New Realities at the Canadian-American Border

by Perrin Beatty

The September 11, 2001 terrorist attacks against the United States brought traffic at the border to a screeching halt and Canada's economy grinding to a standstill. In the immediate aftermath of the attacks lineups stretching to 12 miles and delays of up to 18 hours were the norm at the 49th parallel. Traffic volumes fell significantly, some Canadian plants were forced to temporarily reduce or stop production, consumer and investor confidence declined sharply. This article looks at what Canadian industry has done to overcome the challenges posed by new realities at the Canada-U.S. border. It also examines the larger issue of how to best define Canada's place, as a sovereign nation, within an increasingly integrated North American economy?

A million dollars of trade takes place between Canada and the United States every minute–$1.7 billion a day–and there are 200 million border crossings a year. To put it in perspective, the U.S. does more two-way trade across the Ambassador Bridge between Windsor and Detroit than it does with any other country. We sell more of our industrial output–63%–to the United States than we consume at home, making Canada our own second-largest market. In total, the Americans buy about 83% of our exports of goods and services, amounting to 38% of our GDP. We are also increasingly dependent on the U.S. for our imports. Over 72% of the goods and services we import, amounting to 30% of our GDP, come from the United States. What is more, the U.S. is Canada's primary source of foreign investment. It accounts for 64% of foreign direct investment here and 58% of total foreign investment stocks in this country.

Canadian prosperity clearly depends on our trading relationship with the United States. Canada-U.S. trade is the source of hundreds of thousands of Canadian jobs, and secure access to the U.S. market is a key factor in attracting vital foreign investment. In turn, that relationship depends on the efficient flow of goods and people across our common border.

Border efficiency is a bottom-line issue for business. Time is money, and border delays represent major costs. Those costs are mounting as more companies adopt just-in-time production and delivery systems that result in less inventory at the business site and a greater reliance on the truck, boat, plane or train as the inventory warehouse. If the border becomes a barrier to the efficient movement of goods and people, it will choke off our exports and stem the flow of foreign direct investment into Canada. Our standard of living will fall dramatically.

Following September 11th the Canadian business community moved swiftly to ensure the free flow of commerce between Canada and the United States. Our goal was not to return to border conditions as they were before the attacks but to improve them. Steady and dra-

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matic increases in cross-border traffic, combined with benign neglect on the part of governments, had chipped away at border efficiency over the years, causing serious problems. A study at one of Canada's busiest border crossings, Fort Erie, Ontario, completed before September 11th, estimated that transportation delays at that crossing alone were already costing shippers $2.5 million a day.

The Canadian Manufacturers and Exporters Association whose members account for 75% of Canada's manufacturing output and 90% of its exports, has been working for years to resolve border problems. For example, we helped lead the development of Customs Self-Assessment and CANPASS, and formed a joint working group on border issues with the U.S. National Association of Manufacturers.

We spearheaded the formation of a broad coalition of business associations and individual companies. Through it, over 50 major business associations and key individual companies are helping the federal government deal successfully with border and security issues, performing a key consultative and advisory role.

The Coalition for Secure and Trade-Efficient Borders was quick to recognize that the events of September 11th imposed a new paradigm on border management, one in which security and trade facilitation are mutually reinforcing priorities. Our first report outlined a set of principles for an integrated approach to the security of Canada and the United States which aimed to remove pressure from the Canada-U.S. border by improving Canada's ability to ensure security domestically. We proposed a risk-based border management approach that would enable low-risk travellers and goods to move efficiently while focussing resources on high-risk travellers and cargo.

A shared Canada-U.S. approach to managing our borders comprises three lines of security–offshore interception, first point of arrival, and the Canada-U.S. border. By expanding its intelligence capacity, and working cooperatively with its international partners, Canada can take steps to stop high-risk travellers from getting here in the first place. People and cargo arriving in Canada, including those passing through on their way to the United States, must be properly assessed and dealt with to ensure, to the extent possible, that they pose no threat to either country. Meanwhile, the Canada-U.S. border can be made smarter by moving as much processing away from the 49th parallel as possible.

Building on those principles, the Coalition's second report presented an integrated plan of action to fundamentally change the way our borders are managed, and set forth a detailed set of recommendations.

The December 2001 federal budget and the joint announcement of the Canada-U.S. Smart Border Declaration and its 30-point action plan signalled acceptance of the Coalition's principles and its specific recommendations. Furthermore, nobody has challenged us on the substance of our principles or recommendations, and there has been very positive reaction on the American side as well.

> ***I cannot recall any other instance, during my 21 years as a Member of Parliament and Cabinet Minister, where business came together in such immediate solidarity on a critical issue, and where the federal government responded so swiftly to its concerns.***

We are encouraged by the government's response, and optimistic the measures announced to date could go a long way towards resolving problems at the 49th parallel. But we cannot afford to be complacent. The sense of crisis may have diminished but the crisis itself is far from over. Commercial cross-border flows have broadly normalized since the terrorist attacks, but at lower levels of economic activity. Passenger traffic is still down significantly from previous levels, and when it returns to normal, there will be further delays unless measures are taken now to avert them. The participation of business, represented by the Coalition for Secure and Trade-Efficient Borders, will therefore continue to be important during the critical implementation phase, when the government seeks to transform its announcements into concrete actions.

Sovereignty and Integration

While government works with business and with the American administration on the nuts and bolts of Canada-U.S. border improvements, the attention of the Canadian public has shifted to the broader issue of North American economic integration. As we try to keep the door open to cross-border trade, we have started to ask ourselves: how wide are we prepared to open it? This question is something of a Pandora's box. The challenge is to determine how we can manage our economic and policy relationships with the United States, and with Mexico, in a way that ensures continued economic growth in this country, and at the same time guarantees Canadians the ability to shape our own economic, social and cultural futures.

> ***How the Canada-U.S. border is managed can either facilitate North American integration or serve as an obstacle to it.***

Integration is already a fact of life for the Canadian economy, and has for some time been a critical aspect of the strategic planning and the competitive realities of Canadian business. Canada has been undergoing a process of economic integration that has accelerated rapidly since 1989, when the *Canada-U.S. Free Trade Agreement* came into effect.

Free trade has opened tremendous market opportunities for Canadian businesses across North America. It has also opened the Canadian market to intense competition that continues to drive down prices and requires Canadian companies to restructure to remain profitable and to secure competitive advantage in a larger marketplace. That restructuring has entailed measures to cut overhead and reduce unit production costs, and investments in new and higher-value products and services, as well as outward investment and the widespread consolidation of business activities and organizations across North America.

Much of the economic integration that has taken place is informal, so Canadians in general may not be aware of the degree to which Canada's economy has already become integrated within North America.

Few companies today produce a variety of products to be sold only on the Canadian market. Most manufacturers–large and small alike–produce a limited number of products and sell those goods across North America. Many of the largest ones are also importing goods from the United States and distributing them across Canada. About 60% of Canada's two-way trade with the U.S. is intracorporate–flows of goods and services across the border but within the same company. More and more, business and financing decisions are being made on a North American basis–and are being paid for in U.S. dollars. In larger companies, investment and senior management decisions are more frequently being made in the United States. And companies in Canada are competing for product mandates, investments, and skilled personnel with other companies, or other divisions, south of the border.

Where formal integration has taken place, the process has been piecemeal and pragmatic. The widespread support for improved cooperation in managing Canada's borders with the United States since September 11th reflects that pragmatism: the economic well-being of Canada required it, and Canadians saw little that threatened their sovereignty in the measures proposed to achieve it.

But before committing to further formal integration which goes beyond the borders, Canadians must deal with a variety of issues, some of which have little to do with integration itself. Chief among them is our traditional fear of economic, political and cultural domination–the most contentious issue for Canadians by far is sovereignty.

Ottawa has yet to define a blueprint for the country's relationship with Mexico that extends beyond economics, and political fears have prevented it from promoting closer cultural, diplomatic or military alignment with the United States. Without a clear vision for the future of the North American partnership, Canada must respond to external events and other countries' agendas. It is still undecided about participation in National Missile Defense, and the Canadian dollar's continuing weakness has incited debate about whether adopting the American currency is either desirable or inevitable.

This is new ground for all of us. While the European Union is sometimes suggested as a model, the European philosophy of union differs greatly from North America's approach. Increased political integration has been an explicit goal of the European exercise from the outset, while the *Canada-U.S. Free Trade Agreement* and NAFTA were proposed as a means to increase trade without jeopardizing political independence.

Just as Canadians have tended to define themselves as a people by what we are not–by focusing almost exclusively on our differences from our southern neighbours–the question of what constitutes integration is often answered in the negative. Rather than defining the parameters of closer ties between Canada, the U.S. and Mexico, the Canadian response is generally confined to what the relationship should not be–not a customs or monetary union, not a North American EU, not a junior defence partner, not a 51st state. But we cannot map out future directions solely in terms of where we do not want to go.

The events of September 11th have forced Canadians to reexamine whether it is possible to pick and choose when it will be engaged with its southern neighbour. The post-September 11th border crisis forced immediate decisions about a common strategy of border management. It was clear that the United States would fortify its perimeter approaches: the issue for Canada was whether it wanted to be inside that perimeter or outside. For the vast majority of Canadians, the decision was straightforward.

The need for Canada to decide what role it wants to play in North America has gained urgency since September 11th. Without a clear vision of how it wants to engage its neighbours, the country will be forced to react to events, instead of driving them.

If Canada does not know what it wants, it is unlikely to get it. When the relationship is determined through a series of disconnected negotiations, the country bargains from weakness. That shortcoming is also reflected in the domestic debate, with opponents scrutinizing every proposal in terms of the cost to Canadian sovereignty, instead of measuring it against the benefits achieved.

The bolder and more rewarding strategy would be to develop a coherent vision of how Canadians can participate fully in a North American community and to enter the discussions as a demandeur, and not as a reluctant respondent. Each country brings unequal assets to the table, but Canada's successes with NORAD, free trade and, most recently, the Canada-U.S. border, demonstrate that the country can succeed when it knows what it wants and enters into the relationship as a full and willing partner.

> ***North America is a continent in transition. It will be impossible to sit out the changes, so the wiser policy is to anticipate and direct them.***

Canada's greatest successes–in trade, in war, in diplomacy and in culture–come from its engagement with the rest of the world. Canadian sovereignty assumes its fullest meaning when Canada sets the course, but when the country lacks vision, it can only follow where others lead. The political challenge is to move beyond defining the country in terms of what it is not, and to offer a confident and compelling picture of what Canada's role in the world can be.

Whatever form a North American partnership takes, the defining feature will continue to be the massive size and power of the United States. A relationship with the world's only remaining military and economic superpower is, by definition, a marriage of unequals. However, no attempt to create a continental community can succeed unless each country feels it is a full participant and is seen by its partners in that light. The political and cultural differences between countries must be respected, or the price of participating will be too high.

A new round of negotiations can break down barriers that continue to distort investment and trade, and drive up costs to consumers. Despite participating in the world's most important trading relationship, Canadian business frequently finds itself subjected to trade obstacles that are more the product of politics than economics.

There are many unfinished issues from the FTA and NAFTA, including anti-dumping, countervailing duties, agriculture, and softwood lumber. Integration cannot move forward without mechanisms both parties will consider impartial and fair. The political and economic dominance of the U.S., combined with inter-jurisdictional problems within Canada, makes developing such institutions particularly challenging. In addition, it is critical to design such institutions with a view to ultimately including Mexico.

Finding the appropriate balance between autonomy and integration will not be easy, but a properly structured agreement can benefit all three countries. The primary driver will continue to be economic, building on the success of NAFTA, whose potential for growth remains untapped.

As we continue to take positive action on Canada-U.S. border issues and deal with the ongoing economic effects of the events of September 11th, we must take up the broader challenge of carving out a new place for Canada within the North American economy.