the paper notes, we could, should and have to do more if we are to achieve the productivity gains the paper recommends.

Start with credentialing of the many professionals, schooled abroad, who come to Canada. Our guilds oblige them to jump through endless hoops before they can practice their craft. It's small-minded protectionism that doesn't serve the national interest. Does it make sense to have, for example, Russian-trained doctors to be driving taxis when we have waiting lists in our hospitals?

I am convinced that we have a goldmine in the further development of education as a service industry. Australia has set the pace and eclipsed us as far as Chinese students go. When I was in Hong Kong in the late eighties and early nineties, after the US, we were the preferred location. Today, because of intelligent policy under the leadership of Australian prime ministers Paul Keating, John Howard and the mandarin-speaking Kevin Rudd, all of whom recognized the value of education as both a service industry and

instrument of nation-building, Australia more than doubles us in foreign students from China by 130,000 to 42,000.

Shutting down the Canadian Education Centres earlier this year (a useful and practical child of the Asia Pacific Foundation) was short-sighted.

Ironically, we have both capacity and interest on the part of Canadian universities who in the absence of CEC will resort to the spasmodic and episodic forays when what we need is coordination and a strategic plan that relies on our overseas missions for recruitment and advice and opportunities.

The CEC was another casualty of cuts at our increasingly under-resourced Department of Foreign Affairs and International Trade. At a time when diplomacy matters more than ever we are subjecting what should be one of our central agencies to death by a thousand cuts. If you don't like how it is managed – and there is certainly much room for improvement – then reform it. Rubbishing it and belittling the diplomatic service as 'cocktail clinkers' does not serve the national interest, especially for a country that depends on access for trade, investment and new citizens.

Destiny is also geography.

You can adjust demography through sensible immigration policy and, to a slight degree, as Quebec is trying to do, by encouraging more babies with day-care priced at \$8 a day and, with tax incentives for a third child.

But you can't change geography.

We are blessed to be beside the US – the biggest market in the world and likely to remain so until at least 2025. I realize there are those, especially in this town, who lament our propinquity to the colossus to the South. To them, I respectfully repeat what a Polish diplomat said to me when I was posted to the UN. "Would you rather be us?"

I don't subscribe to the declinist school on America. I lived in New York City during the late 70s when there were gas lines; graffiti covered the subway cars and, an epidemic of crime. The Big Apple was rotting and the country was in a malaise. Jimmy Carter encouraged us all to wear cardigans to keep warm. Arab money was going to buy America. But a funny thing happened on the way to Madison Square Gardens. By 1984, it was 'morning again' in Ronald Reagan's America. Thanks to Rudy Giuliani, Bill Bratton and Comp-Stat, the Big Apple would get its shine back.

Then came Irangate and the 1987 market crash. Paul Kennedy's *Rise and Fall of Great Powers* was a bestseller. This time, the Japanese were about to become 'masters of the universe'. Mitsubishi bought the Rockefeller Centre and Sony bought Columbia

Pictures. I worked in the Exxon Building – the name came off the building as the oil giant retreated to Dallas.

But you know what? America came back and the nineties launched a decade of growth that we in Canada especially enjoyed thanks to the Canada-US Free Trade Agreement and its stepchild, NAFTA. There were certainly elements of ‘irrational exuberance’ – as I witnessed before the bubble burst in Silicon Valley. But when it did, the Valley climbed back by ‘boot-strapping’ and reinvention.

Forgive me this potted history. Having spent most of my professional life living abroad and much of that in the United States, I agree with Alistair Cooke, who after 3000 broadcasts on the BBC between 1940-2000, concluded that “in America, the race is on between its decadence and its vitality, and it has lots of both.”

I would add another quality to vitality, and that is America’s remarkable resilience. As Admiral Yamamoto would allegedly write in his diary after Pearl Harbour: “I fear all we have done is to awaken a sleeping giant and fill him with a terrible resolve.” We all saw it in Hollywood’s *Tora, Tora, Tora*, even it conforms to Stephen Colbert’s definition of ‘truthyness’.

Barbie may have been assembled in Japan but the idea came from America. Today, as the paper notes, the iPod and now the iPad may be put together in China but, the ideas come from America.

Canadian trade with the US has declined in the last couple of years – a reflection of the Great Recession, but I expect to see a rebound in the coming years.

Indeed, given our supply chain dynamics we have to hope and pray for a rebound. As the Conference Board’s research has noted, intra-firm trade accounts for a third of Canada-US commerce while nearly 70% is intra-industry. More remarkable, and reflecting the deepening integration of the two economies and supply chain dynamics, that domestic content in Canadian manufactured goods has dropped below 50%.

But as the paper and other studies have observed, we’ve pretty much sucked the juice out of the FTA and NAFTA and it’s now time to move that relationship to the next level. There is no shortage of ideas on how to do it, including the work of this Institute.

My own view is that it comes down to three major elements:

First, a security perimeter that embraces people and goods entering by land, sea or air.

We live in an Age of Terror and the US is the primary target in what is likely to be a long and shadowy war. Canada must be seen by the U.S. as a trusted ally and reliable partner before any progress on border access can be made.

We understood this during the Second World War, through the Cold War and through the Pearson years. But for much of the period between 1968-2005, and especially in the latter years, we ran down our defence establishment, comfortable that we would be protected by the American security umbrella. Former Chief of Defence Staff Rick Hillier would describe the period as a “decade of darkness”.

Improving our economic access to the US will require a commensurate continuing investment in security: the Canadian Forces, our intelligence and law enforcement agencies.

Unfortunately, popular mythology has entrenched in the American psyche the perception that at least some of the 9-11 terrorists came from Canada. The American fixation (sometimes bordering on paranoia) with national security means that the essential first step must address a security perimeter around Canada and the United States.

Drawing on the experience of NORAD, the critical first step will be to establish a security perimeter built on the joint sharing and pooling of information related to law enforcement, intelligence and migration.

The NORAD model deserves more attention by policy-makers and public policy research as an extraordinarily effective example of bi-national cooperation and collaboration. We can draw lessons from its operation and apply them in other sectors.

Second, mutually enhanced competitiveness through coordination of Infrastructure investments and regulatory compatibility.

Create a joint commission for border infrastructure, as recommended by Derek Burney, Michael Kergin and others. Start with the border infrastructure at our three main gateways – Windsor Bridge/Tunnel, Sarnia, Fort Erie/Niagara Falls - through which passes over three-quarters of our trade. Infrastructure should be a jointly-managed asset.

Joint commissions operate on the principle of bi-nationality and they have served well both nations. The International Joint Commission has successfully managed the waterways between Canada and the United States for over a century. The St. Lawrence Seaway Authority manages the locks and regulates the flow of traffic, while the Columbia River Authority oversees this vital western waterway.

Open our skies and roads. Open skies will encourage tourism. In the case of trucking, cabotage will also yield 'green' dividends. It will greatly improve the competitiveness of our integrated supply chains and go some distance to achieving President Obama's goal of doubling American exports.

It's time to take out the broom and sweep aside unnecessary regulations. Too many of them reflect what my friend Michael Hart characterizes as the 'narcissism of small differences'. If Europe can harmonize its standards then surely Canada and the US can find a way through which approval in one country – i.e. 'tested once' - would constitute approval in the other.

Third, joint stewardship of our 'commons' especially in the management of resources and climate change.

We need to make stewardship of our shared resources and environment a joint priority.

For more than a century, Canadians and Americans have benefitted from a cooperative approach in dealing with resource issues, especially water and energy. Indeed, we've led the way in creative stewardship beginning with the International Joint Commission (1909), with specific attention to the St. Lawrence Seaway (1954), the Columbia River (1964) and, the cleanup of the Great Lakes (1978). Only twice, in the nearly 50 cases referred to the IJC, have their recommendations not been followed. In the longer term, especially given population shifts to the arid southwest of the US, the sharing of water is going to become the major resource issue. It would make sense to task the IJC, with its long and successful history in water management, to start planning around long-term water conservation and management.

Energy cooperation dates from the Second World War and, more recently, to the creation (2001) of a North American Energy Working Group. The Acid Rain Agreement (1989) offers lessons, in terms of successful cap and trade, for green house gas emissions. So is regulatory harmonization, as in the case, for example of tailpipe emission standards (2010).

At home, we have an opportunity to demonstrate, in the oil sands, the application of technology and environmental stewardship beginning with reclamation of the tar ponds. The oil sands are a 'national treasure', as South Carolina Senator Lindsay Graham observed during his recent visit. The 'treasure' of the oil sands is creating jobs and opportunities across Canada, including here in the Canadian heartland and through the extension of our pipelines, most recently the Alberta Clipper and now the Keystone XL, into the United States.

The 'Clean Energy Dialogue' is an invitation to joint collaboration. American legislative gridlock should not be taken as an opportunity to sit and wait – as the National Round Table on the Environment and the Economy argues, we need to get on with a 'Made in

Canada' solution. Why can't we be best in class in environmental stewardship? Lets start with the Athabasca River. Persevere and we will convince Jim Cameron, also a visitor to the oil sands, to take a different take in the sequel to Avatar.

Taking the Canadian-American relationship to the next level of integration will only happen with American buy-in.

Previous presidents have realized the strategic value of Canada. Will Obama? He has told us that he 'loves us' but nice words are not enough. We could do with a strategic assessment, followed by the declaration of a comprehensive policy that recognizes the value of the Canadian-American partnership.

Too often, as John Holmes observed, Americans have a "galling habit of regarding us as a regional aspect of a national problem." It means we just have to work harder in what I believe must be a 'permanent campaign' involving not just the Federal Government, but provincial governments, business, labour and civil society – as part of a Team Canada effort.

Things certainly go better when the mood across the border is more upbeat than today. Obama promised hope and change but the stimulus package, financial reform and a comprehensive health care program have yet to produce what Americans want most of all – jobs. Canada must play into this agenda.

With American economic recovery slow and unemployment at the highest levels since the Depression, Americans are frustrated and, sick and tired, of being 'sick and tired'. They want solutions from their government. The Tea Party, Sarah Palin and Glenn Beck are manifestations of this angst and anger. We need to listen and pay attention because the movement will have implications for us – especially if the midterms put the GOP back as the majority party in the House. Canadians may like the Democrats but, in the Congress, they are protectionist.

American vitality, resilience and innovation was, is and, I'm convinced, will continue to endure. It is the signature of a nation that is more than a country, and is better defined as a civilization.

It is a relationship that Canadians, because of geography, history and shared interests, have earned both access and special consideration, but only if we are prepared to advocate and lobby for it. There is a wonderful vignette in Allan Gotlieb's *Washington Diaries*, the single best source for Canadians to understand how Washington works.

Penned at the end of a long day during which he has met with Dick Darman, then Speical Assistant in the White House – Darman would later become Deputy Secretary of the Treasury.

“I keep thinking of what Darman said to me the other day as I was leaving his office. “You know, for us in the White House, there is good news and bad news. The bad news is that Reagan really can’t say no to the Canadians. The good news is that you guys are too stupid to realize it.”

“The sad reality,” wrote Gotlieb “is he’s right.”

Relationships, George Shultz told me, are like gardens. They need constant care. The more complex, the more attention and what worked in one season, may not work in the next. So it is with the Canada-US partnership. We need to renew trust and confidence especially on mutual security for our homelands, the stewardship of our shared resources and in recognizing that we can both generate jobs and prosperity if we work in partnership.

It does not mean that we will agree on everything. We won’t. We are different countries, born, arguably, out of the same Revolution. We went one direction and they went another. But we’ve become a model for the rest of the world on how to manage differences. We’ve created institutions that work: NORAD, the IJC. Approaching problems based on binational governance has served both nations.

Civility also matters. And civility starts at the top. It’s time for us to renew the Canada-US relationship.

Successful engagement begins with the principals. The President needs to focus on Canada and not just ‘love us’ but define us as a strategic relationship requiring continuing attention. The Prime Minister needs to reach out to Mr. Ignatieff, who understands the importance of the relationship. Then, in the spirit of Team Canada, we need to devote time, energy and political capital to the pursuit of Canadian interests in the US. We don’t need to ‘own the platform’, but share it with our neighbours for our mutual benefit.

Many years ago, during my first posting in New York City, I got to know Columbia professor Bill Fox and his wife Annette Baker Fox. They were great friends of Canada. Bill, who also coined the term ‘superpower’, wrote of Canada and the United States that we have different size and brightness but we “are compelled to revolve around each other as we move through the firmament.” (1985) The trick for a successful orbit is to keep ourselves in alignment.

For Canada and the United States successful alignment means a shared vision, joint leadership that begins at the top and, the joint application of risk management. With renewed application we can ensure that the Canada-US relationship continues to be the most successful and enduring partnership amongst nations.

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