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Canada–United States Trade Relations: Not Just NAFTA

by Stephen Blank and Monica Gattinger
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Donald Trump rammed NAFTA renegotiation to the top of the North American agenda, and his unpredictability and volatility have made this a taxing and often discouraging exercise. But NAFTA does not embrace the totality of North American – or Canada-U.S. – trade relations. It is one element in an increasingly complex environment being shaped by demographic and social change, fundamental transformations in the energy and climate systems, and the fourth industrial revolution.

In this piece, we argue that it is vital to dig out of the narrow NAFTA trenches and examine the broader context that will shape trade patterns and relationships over the next years. We propose three key strategies to manage the Canada-U.S. trade relationship now and into the future: the importance of long-term foresight and scenarios analysis, the need to challenge conventional wisdom and assumptions about the drivers and underpinnings of bilateral trade relations, and the necessity to develop deep collaboration that moves well beyond the capitals of both countries.

Powerful changes are afoot.

First, demographics. Demographics aren't everything, but projections in the UN's 2015 *World Population Prospects* suggest dramatic changes in the world Canada will inhabit over the coming decades that could reshape its vision of trade policy and Canada-U.S. trade relations.

Canada will have to adapt to a world of new players that will insist on greater roles in global governance. Euro-North American-centric institutions such as the UN, WTO and World Bank created in the years after the Second World War will be pressed to respond to rising Asian-African demands for greater shares of the world's trade and investment. Canada will have to ask itself some tough questions. How will it recast its historic Atlantic-Euro-focused identity and commitments in this new world? What role is it prepared to play (and capable of playing)?

What trade, aid and development policies will Canada adopt in what is likely to be a more protectionist and nationalist global economic environment? Can Canadians assume that Canada will (should?) continue to flourish as a middle power that punches far above its weight, as an exemplar of freer trade and of a progressive agenda for future trade agreements? Is Canada immune from populist and economic nationalist pressures? Perhaps, perhaps not.

The direction the U.S. takes will be a critical element in determining Canada's range of alternatives. Can (should) Canada rely on U.S. leadership in a tumultuous world? Under a Trump administration, this would be ill-advised (to put it mildly), but going forward, will (should, can?) the U.S. and Canada collaborate on approaches and policies for this new world?

The U.S. and Canada will look less alike in the future. Trump's Mexico policy notwithstanding, an increasingly large and influential Hispanic U.S. community might look ever more to the south. Ronald Reagan said of Canada, "We're more than friends and neighbours and allies; we are kin, who together have built the most productive relationship between any two countries in the world today." We won't be such close kin in the emerging decades.



But we will still be closely linked.

We will both be aging nations (although Canadians will be aging more rapidly) and we will share interests in coping with demands for more portable retirement and health-care resources. Both countries face rising economic inequality (although the U.S. situation is worse). Both countries are also likely to continue to see population shifts toward urban-regional areas. Emerging cross-border mega-regions in Greater Vancouver-Greater Portland-Seattle or southern Ontario-U.S. rust belt could be on the horizon.

Economic success and competitiveness in the new technological-industrial world for communities in these mega-regions may hinge on deepening north-south ties. Financial markets will almost certainly become more integrated, and although Canadian concerns for cultural protection will carry forward, the growing digitalization of arts forms and the deeper integration of arts markets make closer collaboration very likely. Each of these developments will influence patterns of trade – who, what and how.

Second, both countries face similar energy and climate problems and questions. They will need to determine how to reconcile the need to lower GHG emissions with their status as major oil and gas producers. The world's list of top energy producers and reserve holders includes a very small number of western industrialized democracies – Canada and the U.S. are among them. Each country has the resource potential to be a major player in global energy markets.

Will the two countries work together to develop their oil and gas resources responsibly for domestic and global consumption while driving down their GHG emissions and transitioning to lower carbon energy systems in the long term? Will they collaborate on developing the energy technologies, policy frameworks and game-changing innovations needed to do so – or will they drift into pointless competition?

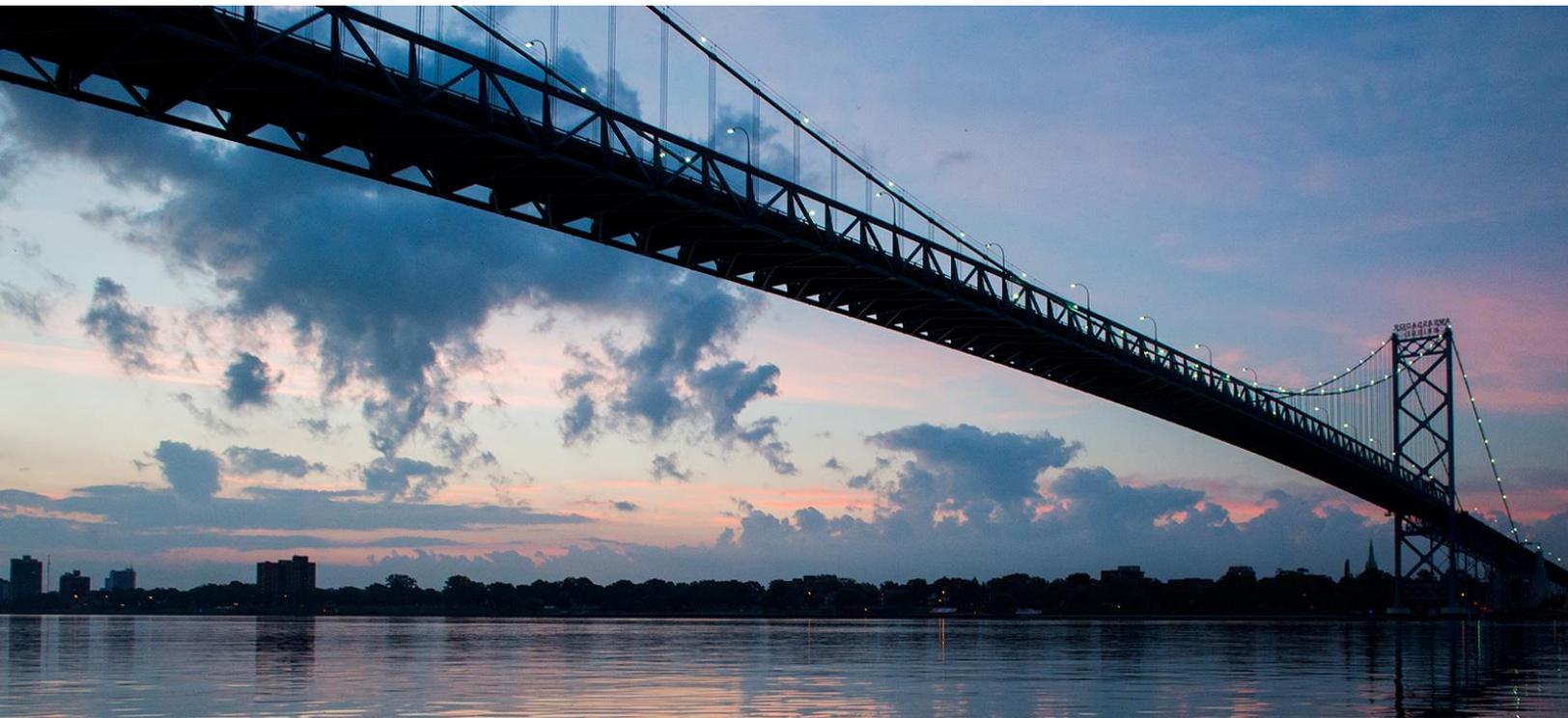
Climate change – warming and more erratic weather conditions – will affect both countries and shape new trade issues. Take agriculture. In the U.S., forecasts predict mega-droughts in the California and Midwest breadbaskets that will make farming and ranching all but impossible. Climate scientists generally agree that most of Canada will experience warming over the next decades. Agriculture in the Prairies should benefit with a longer growing season, although with rising demands for more careful water use. This could mean more Canadian water sold south of the border in the form of Canadian grain, vegetables and fruits, replacing the bounty of dried-up farmland in the U.S.

Third, the rise of Industry 4.0 will transform our trade relationships. In the past decades, the U.S. and Canadian economies have been linked less by selling stuff to each other than by making it together. During the 1970s, many North American industries followed the auto example by creating deeply integrated cross-border production and marketing systems. Today, in the emerging Industry 4.0 era, the future of 20th century cross-border production and marketing networks is not guaranteed.



Moreover, services comprise a rapidly growing share of trade, and digital trade is increasing rapidly. Although North America's auto industry continued to improve in a highly competitive global environment – *sans* the new bridge and in the wake of 9/11 thickened borders – success in the 21st century industry of autonomous vehicles, smart infrastructure and complex hardware and software producer networks will demand far more collaboration across more industrial sectors and among governments at all levels in our complex federal systems.

The bottom line is that to maintain vigorous cross-border links, Canada must be at the cutting edge of Industry 4.0, but the pace, scale and scope of change make this a challenging proposition, and trade relationships must anticipate emerging 21st century developments. Tough stuff.



*Figure 1: Built in 1929, the Ambassador Bridge that connects Windsor and Detroit is the busiest international border crossing in North America in terms of trade volume.
(Lana Slezic)*

Managing the physical stuff of cross-border integration is an equally challenging file. Infrastructure poses enormous issues in both countries. Much of our trade moves through what are single integrated systems – highways and railroads, pipelines and electric wires, the St. Lawrence Seaway and the great Mississippi River system. Both governments will have to decide whether to pump huge sums of money into defending existing infrastructure or to abandon threatened structures and build anew – or some combination of the two. No easy task: the interminable machinations getting to the second Windsor-Detroit bridge symbolize the challenge. Again, patterns of trade will depend fundamentally on how the U.S. and Canada resolve the looming infrastructure crisis, a crisis made all the more challenging in the context of extreme weather and other climate change impacts.



And there is another, darker side to technological transformations. While new and exciting avenues for jobs and careers are emerging, many people are and will be left behind – particularly those who are older, less educated, lower skilled and less mobile. For them, “innovation” and “Industry 4.0” may become four-letter words, if they aren’t already. The most serious threat is that entire geographic or socioeconomic communities are left derelict, raising the spectre of populist and economic nationalist movements growing and gaining strength. In the United Kingdom (Brexit) and the U.S. (Trump), studies reveal how these changes widen economic, social and political cleavages – and how they affect attitudes toward trade. These developments are already affecting Canada-U.S. relations, *viz* anti-NAFTA sentiment and rhetoric in the U.S. (the fact that automation drove down jobs and not trade is beside the point). Is Canada immune from these tendencies inside its borders? We think not. But are leaders seriously considering the prospects of populism and economic nationalism and how to proactively address them? Unfortunately, we also think not.

To effectively respond to both the challenges and opportunities of the transformations ahead, we propose governments pursue three key strategies:

- Foresight not near sight. The unpredictability and volatility of the Trump White House militate towards focusing on short-term trade issues, but those engaged in and managing bilateral trade should position their short-term tactics within a much longer-term view. Given the scale and pace of change in the offing, both countries will need to develop their domestic and bilateral capacities for horizon scanning, foresight and scenarios work, along with policy and program flexibility, adaptability and resilience to adjust to rapid and widescale change in the profile and patterns of trade.
- Challenge usual assumptions. The relatively stable postwar environment of trade liberalization, economic growth and predictable geopolitical fault lines is being replaced by an increasingly complex, fast-moving and unpredictable environment. The futures of trade liberalization, multilateralism and elite-driven politics are very much open questions. In this context, trade decision-makers must consistently challenge their usual assumptions about how the world works – not only for Canada-U.S. trade, but globally – now and into the future.
- All hands on (a co-ordinated) deck. Those managing Canada-U.S. trade relations will need to expand their toolkit and approach substantially. The challenges of an increasingly complex world will require deep collaboration: much more decentralized and extensive relations moving well out of Ottawa and Washington into the provinces, states and municipalities, and building, leveraging and mobilizing multiple ongoing constituencies of political, industry and civil society leaders at the national, regional and local levels. The Trudeau government “gets” this approach – future governments will need to follow suit.

This will not be easy, but it is essential if Canada and the U.S. are to effectively navigate their domestic and cross-border trade environments.



While there is much uncertainty about the future of trade, Canada-U.S. trade relations will be shaped by powerful and disruptive trends. The countries may move in quite different directions over the next decades – as both undergo significant structural transformations to their economies, energy and environment systems and populations. They will confront important and complex issues that require deep collaboration, challenging usual assumptions and looking far into the future to inform actions in the here and now. This will require new approaches, strong relationships and thought leadership on both sides of the border. A tall order to be sure, but an essential one to fill if Canada-U.S. trade relations are to thrive in the coming decades. ¹

¹ This article draws in part on our earlier and more extensive chapter published in *Canada Among Nations 2017*, co-edited by Norman Hillmer and Philippe Lagassé, Palgrave Macmillan, 2018.

► About the Author

Stephen Blank (BA, Dartmouth; MA, Cambridge; MA, PhD, Harvard) serves as Senior Fellow of the Institute for Science, Society and Policy at the University of Ottawa and Senior Fellow of the Macdonald Laurier Institute. Blank's career spans the academic, business and not-for-profit communities. His work over many years has dealt with dimensions of public-private sector relations – national, global and corporate. He is known for his work on North American integration (regionalism, trade corridors, cross border production-distribution systems and physical infrastructure). Stephen Blank was a Council on Foreign Relations International Affairs Fellow and a scholar in residence at the Villa Serbelloni in Italy, Claude Bissell Professor of US-Canada Relations at the University of Toronto, Fulbright Distinguished Professor at the University of Montreal, Ross Distinguished Visiting Professor at Western Washington University and Fulbright Chair of Governance and Public Administration at the University of Ottawa. He served as Managing Director of the PanAm Partnership for Business Education and Co-Chair of the North American Transportation Competitiveness Research Council. In 2012-2014, he co-directed Leadership Nouveau, a project sponsored by HEC Montreal dealing with the impact of emerging forces on arts and cultural institutions. Blank is the author/co-author of many books and articles. A member of the Council on Foreign Relations, he was awarded L'Ordre National du Quebec by the Government of Quebec.

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The Institute was created to bridge the gap between what Canadians need to know about Canadian international activities and what they do know. Historically Canadians have tended to look abroad out of a search for markets because Canada depends heavily on foreign trade. In the modern post-Cold War world, however, global security and stability have become the bedrocks of global commerce and the free movement of people, goods and ideas across international boundaries. Canada has striven to open the world since the 1930s and was a driving factor behind the adoption of the main structures which underpin globalization such as the International Monetary Fund, the World Bank, the World Trade Organization and emerging free trade networks connecting dozens of international economies. The Canadian Global Affairs Institute recognizes Canada's contribution to a globalized world and aims to inform Canadians about Canada's role in that process and the connection between globalization and security.

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