

The Border to Be

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The border between Canada and the United States is more than a line – it is a symbol, an image, and a metaphor. And more – for two countries that defined themselves during the 19th century in the process of exploring and settling their frontiers, the border is the new frontier that will shape our understandings of both countries in the 21st century.

Margaret Atwood famously described the border as a one-way mirror, the kind used in police interrogation rooms, through which Canadians could view Americans, while Americans saw only themselves reflected. It is a powerful image, but one that seems out of date now.

Today the border has become a mirror for both sides, but one that reflects back at us a distorted image. Like Lewis Carroll’s Looking Glass – in which Alice discovers a bizarre world that amplifies her fears – the border is becoming oddly less transparent as it becomes demonstrably more open every day.

Underlying the process of continental economic integration – underway long before NAFTA or the Canada-US Free Trade Agreement – is a dream. That dream is of prosperity, freedom, and warm relations between Canadians and Americans. It is a dream that we have been progressively realizing for some time now, and happily so. But along with this dream is a nagging fear in both countries, reflecting our own national insecurities. Like a couple taking the decision to marry, we are ambivalent about the naked intimacy of the new relationship and, as the old folks say, having some jitters is normal.

For Canada, globalization wears an American face. With more than 80 percent of its trade going to the United States, many of the good and bad consequences of globalization seem to come to Canada from south of the border. For the United States, to a degree few Americans yet realize, globalization wears a Canadian face.

Since the end of the Cold War, countries around the world have grappled with the challenges of globalization: governments becoming weaker, markets becoming stronger, and information and capital moving faster. The United States has lived in denial of globalization’s impact. Its government has been so strong that the public has not noticed

any weakening. Many view globalization as the handmaiden of American hegemony – a powerful force that works for our interests, not against them. Suddenly, at the Canadian border, Americans are discovering the challenges of openness. The U.S. government is frustrated that it cannot protect American citizens in an open, continental economy without Canadian help. It has been a long time since Americans asked another country for help, and really needed it – we may have forgotten how to do so, with grace and humility, as our grandparents did.

This is why the Canada-U.S. border at the dawn of the 21st century is a new frontier for both countries. The reality of our separate and equal (and weakened) sovereignties, and that of our profound mutual interdependence, will be met there. To cope with deep integration, both countries must stop scoffing at the other's fears about the dangers of our national intimacy. Globalization is a phenomenon that neither country can reject, deny or for long resist as it opens our citizens to new ideas and benefits they desire.

The Challenges of 21st Century Governance

Deepening Canada-US integration is not a new phenomenon, but has reached a new point. What is different today is the rapid rate at which integration is proceeding. Driving the acceleration of bilateral integration is the power of the new economy, a mixture of technological advances and restructured relationships among the public and private sectors and individuals in both countries.

Consider how some key features of the emerging North American political economy are dramatically changing policymaking today:

High Velocity Logistics: Information technology has produced a revolution in the relationship between firms and their customers, and similarly between firms and their suppliers. With an effort to reduce inventories to near-zero quantities, companies order what they need based on real-time information on what is selling, and rely on advances in logistics to ensure that new supplies arrive just in time. Policymakers observing the new economy comment frequently on the importance of growth in the *volume* of economic activity as reflected in increases in output and productivity – equally important is the growth in the *velocity* of economic activity. In this environment, small regulatory adjustments that impede economic flows can result in multimillion dollar losses in minutes – creating a new “third rail” for policymakers.

E-commerce: The rapid growth in *e-commerce* also confounds traditional notions of trade, particularly between Canada and the United States which rank in the top ten countries for Internet usage worldwide. According to Statistics Canada, 1999 e-commerce retail sales posted a record high, but fully 50 percent of the value of Canadian purchases was from U.S.-based web sites. This is reflected in expanded demands on the telecommunications infrastructure that connects the two countries: the U.S. Federal Communications Commission reports that voice and

data transmissions between Canada and the United States grew from 2 billion minutes in 1986 to 6.3 billion minutes in 1996.

When such e-commerce transactions result in the shipment of a good, such as a book, across the Canada-United States border its value is recorded in the trade data. But when the item traded is electronic, such as a downloaded software program or a pop song recorded as an MP3 file, it is not. The Internet allows Canadians and Americans to trade in stock market information, auction services (such as Ebay), favorite recipes and now electronic books – all without registering in the data governments use to gauge economic activity. North American governments are handicapped with an 18th century data model for managing a 21st century economy.

Enterprise Diversity: Another important change has been the emergence of thousands of *mini-multinationals* – small to midsize firms that were able to take advantage of the Canada-United States Free Trade Agreement (CUFTA) to enter their first foreign market. While large corporations, such as those in the auto industry, were able to negotiate favorable access before CUFTA, one of this agreement's main accomplishments was to ensure that preferential access was available to all firms. This coincided with a boom in entrepreneurship and sustained low interest rates that boosted the number of new business created throughout the 1990s. As a result of the presence of these firms, which struggle to contend with each new regulatory mandate with limited resources, Canada-United States economic relations have a grass-roots constituency that poses an additional challenge for governance. No other U.S. or Canadian trade relationship has such a diverse participation profile.

Diffusion of Governance: The information economy is becoming a knowledge economy, whose strength is based on the level of education and skills training of individual workers. As a result, *the role of U.S. states and Canadian provinces*, with responsibility for education policy, has grown more important to the overall bilateral economic relationship. States and provinces now deal frequently with one another without consultation with their respective federal authorities. Most provincial premiers now participate regularly in one or more regional governors summits (such as the New England or Great Lakes governors meetings) and send representatives to meetings of the U.S. Council of State Legislatures. In dozens of policy areas, from taxation to economic development, environmental protection and energy policy, regional alliances of states and provinces are playing a growing role.

De Facto Labor Mobility: Knowledge workers, including those with special skills, are highly mobile and gravitate to attractive job opportunities – regardless of where these may be located, and they are often located in the United States. A survey of Canadian university students recently found that of every 9 Canadian students studying information technology, 8 will emigrate within 5 years to the United States. Meanwhile, Human Resources Development Canada reported this

year that 50,000 high tech jobs in Canada are unfilled for lack of qualified applicants. The lower tuition costs at Canadian universities produce well-educated graduates with a fraction of the student loan debt of their U.S. counterparts, giving young Canadians a key advantage. When higher salaries in the U.S. also beckon, as with health care professionals, Canada faces difficulty meeting domestic needs with the graduates of its schools. Barriers to Canadians coming to the United States are low, yet in 1996, the U.S. Immigration and Naturalization Service reported that Canada was the fourth largest source of illegal aliens in the United States.

Although negotiators did not provide for full labor mobility in either CUFTA or NAFTA, settling for limited provisions covering certain professionals, there is emerging a de facto open labor market where the remaining restrictions are a serious impediment.

Pressure for Public Sector Productivity: Governments across North America are committed to balanced budgets, creating a strong incentive for the public sector to follow the lead of the private sector in improving productivity. By working together more closely, the two countries have the opportunity to achieve greater efficiency and avoid duplication in the conduct of the shared economy. Canada, which must sustain many functions of national governance at levels comparable to those in the United States in order to meet the expectations of Canadian citizens, operates over a larger geographic area with a smaller population and tax base, and so stands to gain from such bilateral cooperation.

At the same time, both countries should consider ways to take advantage of the potential of information technology to reduce the burden of regulation and enforcement activity. This is already being done in the area of customs and immigration. Trucks now transmit paperwork to customs agents at the Canada-U.S. border before they arrive, allowing for rapid clearance of shipments and reduced traffic backups at inspection booths. Shippers participating in the program are spot-checked, and their records are auditable by customs officials, discouraging fraud – since this would result in denial of privileges at considerable cost to the shipper. Similarly, Canada now permits regular commuters to apply for a special pass that allows them to use an automated clearance lane at major border crossings. Commuters are also subject to random inspection, but this program permits immigration authorities to have a precise record of when an individual crosses the border – which is not recorded now except at airports – while the commuter gets cleared for entry faster. Working together, governments in Canada and the United States can develop consistent formats for data that would permit them to share information and benefit citizens by using the same forms for various transactions in both countries.

From *ad hoc* to paradigm

These new economy imperatives and the effects of deepening integration will challenge governments in both countries to adapt. Common – or at least coordinated – approaches offer the prospect of more effective (because of combined resources) and more efficient (because of consistent policies with minimal redundancy) governance in essential areas.

To address the challenges of this new era requires nothing less than a reinvention of the bilateral relationship. At CSIS we are this Fall undertaking exactly this work with a major initiative, to establish the Canada-U.S. Commission for a New Century Partnership. This Commission, to be led by prominent Canadians and Americans, will establish working groups to study and develop specific recommendations in six key areas where the two countries could benefit by working together.

1. *Border Issues*

Customs and immigration policies, environmental stewardship, deepening border enforcement beyond the borderlines through audit and inspection

2. *Infrastructure Development*

Transportation, telecommunications, energy and other critical networks.

3. *Regulation of Markets*

Financial markets, intellectual property protection, competition policy, and electronic commerce.

4. *Macroeconomic Policy Management*

Tax policy, investment incentives, interest rate policy, use of anti-dumping and countervail, and the potential for a customs union or perhaps a common currency

5. *Law Enforcement and National Security*

Transborder organized crime, counter-terrorism, missile defense, and civil defense against chemical/biological/ radiological/nuclear threats, training for military and law enforcement personnel, defense procurement

6. *Public Health and Safety*

Food and prescription drug testing, inspection and approval; air traffic control; health care infrastructure; and environmental protection and cleanup; natural resource conservation

Learning from a Model Relationship

For both countries, the bilateral relationship represents a remarkable success story. The annual surveys conducted by the Chicago Council on Foreign Relations on the attitudes of the American public toward international affairs have revealed that in every year since 1974, when the survey began, Canada was rated as the most friendly and popular U.S. ally. Despite occasional complaints about U.S. insensitivity to Canadian concerns, similar surveys taken in Canada find broad support for continuing good relations with the United States. Nearly two centuries of peace and prosperity, common

experiences (from the Great Depression to the Cold War), and rich networks of family and friends that weave together people on both sides of the border have made these two countries the best of neighbors.

In a very practical sense, this is a model international relationship. For the most part, it has been viewed by people in both countries as unique, owing to factors such as common British heritage, history, language, geography and so on. Yet in the 21st century, Canada and the United States have become rich, multicultural societies far more diverse than they were when they were founded – and yet their mutual goodwill has remained, and even grown. In recent years, the two countries have occasionally used the Canada-U.S. practice for managing an issue or addressing a problem as a model for doing something similar with other countries.

For example, the innovative dispute-settlement mechanism developed by negotiators for the CUFTA was promoted and eventually incorporated in the Uruguay Round negotiations that led to the World Trade Organization. In the negotiation of the North American Free Trade Agreement (NAFTA), the CUFTA was used as an explicit model and starting point for talks with Mexico.

In the years since NAFTA, some U.S. legislators have challenged what they view as a double-standard under which the U.S.-Mexico border is managed in a more restrictive way than the U.S.-Canada border. Many Mexicans, including newly-elected President Vicente Fox, have argued that rather than reduce the openness of both borders to the lowest common denominator standard of the U.S.-Mexico border, the goal should be to improve its treatment to the standard of the highest common denominator of openness along the U.S.-Canada border. This argument makes explicit the value of an “open architecture” for Canada-United States relations in other areas. Rather than continuing to view this relationship as unique, and therefore a special exception from normal international relations, Canada and the United States can use their close working relationship as a model for the improvement of other relationships. Where Mexico is willing to cooperate with the United States in the same way Canada is, similar treatment should be considered. In the North America of two-speeds, the developed-country pace of economic integration and policy coordination can set the standard of openness and interoperability for the developing country partner.

The 20th century progress of trade liberalization is being followed in the 21st century by the new challenges of managing deepening integration that are being fueled by globalization. The Canada-United States model offers both countries with a template for addressing a rapidly-expanding agenda of issues brought to the fore by globalization – and in the charged political atmosphere surrounding globalization, it is a template that has thus far won wide public support. For the Western Hemisphere, relations between North America and the European Union and even Japan it is a relationship worth greater attention.

That is why CSIS is embarking on a major initiative, creating the Canada-United States Commission for a New Century Partnership, which will consider how the bilateral

relationship can adapt to 21st century circumstances and look ahead to where it should be in 20 years time, is a particularly important initiative for CSIS to undertake as part of its global issues research agenda. The lessons of this relationship, and its future prospects, can offer valuable strategic insights into the global foreign policy challenges facing the United States in the new century