

# THE NEXT PLATEAU IN NORTH AMERICA: WHAT'S THE BIG IDEA?



NORTH AMERICAN INTEGRATION  
INTÉGRATION NORD-AMÉRICAINNE

George Haynal

While NAFTA may have over-delivered in terms of trade flows over the last decade, it has under-delivered on expectations for creating a common North American mindset and institution building in a single market, asserts a former senior Canadian diplomat in the US. The delay in moving to the next continental plateau has been prolonged by American security concerns, in the aftermath of 9/11, for secure as well as smart borders. Yet important opportunities are open to Canada within a more structured relationship within a more structured North America, argues George Haynal. Natural resources close to markets provide a significant comparative advantage that needs to be treated as such. Compatibility in Canadian and US regulatory systems allows for greater efficiency through subsidiarity that has yet to be explored. "Demographics will soon make it obvious," furthermore, "that North America enjoys a unique privilege in being the only industrialized region that can draw on a young (Mexican) labour force to supplement an aging one (In Canada and the United States)." Finally Haynal observes that "North American security is a joint need; it should be supplied as a common enterprise. He proposes a four point Canadian agenda for North American integration: regulatory interoperability (particularly of capital markets), natural resource security, integrated labour markets and a continental approach to security."

Si l'ALENA a dépassé en dix ans les attentes en matière de flux commerciaux, il a très peu favorisé la naissance d'un sens communautaire nord-américain sur lequel on misait pour créer un marché unique et des institutions communes. Il faut dire que depuis les attentats du 11 septembre, les Américains sont surtout préoccupés de sécurité et d'« intelligence » des frontières, ce qui a repoussé l'échéance d'une intensification des liens commerciaux. « La sécurité nord-américaine étant un besoin commun, estime toutefois George Haynal, ancien haut diplomate canadien aux États-Unis, elle devrait faire l'objet d'un projet commun. » Il reste néanmoins d'importantes occasions à saisir : « L'évolution démographique montrera bientôt que l'Amérique du Nord jouit du privilège d'être l'unique continent industrialisé disposant d'une population active dans la force de l'âge (au Mexique) pour suppléer au vieillissement de sa main-d'œuvre (au Canada et aux États-Unis). » L'auteur propose donc un programme canadien d'intégration en quatre points : interopérabilité réglementaire, notamment sur les marchés financiers, sécurisation des ressources naturelles, intégration des marchés de l'emploi et approche continentale de la sécurité.

**T**he Canadian discourse on our place in North America had been slow to emerge in the post-NAFTA decade. Stimulated by the concerns raised by the events of September 11, 2001, it has started to assume a clearer outline sometimes, apposing the views of business and academic thinkers. The latter have more often taken a theoretical point of departure focused on concerns about

Canadian sovereignty lost or retained. Much of the discourse has focused on NAFTA and how to change it.

A persistent theme of this theoretically based discourse, and the one on which those living most immediately in the real economy differ most profoundly, is that the "best management" of the North American relationship is "least management."

Some holding this view argue that Canada should stick with case-by-case problem management of Canada-US relations because:

- Case-by-case management has worked well enough in the past and that any other deeper, more structured engagement with the US would likely work to Canada's disadvantage.

The lack of effective (and seamless) regulation for electricity generation and transmission makes all of North America vulnerable to disruptions in vital power systems. If we cannot negotiate a shared approach, it is almost inevitable that Canadian utilities will have to align themselves with whatever rules are formulated for a national grid in the United States.

- NAFTA, the main institutional arrangement now in place, has failed to protect Canada against congressional trade remedies, and that no other likely agreement would be more effective in doing so.
- Lastly, and somewhat at cross purposes, because the United States would not be interested in closer, more disciplined, institutional arrangements with Canada. Trying to advance one would be a costly waste of time and effort.

It might be useful to think independently of this grand debate, by focusing on the real problems in the relationship, and to consider how to deal realistically with them. Let me point to some areas where this sort of discourse could usefully focus: regulation, trade in resources, labour markets and national security.

NAFTA, a trade agreement with a few adornments, is not the right tool for building subsidiarity or managing regulatory obsolescence. We have to find new mechanisms, domestic and multinational, to do so.

A few examples of questionable regulatory dissonance illustrate the point.

Canada, with relatively small local capital markets, has different provincial systems of securities regulation than those that regulate the large pools of capital in the US. The effect of this archaic structure is to handicap Canadian corporations seeking capital and individual Canadians looking for investment opportunities, not to mention the shareholders looking for best

practices in protecting their savings. Significant effort is being made to structure a national level of regulation, thus far without success. But even if this were to succeed, that system would have to be demonstrably superior in the protection it provides to investors if it was to justify restricting Canadians to draw on a smaller pool of capital than that available in the US. It might be more productive now to think not just of establishing a national securities regulator for Canada, but one that operated seamlessly (e.g. through mutual recognition of standards) across the border.

Economic security of supply is one concern. Physical security, particularly with regard to global maritime commerce, is another. A terrorist attack on global shipping is at least highly probable in the coming years. Its consequences are not yet fully understood outside shipping circles, but it is clear that one container being used for the planting of one WMD anywhere will oblige authorities to freeze global flows everywhere.

The existence of different (also balkanized) systems of food and animal health inspection within what is an integrated North American livestock industry has proven to be disastrous to Canadian producers in the BSE crisis. Our decentralized system of inspections may have been effective, though there is no way to be certain. But its separateness from the US sys-

tem has in any event had the effect of crippling our beef export industry by making it easy for competitors in the United States to cut us off from our most important market. Yet both Canadian and American exporters suffered a catastrophic loss of international confidence partly as a result of apparent incoherence in North American inspection systems.

Pharmaceutical approval processes in the United States and Canada operate separately but with virtually identical levels of sophistication and purpose. The differences in procedure are marginal. Joint effort and mutual recognition would

benefit consumers and industry in both countries. Indeed there is no reason why some more intense form of regulatory cooperation (mutual recognition, shared effort, approved in one, accepted in all) should be restricted to the two countries once it is established. EU standards are of an equally high level: a transatlantic regime would be both efficient and effective.

Ownership and other exclusionary rules (such as continuing restrictions on cross-border service) relating to air transport restrict opportunities and can lead to perversions of policy intent.

The forced sale of Canadian Airlines and Air Canada's restructuring from bankruptcy protection are cases in point. The rules barring cabotage might actually harm, rather than protect, competition and service to the public.

The regime of ownership requirements for regulated sectors, such as those relating to air transport, media and telecommunications might useful-



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Two of Alberta's energy resources, oil and wind power, share a field at Pincher Creek. North America's supply of natural resources, writes George Haynal, is unmatched by that of any other region.

ly be re-examined in Canada and the United States. Ownership rules intended to ensure that owners were obliged to be "patriots" seem almost quaintly archaic at a time when multiple citizenship is so available, including to global investors. Perhaps more subtle forms of regulation would be a better way to ensure that pillar institutions respected the national interest.

Rules relating to the mutation in the financial services industry, which have taken radically different directions in the United States and Canada, also fall into this category.

We think of the energy sector as already being uniquely North American. This is far from the case. The lack of effective (and seamless) regulation for electricity generation and transmission makes all of North America vulnerable to disruptions in vital power systems. If we cannot negotiate a shared approach,

it is almost inevitable that Canadian utilities will have to align themselves with whatever rules are formulated for a national grid in the United States.

Regulatory interoperability will also be necessary in non-economic areas, given the challenges presented by globalization.

The safety of public health, for instance, is impossible to guarantee behind national borders in a globalized world. There is no way to ensure a Canadian or a North American immunity against global pandemics such as SARS, nor against threats to public health that might be posed by international terrorism. The only thing that our governments can do is to cooperate among themselves and globally to contain the threats and to ameliorate the consequences. North American governments should ignore the internal borders of North America and establish

shared institutional approaches to the challenge. The success of North American cooperation should also help them to provide leadership in the strengthening of multilateral approaches.

The key is to find where mutual interest can best be served by heightened interoperability in our national systems of economic regulation.

North America's supply of natural resources is unmatched in any other region. This reality should be much more present in the way we think of managing our natural resource base. Global demand for natural resources is set to intensify dramatically (China's growing demands by themselves will change the supply-demand balance radically in the near future). Security should also enter into this discourse. Geographic proximity of natural resources to markets for them gives the North American economy an important advantage in cost and

supply chain management. That privilege is all the more important as uncertainties about the physical security of global supply lines (as of much else) are now a permanent feature of the economic landscape. There is already security in the movement of oil between Canada and the United States. Similar arrangements of mutual security would benefit both countries in managing trade in gas, electricity and minerals, and possibly, if properly structured, in agro-food and building materials, as well.

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One problem in turning the existing resource trade paradigm around is that natural resource trade is, in effect, regulated by the US Congress. It is subject to the same protectionist pressure from special interest as every other sector. But natural resources clearly should be seen in a broader context today. Resources trade should be the subject of mutually beneficial and politically respectful agreement to enhance the economic and physical security of North America.

Rather than just seeking restrictions on the ability of Congress to impose trade remedies against Canadian resource exports, which is likely to be futile, we should seek a mutually satisfactory agreement guaranteeing the free movement of natural resources between us as a matter of economic security for both countries.

One last note on the advantages of protected north/south flows within North America: Though it may seem odd to think of people in the same con-

text as natural resources, the paradigm is similar in the two areas. Demographics will soon make it obvious that North America enjoys a unique privilege in being the only industrialized region that can draw on a young (Mexican) labour force to supplement an aging one (in Canada and the United States). Neither Europe nor Japan will have this demographic cushion to help their inevitable adjustment. We should seek the maximum flexibility in the mobility of people and flexibility in labour markets that go with them to profit from the comparative advantage that this enormous human resource base will increasingly

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give us. The Mexican government has staked much on gaining access to US labour markets for migrant Mexican labour. The problem is more complicated, however, in that it is the highly trained labour that is the most welcome north of the border, but it is that which Mexico can least afford to lose. While Canada is not yet an important partner with Mexico in this area, a basis for useful cooperation is beginning to emerge. There is clearly opportunity here for Canada as well as for the other North American partners.

If the border is seen as America's last line of defence (as many Americans

see it to be), the US will reinforce it even beyond reason. The US is engaged in fighting threats to its national homeland for the foreseeable future. There is no end game to the war on terror, no matter who is in the White House. The protagonists are not states, nor even identifiable. Amorphous threats from global sources will require eternal vigilance on America's borders even by the most liberal and internationalist administration.

Since flows across our border account for over 40 percent of Canadian GDP, and only 2 to 3 percent of what the United States produces, border brittleness is going to impact infinitely more on Canada than on the US. Not only would breakdown of normal border process put short-term trade flows at risk, the shift of expectations about the character of the border will shape investment decisions and other aspects of business strategy in a way that will disadvantage the Canadian economy.

Business has operated for well over a decade on the assumption that the border would gradually be lowered, as in Europe. The decisions they make about the future will be different if they are to work on the assumption that the border will be subject to unilateral decisions, catastrophic events and political mood in the United States.

Canadian decision makers are compelled to continue to engage systematically and institutionally with the US authorities. Otherwise, the latter's determination to protect the North American "homeland" will be exercised unilaterally. That is why anything short of strategic activism on border security amounts to a cession of sovereignty, rather than its defence.

Canada has the choice of being a "deep border" for the United States or to be outside of America's security zone. The only question is how to be that on our own terms.

The obligation to be a "deep border" for the United States is not a new one. We assumed it in 1940 when Mackenzie King and FDR agreed at Ogdensburg that Canada would do its best not to be a (Axis) base for infiltration or invasion of the United States. The United States promised, in return, to defend Canada against external attack. Put less delicately,

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The obligation to defend the North American landmass has become far more complicated now but defending ourselves and defending space that we share in North America still constitutes one inseparable set of obligations for both our countries. So we had better face up to the need not only to defend our territory but also to do it in a way that also constitutes a satisfactory contribution to the defence of the United States.

**G**iven the nature of the threats against our security in the current

environment, the first task is to reinvent "borders." We must exercise the responsibility for protecting our society against external threats where we can do so most effectively, not where infrastructure happens to be in place. That means less of patrolling the land border within North America and more of patrolling the global flows that traverse North America. We need to be as sure as it is possible to be that the containers that transit Canadian

ports contain no threat to the health and safety of our cities and that the flows of people who touch down in our country pose no risk to our security. We must also work with the United States to ensure that the "global border function" is exercised at the global level.

Multilateral cooperation is going to be essential among governments.

But governments cannot do the job alone; effective global borders will also have to involve the private sector that actually manages global flows of goods, people, technology and capital. Doing this is going to be tough; not doing it will be irresponsibly dangerous.

We also need to reorient our defense capacity to focus more on defending our sovereign territory. We should, in particular, reinforce the capacity of the navy and the air force to patrol our coastlines as well as the approaches to North America on the high seas, of our army to protect our

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communities from man made disasters and, more realistically, to help them to cope with the effects after the fact.

We must ensure that the critical infrastructure that serves us and which we share with the United States is protected against threats from terrorism or criminality. North American security is a joint need; it should be supplied as a common enterprise.

We must do our share; if we do not defend ourselves effectively, relying on a framework of values that we define, we cannot well complain if others who are called on to defend us do not do so.

I have set out four items for a Canadian agenda to ensure that we benefit from North American integration, rather than be its passive object.

Regulatory interoperability, natural resource security, integrated labour markets, and a continental approach to security are each going to be difficult to accomplish. Yet each is inevitable in the long term. The way that we get there is what matters. It's

either our way or the interstate.

Reflecting on how to approach such an agenda, it is hard to disagree with those who consider that NAFTA is not up to the task. It is equally hard, however, to agree with those who would therefore conclude that NAFTA is a cause of our insecurity and that we should therefore exert ourselves to roll it back somehow. It is even harder to accept the argument that the best course of action for Canada is to desist from seeking more adequate instruments to protect our mutual interests within North America. It is clear, to me at least, that we must, on the con-

trary, move beyond NAFTA and do so with a purposeful determination.

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