LET'S NOT CUT CORNERS: UNBUNDLING THE CANADA-US RELATIONSHIP

Daniel Schwanen

The United States wants a secure border with Canada. Canada wants smooth trade with the United States. Do we have here the makings of a grand bargain? Not necessarily, says IRPP's senior economist, who sees a mismatch between the short-term nature of the US needs and the longer-term nature of some proposed Canadian solutions involving more market integration. Instead, after "unbundling" the various facets of Canada-US integration, he proposes further steps to define and implement mutual obligations on North American security issues, in return for a commitment to not compromise normal and legitimate mutual access of goods, services and people.

Les États-Unis veulent sécuriser leur frontière avec le Canada, et notre pays veut assouplir ses échanges commerciaux avec son voisin du Sud. Avons-nous ici les éléments nécessaires à une nouvelle entente globale ? Pas nécessairement, car alors que les intérêts américains demandent réponse à court terme, plusieurs des solutions avancées par les Canadiens pour accroître l'intégration économique ne pourront être mise en œuvre qu'à plus long terme. Après avoir distingué les différentes facettes des rapports canado-américains, l'auteur propose d'aller de l'avant avec la définition et le mise en œuvre d'obligations mutuelles sur la question de la sécurité nord-américaine, en échange de quoi les deux parties s'engageraient à ne pas compromettre l'accès normal et légitime à leur marché des produits, des personnes et des services.

Calls for reinvigorating the Canada-United States relationship are a regular occurrence in Canada these days, and for good reasons. The two deeply intertwined economies were hurt by the tightened border security that became necessary after the September 11, 2001 terrorist strike againt the United States. Other measures currently being contemplated by US authorities and aimed at a further reduction of security risks hold serious negative implications for the smooth cross-border passage of products and people, which is of significant benefit to the US economy, but vital to Canada's.

September 11 has thus acted as a spur for many segments of Canadian society to debate the future of the Canada-US relationship. Even before that fateful date, however, the idea that the 1992 North American Free Trade Agreement (NAFTA) had become less than adequate to deal with the extraordinary and multi-faceted gowth in relations between Canada, the United States and Mexico was making some serious headway. In Canada, many commentators and think-tanks wondered about the next phase of economic integration. In Mexico, President Vicente Fox had suggested the possibility of a customs union. In the United States, a book published by the influential Institute for International Economics promoted the idea of a North American Community.

Heightened security concerns were superimposed on these earlier strands of thought about the next phases of integration. Appropriately, the question of how to deal with security issues now figures front and center in the emerging views about the future of the relationship. But while the necessity of linking security and economic integration is obvious, I will argue that there is a danger in assuming that this linkage can, to a great degree, be exploited to advantage by Canada.

This assumption evokes the potential for packages, bundles, deals, treaties or other agreements with the United States that could be readily made to work to Canada's benefit. Indeed, many of the views now emanating from Canada are frankly bilateralist — suggesting that Canada move ahead in redefining its relationship with the United States outside of the confines of the NAFTA or of some broader agreement that would involve Mexico.

But while the well-known adage that every issue is linked in Washington has proven its practical value, this does not necessarily mean that the tradeoffs available between issues are those that one might hope for. In order to better discuss why I think this is the case, and the consequences of such a state of affairs, I propose to "unbundle" the elements of the Canada-US integration discussion into three dimensions that will presently be addressed in greater detail: 1) market access;

2) normative integration concerning standards, rules or laws; and 3) degree of political control over the conditions of both economic and normative integration. These dimensions do not refer directly to results (stronger economy, enhanced security, better democracy), but to arrangements, processes and institutions that provide the backdrop for such results.

The interplay between these dimensions can be captured visually by a cube (see Figure 1). The arrows along the two thick edges at the base and vertically on the left indicate the direction of progressively greater integration along economic and normative dimensions. Namely, from a Canadian perspective: increasingly greater access to the US market and increasing convergence of laws, standards and measures between Canada and the US respectively. The arrow along the third thick edge on the top of the cube indicates progressively higher degrees of control by Canada over the integration process.

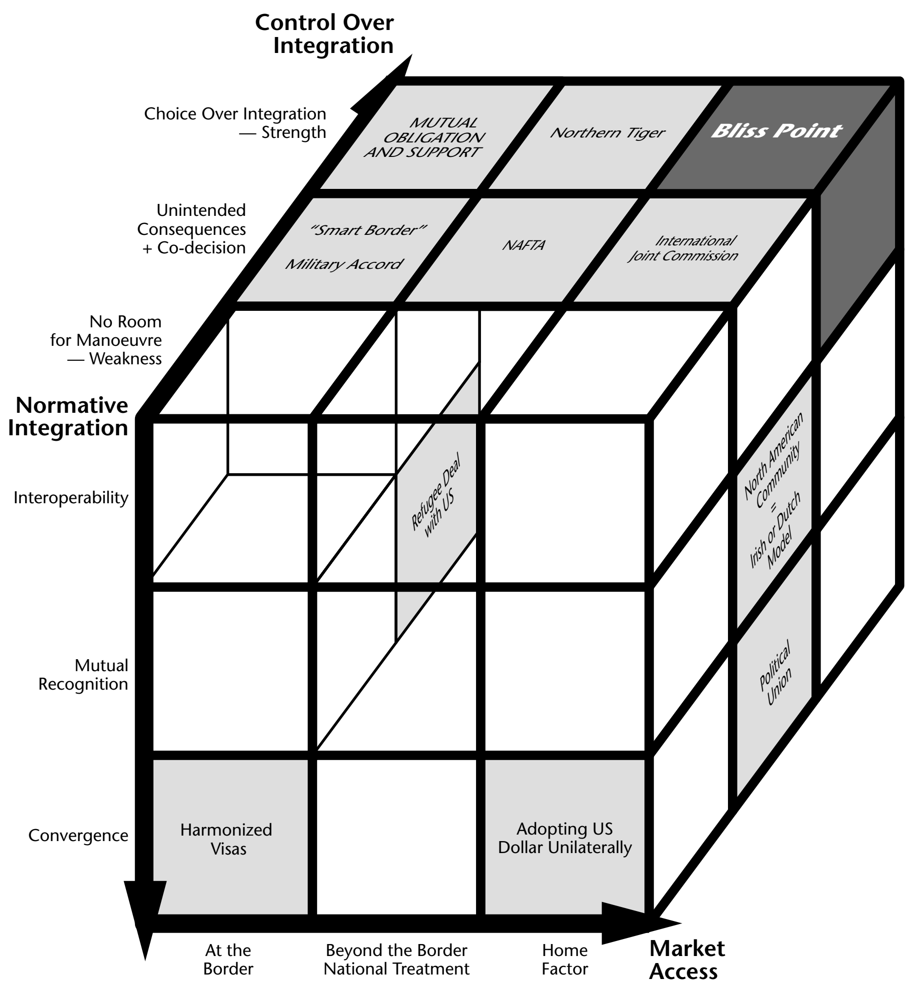
The visual suggestion I want to give here is that there is a fundamental separability but not complete independence between the three dimensions of "having access" to the US market, "being the same as" the US, and "the choice we exercise" in being economically and normatively integrated.

I then posit an "ideal" Canadian situation or "Bliss Point," depicted on the cube, which admittedly is not based on a scientific examination of polling data, but instead is based on impressions gleaned from the extensive literature and proposals concerning Canada-US integration. In this respect, it is striking that *both* pro- *and* anti-integration commentaries tend to hope for and expect favourable treatment for Canadians in the United States market, while referring at the same time to the need to preserve Canada's distinctive policies and norms and its sovereign right to choose. Beyond this basic commonality, sharp differences exist between and within both camps on the tradeoffs involved between these desiderata.

On that basis, I have defined the Bliss Point as consisting of a situation in which Canadians enjoy maximum access to the US market — comparable, say, to what residents in one US state might enjoy in other states — which is characterized by compatibility rather than blanket convergence with US norms, and also allows political control by Canadians over the conditions under which integration, both economic and normative, is occuring. What then needs to be debated is whether any particular policy prescription about North America or Canada-US integration is likely to get us closer to that Bliss Point. In order to do this, it is necessary to examine more closely what is happening in each dimension along the edges of the cube.

As an economist, I hope to be forgiven if I begin with, and devote the most space to, the market access dimension of the relationship. But there is also a deeper purpose in beginning with a relatively long discussion on that front, since it is clear that many who propose a more structured and deeper Canada-US relationship hope above all to capture the benefits of a more economically secure relationship, particularly in the face of greater actual and anticipated difficulties in accessing the US market. And, because the three dimensions of course relate to each other, the discussion on

FIGURE 1
DIMENSIONS OF INTEGRATION



Source: Institute for Research on Public Policy 2002.

the market access dimension will also open the discussion on the other two.

Three progressive stages of access to a cross-border market are depicted in Figure 1: *At the Border* refers to the degree of freedom of physical flows at the international border for products, and people and carriers who require temporary entry for business reasons; *Beyond the Border* refers to the degree to which the rules of the marketplace in one country apply equally (*National Treatment*) and fairly to domestic and foreign products, people or investments in similar circumstances; and what I have labelled the *Home Factor*, consisting in a composite of forces that can result in foreigners being at a disadvantage in the domestic market, for reasons other than distance, even if the physical border is entirely open, and even if the rules of the game apply on the same terms to domestic and foreign entities.

As spectacular as growth in US-bound exports has been, Canadian firms barely made a dent relative to their overseas competitors overall in the huge US market.

That third category of access calls for a more detailed explanation, which will be provided later. For the moment, let us stop at the first two, which although expressed here in very crude form, are otherwise fairly conventional in the analysis of trade barriers. Furthermore, the elimination of these first two types of barriers in most goods and many services sectors was the key objective of the FTA and NAFTA, so that we have a basis from which to assess the impact of the progress already made between Canada and the United States along these two stages of increased market access.

Indeed, the tremendous increase in trade in both goods and services between the two countries since the implementation of the Canada-US Free Trade Agreement in 1989, followed by the NAFTA in 1994, is one of the better-known facts of contemporary Canadian economic life. Analysts generally agree that these agreements significantly spurred trade within NAFTA, although they differ on the extent to which this was the case, relative to other factors such as a booming US economy and a cheap Canadian currency. But the evidence that increased trade has given a boost to Canadian productivity and wages overall is compelling — even if the reduced barriers that permitted the benefits to emerge also initially and painfully exposed the lack of competitiveness of certain firms and types of skills, while other sectors and types of workers reaped substantial benefits.

At the same time, it is striking how, during that same period, questions abounded about Canada's trade, investment, and overall economic performance relative to that of the United States. As spectacular as growth in US-bound exports has been, Canadian firms barely made a dent relative to their overseas competitors overall in the huge US market. Canada's share of world and North American inward foreign direct investment (FDI) fell during the period, contrary to the hopes of many who had hoped for Canada to become a platform for export-oriented FDI in a freer trade environment.

These concerns can be overstated. Relative to most traditional competitors, Canada did well in the US market, while both markets were being swamped with imports from emerging and transition economies such as China's. Canadian dependence on raw materials exports and on intra-firm trade has declined somewhat since the FTA — suggesting a more dynamic economy than before. And Canada's share of inbound FDI remains, after all, higher than its share of world and North American economic activity, despite stiff competition from important markets that recently opened up to FDI all around the world.

But the fact is that Canada fell further behind the United States in terms of productivity and income growth, rather than catching up as many had expected as a result of more open trade. There are also lingering concerns about a Canadian "brain drain" and head office "hollowing out," neither showing up in statistics as a mass exodus of individuals, but both potentially worrisome because representing a net loss for the country in key knowledge and leadership positions. And while the Canadian economy's recent stellar performance in terms of job creation is great news, the competitiveness that underlies it was achieved with the help of a weak Canadian dollar, rather than outstanding productivity performance. Without free trade Canada would have been even further behind, but this consolation might seem rather meagre to some.

These trends have taken place in a context in which Canadian trade and jobs have become more dependent on US trade since the FTA, and the operations of an increasing number of businesses, including of a subtantial number of large Canadian-based firms, have become more North American as well as global in scope. As part of this evolution, specialization between Canada, the United States and Mexico has taken place not as much between industries, as some might have anticipated, as within industries. And in the latter case, often more vertically (different functions in the making of a particular product being performed in different countries) than horizontally (similar functions such as lines of par-

Canadian trade and jobs have become more dependent on US trade since the FTA, and the operations of an increasing number of businesses, including of a subtantial number of large Canadian-based firms, have become more North American as well as global in scope.

ticular product lines being divided between the three countries). Canadian operations are highly integrated in to the North American production apparatus in virtally every industry.

In that context, it is fair to ask how Canada is positioning itself within the North American value chain. The answer depends on the country's attractiveness for various types of functions in terms of skills, costs and adaptability. But other factors may be at play. If it is true that the implementation of the FTA and NAFTA so far has not been as successful as had been expected from a Canadian perspective, then the question is why this has been the case, and whether any explanation can inform our approach to the next stages of integration.

I see three possible such explanations, which are complementary rather than mutually exclusive. The first is that trade is still not free enough. And indeed the expression "free trade" must sometimes feel like a euphemism to many Canadians who wish to do business in the United States, and vice-versa. The NAFTA did a pioneering but still very incomplete liberalization job. This is particularly true in terms of "beyond the border" measures, including those restricting access to service providers and to procurement opportunities, and an array of restrictive state and provincial measures. It is also true of many remaining "at the border" barriers, such as the continued threat of antidumping and countervailing duties, and the paperwork required to prove that one's goods qualify as North American before duty-free status is conferred on them. This last situation is owed to the fact that each NAFTA partner maintains separate trade policies vis-à-vis third countries.

A second explanation focuses on the possibility that domestic Canadian policy is ill-adapted to competitiveness under conditions of closer integration. There is an ongoing discussion in Canadian policy circles around this question, in which domestic policy reforms are seen as key to transforming Canada into a Northern Tiger, or, less evocatively but perhaps more practically, in creating a Canadian advantage. The range of measures that gets mentioned in these discussions will tend to include proposals to improve the efficiency of Canada's tax system and of public expenditures, focus on human capital and innovation, and whether or not to reject Canada's own currency in favour of the US dollar.

It is fair to ask how Canada is positioning itself within the North American value chain. The answer depends on the country's attractiveness for various types of functions in terms of skills, costs and adaptability.

A third explanation concerns the importance of what Canada might be missing by not moving to what on the cube appears as the entire third "tranche" as it is looked at from left to right — labelled *Home Factor*. Let us examine what that stage of market integration might entail. The trade literature has identified "border effects" on trade patterns — the fact that the volume of trade between two entities of similar economic size and separated by an equivalent distance could vary widely according to whether these entities were also separated by an international political border. Thus, it has been shown that trade between Canadian provinces is easier to achieve than trade between provinces and US states.

Domestic Canadian policy is ill-adapted to competitiveness under conditions of closer integration. Policy reforms are seen as key to transforming Canada into a Northern Tiger, or, less evocatively but perhaps more practically, in creating a Canadian advantage.

What is interesting here is that explicit trade barriers between nations are not enough to explain this fact — that is to say, there are other sources of market fragmentation than explicit trade barriers imposed by national governments. While this may seem obvious to those familiar with the retail markets for cars or pharmaceuticals, for example, where firms themselves will try to prevent transactions between different territories from occuring if it is detrimental to their pricing strategy, other sources of fragmentation include consumer preferences for home products, informational barriers, and social and business networks.

In that vein, it should be asked to what extent Canadians firms have a perception problem in the United States that would result in them being treated as foreign even though they are North American — unlike, say, the perception that Germans may have of a Dutch firm as a European firm, and hence integrated into the same polity. This sort of "branding" problem, of which there is at least some evidence, is of a type that would remain even if all traditionally defined *trade* barriers between Canada and the United States were removed. This question is important because, of course, it would suggest that growth-oriented Canadian firms wishing to become North American really must increasingly find a US "voice" in order to be successful in the United States market. And the more these firms operate in an environment in which they must, for strategic reasons, attempt to influence the laws and regulations, standards of the domestic marketplace, and competition and international trade rules that affect them, the higher the inducement to transfer at least some key operations to a US base, rather than operate from a strictly Canadian base. If this is true, however, this might explain the view of Canada as a peripheral location for at least certain types of corporate and perhaps creative activities, and would tend to undermine the benefits that one would expect, in theory, from more open trade and investment.

What do these possible explanations of a Canadian disadvantage tell us about the strategy we should adopt toward integration? Before answering this question below, a brief look at the other dimensions of integration and how they relate to questions of market access is in order.

Maintaining democratic control over decisions that affect us collectively is of course an important good, and questions related to Canada-US integration are no exception in this respect. This observation applies to both the extent and conditions of market integration and to those of normative integration.

I consider here three progressively greater degrees of control over actions or events that have a bearing on Canada-US integration, depicted in Figure 1 : *No Room for Manoeuvre or Weakness* implies a situation of dependence in which undesired changes can be forced upon a polity — in this case the Canadian public; *Unintended Consequences and Co-Decision* reflects, in the context of integration, situations that affect important public policies but also escape the control of a single government, requiring new ways to be managed from the latter's point of view; and *Choice over Integration or Strength* connotes a situation of (always relative) independence over the conditions under which integration might occur. Let us examine each one in some detail.

The first situation, that of weakness, has been described by Harry Arthurs with respect to Canada as being "trapped in North America," as a result of increasingly deep economic integration. One consequence of the latter is that "there is no alternative" to the adoption of more market-oriented (read: US-style) policies and a retreat from activist government. According to this view, the two other tranches across the top of the cube, which imply a degree of control over integration and its effects, are shrinking fast.

Apart from the obvious geographical and economic facts that demand constant attention to make the Canada-US relationship work well, I think that this view is selling Canada's capacity for choice tremendously short. Even when greater access to the US market requires greater reciprocity of access or some form of convergence to the rules of that market — as was clear in electricity and, it seems, will be necessary to resolve the lumber and wheat disputes — the question, as put by Tom Courchene and others, is whether legitimate Canadian policy objectives must be compromised by these changes, or whether they only restrict certain policy tools while allowing public policy objectives (e.g. regarding energy supply, farm incomes or support of small communities) to be pursued through others. If the latter, then certain normative changes for the sake of secure market access may not cost us in terms of control and hence may bring us closer to the Bliss Point.

It is clear that many choices made entirely willingly by Canadian governments over the years, have had the effect of diminishing Canada's capacity for choice.

In the meantime, it is clear that many choices made entirely willingly by Canadian governments over the years, ranging from those resulting in greater national indebtedness to those leading to a weak knowledge of Canadian history among students, and from those that have resulted in a strained military to others that have neglected urban infrastructure, have had the effect of diminishing Canada's capacity for choice. Such diminished capacity is often blamed here and in other countries on international economic integration, but is often the result of poor policies under full domestic control, as Linda Weiss has shown in the *The Myth of the Powerless State*.

Apart from past neglectful policies, international (and domestic) agreements willingly entered into by governments to enhance the common weal and other natural, legal and budgetary constraints, the one key area in which Canada's room for manoeuvre is limited is political: the bilateral border must not be seen as a threat to the security and other domestic policy objectives — such as drug enforcement — pursued by the US government. Being seen as a conduit through which US law can be broken would truly "trap" Canada and reduce our room for manoeuvre, because very legitimate US actions to redress that perceived threat could affect the openness that is the basis of Canada's prosperity. I will return to the consequences of this limit on our room for manoeuvre below.

Under the label *Unintended Consequences and Co-Decision*, I have tried to capture situations evolving in directions that at least one government did not intend, and that require a measure of co-operation on the part of the other in order to be solved. This may simply involve issues that, by their very nature, require a measure of joint or co-decision with other government or sub-federal governments or agencies to be effectively managed. The management of lake and river systems along the border through the International Joint Commission, the NAFTA Commission for Environmental Cooperation, and the increasing role of meetings of US state governors with their neighbouring provincial counterparts, are examples of co-decision reinforcing the benefits of integration.

Less happily, this facet also reflects the need for governments to deal with the unintended consequences of past decisions made on integration. One example is the attempt to modify language in the NAFTA that protects private investors from another NAFTA country from treatment at the hands of government that is both unfair and detrimental to them or their investment. The initial language was seen by many as threatening to unacceptably reduce governments' regulatory room for manoeuvre, and the new language can be seen as an attempt to reassert government's legitimate regulatory role. Of much greater immediate import, the previously underappreciated linkage between cross-border trade and people movement and potential security concerns has led to an ongoing scramble by public and private officials for means of securing the benefits of free flows across borders, while addressing paramount security concerns.

In this respect, the experience so far has suggested the enormous value for Canada of being ready with practical solutions to the problems raised by its neighbour, as, for example, with the Smart Border Declaration, long in preparation but whose time had come after September 11. A more intelligent border is one in which a systematic reduction of risks of illegal activity has already been significantly addressed before it reaches it, for example, through pre-clearance of shipments or information sharing. It allows border personnel to focus on potential security threats and other illegal activity. These types of initiatives are not only economically beneficial (a key Canadian concern), but they also in effect make the border more secure from illegal activity — a mutually reinforcing protection of security and sovereignty. Similarly, there is the military accord with the United States announced in December 2002 that provides for both countries' US troops operating in the neighbouring country under command of the host government when necessary, to address a threat to either country. The lesson, thus, is that Canada must be prepared to anticipate legitimate US needs with respect to the relationship, and help solve them in a mutually acceptable way.

However, because of Canada's relatively greater dependence on the relationship, we must devote relatively more resources than the Americans in anticipating bilateral problems, although as many observers have noted, Canada can also "lever" the interests of powerful sub-federal or private US constituencies with close links to Canada, into a voice that counts in Washington when such a voice is needed. Conversely, of course, as noted by Denis Stairs in a recent conference in Halifax (Borderlines), we are still vulnerable to a US political system in which Canadian interests can be sideswiped by a few influential people in Washington who either believe that the security of the United States can be threatened from Canada's territory or by its residents, or wish to make political capital out of that perception. It is not very material for us that such beliefs occasionally appear to be used by some as a political fig leaf, hiding the still large weaknesses emerging in the US own security apparatus.

If we are not pro-active on the perception front, there is a risk that Canada's capacity for co-decision and dealing with unintended consequences on its own terms will erode — a definite slip back in terms of room for manoeuvre. On the other hand, if we managed to make a significant gain on the perception front, we would enhance our capacity for choice over the conditions of integration along the normative and market access dimension. To the extent that this state of affairs is reachable, it also involves making *domestic* policy choices that are the mirror image of those, briefly outlined above, leading to a state of dependence. Enhancing both the image and the reality of Canada as a reliable and strong partner would make us a more attractive partner, enhancing our capacity to influence the terms of integration.

The very fact that normative integration merits a separate discussion will be puzzling to those who argue that if some Canadian norms become more like those in the United States, it is because it we have no choice, for example, because these norms are somehow forced on us by market integration.

On the contrary, the degree of normative integration required by the NAFTA, for example, is minimal, both in the text of the agreement itself and in its effects. There is almost no serious literature linking economic integration to, for example, a convergence between Canada and the United States toward lower environmental or social standards. Canadians can and often do choose, or at least advocate, the adoption in Canada of superior norms to those that might be in effect in the United States, or in certain parts of the United States, with respect to the environment. But this is only because these standards apparently are better for Canada.

As I have argued elsewhere (*Policy Options*, November 2001), what is more suitable in the Canada-US context is to ensure that opportunities for what, in Figure 1, is labelled *Interoperability* — the quality of two separate systems that need to work together when it is mutually beneficial to do so — are not missed. While interoperability requires, in practice, information-sharing protocols, minimum standards of treatment and transparency, and an effort to eliminate unnecessary duplication, it does not require convergence to the same substantive norms when those would be ill-suited to the needs and preferences of one of the integrating parties. The agreements reached between Canada

While interoperability requires, in practice, information sharing protocols, minimum standards of treatment and transparency, and an effort to eliminate unnecessary duplication, it does not require convergence to the same substantive norms when those would be ill-suited to the needs and preferences of one of the integrating parties.

> It would make little sense, as long as the countries remain politically independent and hence as long as Canadians have no say in policies that apply in the US, for Canadians to give up the flexibility of the policies they have, if they are better adapted to our needs.

and the United States on the Smart Border and on cross-border military cooperation do fall into that interoperability category.

A subsequent stage of normative integration would consist of a *Mutual Recognition* of standards, as practiced in the European Union. This implies that parties to integration formally recognize that, while their standards — of qualified personnel, of information, of health or financial services — may differ, they are high enough across the entire integrating area that flows across borders do not threaten the legitimate policy objectives of any of its constituent parts. In some respects, the recent so-called safe third-country agreement on refugees reached between Canada and the United States last year is one such agreement, since it involves both parties declaring that, for all intents and purposes, the other's policies meet their minimum standards, in this case for refugee treatment.

In general, however, there is no need to consider a full *Convergence* of norms between Canada and the United States as a sine qua non of economic integration between them, unless there is a desire to move so far along the market access axis that some form of common political decision-making between Canada and the United States is envisaged. Without this political link, there is in any event no guarantee that a general thrust toward convergence with US policies and norms would guarantee us greater market access. On the contrary, it would make little sense, as long as the countries remain politically independent and hence as long as Canadians have no say in policies that apply in the US, for Canadians to give up the flexibility of the policies they have *if* they are better adapted to their needs. There is a lively literature about the benefits of regulatory competition that support this view. Instead, Canada and the United States should probably learn more about how to operate in the same way that economic links between US states or Canadian provinces operate, in providing a fairly low degree of friction in accessing each other's markets, in spite of sometimes large differences in norms and policies.

Security threats that emerged so powerfully after September 11 have had the effect of adding significant tariff and non-tariff barriers on Canadian business with the United States. These threatened to undo not only the gains of the FTA and NAFTA, but also expectations of future economic benefits stemming from, among others, the greater mobility of people necessary to tap the fast-growing and high-value-added market for business services.

As mentioned, it is often argued in this context that Washington would be sufficiently receptive to Canadian overtures toward a comprehensive deal aimed at much smoother border passage and trade flows more generally, if these were couched in terms of US security interests. How should this strategy be seen in light of the above discussion on the three dimensions of the relationship?

There is certainly an intellectually compelling argument Canada must continue to advance: that the smarter the border is, the easier passage for legitimate transactions and the more secure that border actually is. However, achieving a pre-September 11 degree of openness at the border remains a politically daunting task in Washington, let alone obtaining from the US a reduction in trade barriers such that the need for border checks would actually fall relative to their pre-September 11 levels.

In this respect, the list of what Canadians wish to achieve in terms of a more open border often sounds depressingly like what we could not obtain the last time we negotiated a comprehensive deal with the United States: the removal of many barriers that continue to exist for essentially political reasons. What are the chances that a formal deal with the United States will remove these barriers, in exchange for a more secure Canada, which the United States has the right to expect from us as a friend and neighbour anyway? Even in the writings of US commentators knowledgeable and sympathetic about Canada, it is hard to see that there is much hope in this respect, let alone in an even grander project such as a customs union, if the latter were to give much say to Canada over US policies.

Such a proposal might work if Canada sweetens the pot economically with some greater access to its own market, along with other forms of economic security for the United States. And many Canadian proposals suggest just that. But it can hardly be said there is a Canadian consensus concerning the domestic policies Canadians would be willing to give up in exchange for smoother economic integration with the United States. The proposal might also be downright economically inefficient, like the view that the US should be lured by the development of Canadian sources of energy beyond more compatible standards or what the market would provide.

Many of these discussions on market access do not address even bolder strategies that Canada may want to contemplate in the future, broader agreements such as the North American community idea, which could potentially ensure Canadian firms get the full benefits of "home treatment" in the US market. They also do not explain how Canada will engage its other NAFTA partner, Mexico, a country of economic and strategic importance that rivals Canada's. What needs, therefore, to be said about the various ideas that would strive to move us to the right along the "market access" dimension of the cube, is that they require more time and more reflection.

We do need to engage in this exercise, to be sure. Our dependence on the US market requires us to keep looking for rules that would make the North American market as a whole increasingly subject to commonly accepted rules of trade. Canada needs a medium-term integration strategy in this respect, but the first step toward it consists in being better prepared to explore a range of alternatives, including thinking about how to do this given the size imbalances between the two countries. Fuller legal comity and exchange of observers between key Canadian and US public institutions are useful ideas in this respect.

But focusing on these questions might seem like a case of fiddling while Rome is burning. Disruptions at the borders remain the most immediate September 11-related threat for Canadians. Put a different way, they are a large short-term liability that some of the proposals currently on the table attempt to deal with by accumulating more long-term assets in terms of access to the US market. But if we do not deal directly and quickly with the mismatch created by the short-term liability, even the benefits expected from NAFTA or from "Northern Tiger" type policies will come to naught.

Disruptions at the borders remain the most immediate September 11-related threat for Canadians. Put a different way, they are a large short-term liability, that some of the proposals currently on the table attempt to deal with by accumulating more long-term assets in terms of access to the US market.

In short, the current security-related crisis in the United States must be addressed head-on and in a positive way, helping to solve not only any objective US problems with security risks, but also dealing pro-actively with any perception of problematic Canadian trustworthiness as a security partner. The idea, then, would be to create a community of mutual obligation and support, which entails the maintenance of certain access privileges (e.g. for goods, people, transporters) and improved branding, but no new trading privileges per se.

In order to do this, Canada needs in part to continue to do what it has done so far — adopt measures that will be helpful to the United States, while giving up the least amount of political control. It should augment these initiatives, and bundle them in a way that the US could reciprocate by undertaking in the future to allow smooth passage at the border. This would get us as close to the Bliss Point as is immediately possible, in the upper left hand corner of the cube (supporting the existing positive effects of NAFTA and the "Northern Tiger" strategy), while leaving major long-term initiatives for a more suitable time.

These types of commitments are nothing new to Canada — we contribute to US security through export controls of militarily critical products, and through the North American Air Defence Command, or NORAD. Only now the concept would become more general. It would mean that, as a first approximation, Canada would do its share to protect Americans, exactly as if they were our own citizens under similar perceived threats. As a second approximation, Canada should take every step to ensure, more generally, that US law is not broken from this side of the border. A final and important component of that strategy would be for Canada to secure, from an authoritative but non-political US source, an audited "readiness" label that the US administration would recognize and undertake to use to ensure that any new security measures would not compromise normal market access from Canada and by Canadians, as outlined in formal trade agreements and established practices.

Commitments under this agreement can and must be reciprocal. There is no need here for Canadians and Americans to adopt each others' laws — or foreign policy — for the sake of harmonization. Rather, the issue is making sure that any negative impact on a neighbouring country is taken into account and, more than incidentally, that the North American security burden is shared appropriately. This initiative may include a type of North American equivalent to the European Schengen Agreement, as I outlined in the November 2001 issue of *Policy Options*. I would surmise that such an initiative could garner more spontaneous public support in Canada that plans focusing on more long-term economic integration.

Perceptions that security threats to the US may come from Canada will always be poisonous to economic relations. But attempting to trade off a reduction in these threats against greater market access into the US is a questionable strategy. Canada may not have time, before many security-related decisions are in effect taken by others, to work out the strategic and technical considerations — not to mention due democratic consultations — inherent in such an exercise. But we do have time to work on showing Canada's trustworthiness and otherwise improve the perception of its "brand" in the United States. The priority should be on what can be done.

Daniel Schwanen is Senior Economist at the IRPP. This article is based on a forthcoming Choices paper in IRPP's "Canada's Options in North America" series.