

# **Seizing the Wartime Opportunity: September 11th Six Month After and the Canada-US Relations**

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## **Introduction**

Six months after the shock of the September 11<sup>th</sup>, there is much to suggest that it will indeed bring the major transformation in Canada-US relations that many observers concluded would come in the immediate aftermath of the attacks. In the world at large, America's sudden singular new preoccupation with security seems intact, with America still at war in Afghanistan, with Bin Laden and Mullah Omar still at large, with President Bush's State of the Union Address threatening war against the evil axis, and with his budget promising historic increases in military spending and homeland defence. North of the border, the Chretien government has now gone to war alongside the United States in distant Afghanistan, increased its own defence and security spending, promised new foreign and defence policy reviews for a post September 11<sup>th</sup> world, and remains open to U.S. proposals for an attack on Iraq and a new North American defence command covering air land and sea.

At the same time, a quick look at the economic relationship at home suggests that the war is now over, if in fact it ever began. The physical closure of the world's most intensely traded border, especially in the critical auto sector, lasted only two weeks. Apocalyptic predictions that US and foreign investors would put all of their future plants in the US

rather than in a NAFTA-opened but now newly cutoff Canada and Mexico have not been realized as the months have passed. Within the United States, with the mid-term Presidential elections looming, politics as normal has quickly returned, as America's most popular President ever has failed to convince Congress he needs a stimulus package to reverse the macroeconomic slump which the terrorist attacks brought. Meanwhile, up in Canada, Jean Chretien is doggedly focusing his capstone event of the year – the June 2002 Kananaskis G7/8 Summit - on the distinctively Canadian issue of poverty reduction in Africa, rather than the American favorites of combating terrorism and generating global economic growth. In the trade sphere both countries have joined to take bold new steps toward open borders by giving birth to the long delayed new round of multilateral trade liberalization negotiations at the Doha ministerial in November 2001. And President Bush has finally got the House of Representatives, and soon Congress, to give him the trade promotion (formerly fast track) authority, that his predecessor was long denied. Opening America's borders for economic security, rather than closing them for physical security, seems to be the new mood and momentum in the United States.

This curious juxtaposition of war in the wider world combined North American economic normalcy certainly contradicts the two dominant scenarios offered by the conventional wisdom immediately after the September 11<sup>th</sup> attacks. The first and most popular was that of “**terminal transformation**” – a permanent move toward a United States as a security obsessed garrison state that would easily close the northern border it had been steadily opening for the past sixty five or at least sixty years. The second view, offered by Prime Minister Chretien, was that of “**temporary tempest**” – an America that would work itself

up into an immediate militarized frenzy but, with its short political attention span, would be unable to stay the course, take any casualties, and quickly revert to business as usual, in both the political and economic senses of the word.

As each of these scenarios continue to have their claim on current analyses, it is necessary to take a close look at each against the evidence of the last six months. This review will show that neither in itself is convincing, suggesting that each is premised on a fundamentally false view of how the United States and consequently the Canada-US relationship really works. This conclusion remind us that the current configuration of Canada and the US going of to war in the wider world, while continuing, indeed intensifying, freer trade at home, is exactly how the Canada-US relationship has worked for the past eighty-five years. For waging war together in the wider world offers opportunities for improved integration at home, on terms favourable to Canada and its sovereign desires. The current moment offers opportunities over the medium term to improve Canada's economic relationship with the United States, with Ontario and the automotive industry at its center, if both Canada and the United States continue to work together to provide the required leadership in the wider world.<sup>1</sup>

## **1. Terminal Transformation**

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<sup>1</sup> For a rich inventory of specific suggestions see Canada, Standing Committee on Foreign Affairs and International Trade, *Canada and the North American Challenge: Managing Relations in Light of the New Security Environment*, Preliminary Report, December 2001, and Canada, Standing Committee on Foreign Affairs and International Trade, *Toward a Secure and Trade-Efficient Border*, Report of the Sub-committee on International Trade, Trade disputes and Investment, November 2001.

This optimistic argument has thus far been submerged by the still dominant scenario of terminal transformation that is so well known to everyone, so intuitively familiar and emotionally appealing that is seldom subject to critical review. The conventional wisdom begins with the assertion that the September 11<sup>th</sup> attacks changed everything and did so far more pervasively and permanently than the attacks on a distant US military base at Pearl Harbour did in 1941. If that historic limited attack led the US four years later to initiate nuclear war on Japan, the September 11<sup>th</sup> premeditated mass murder of innocent civilians in America's commercial and cultural heartland, and of military personnel in the undefended command center of America's national security establishment was a shock far beyond the historic scale. September 11 would thus lead a permanently and unanimously mobilized America to relentlessly wage war of a global scale, to "pay any price, bear any burden" and go anywhere to succeed. With an underlying military capability and economy so "hyper-hegemonic" such an obsessive America could easily afford to go to war anywhere without inconvenient allies, and close off its border to a Canada even if none of the September 11<sup>th</sup> terrorists actually used the country to invade the US. Seeing such an autarkic America enduring forever, global investors would put all their new plants within the new fortress USA. Canada would be left with two unappealing choices – deepening integration and policy harmonization on American terms, or futile attempts at diversification in a world where, unlike the 1970's, the U.S. is the only economy of any real appeal. Brutally terminated would be the special Canada-US relationship, the emerging NAFTA centered North American community, or Canadian sovereignty itself.

This scenario has accurately predicted that 1970's style diversification will not return as an option, even though a closed United States could allow Canada to recapture its trade with other countries that has long been transshipped through the United States and its warmer, more well developed ports. Indeed, during the most recent Team Canada mission to Europe, with both Russia and Germany at its epicenter, Prime Minister Chretien's main message was that Europeans should invest in Canada precisely because it offered guaranteed assured access to the golden, goldilocks United States. That he could make this claim with any credibility flowed from the striking fact that six month after September, and absent any real moves to deeper, sovereignty compromising integration, the border had again become almost as open as it was on September 11<sup>th</sup>.

The transaction costs of enhanced inspection at the border remain real. But here September 11<sup>th</sup> is bringing new action to implement the plans, such as pre-clearance for commercial cargoes and new infrastructure, that were identified as desirable before September 11<sup>th</sup> arose.<sup>2</sup> Canadian exports in defence products are starting to increase, and will continue to do so, with the ballooning defence expenditures in a Washington where neo-liberal no-deficit convictions have been abandoned with ease. As the existing Keynesian fiscal stimulus and lagged monetary stimulus takes hold, and America returns as the one G8 and global locomotive growth leader, Canada's export oriented economy should benefit across the board. Soaring American demand combined with integrated production and Canadian social policy and low dollar based competitiveness, should easily offset the increased border transaction costs. The September 11<sup>th</sup> stimulus to

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<sup>2</sup> Canada, Department of Foreign Affairs and International Trade, *Canada-U.S. Partnership: Building a Border for the 21<sup>st</sup> Century*, CUSP Forum Report, December 2000. See also Canada, Policy Research Initiative, *Rethinking the Line: The Canada-US Border, Horizons Volume 3, March 2001*.

reduce the border inconvenience could soon leave Canada even better off than it was on September 10th.

This reality is being recognized by rational investors, who even in the immediate aftermath of September 11th has unleashed no panic driven “race to the bottom” in their decision about where to invest within northern North America. The recent cutbacks in Ford’s Canadian production were fully accounted for by corporate misfortunes and by the political need for Canada to take its proportional 15% share of the reductions. The fact that Mexico appears to have hitherto escaped its proportional reduction shows that no September 11<sup>th</sup> effect exists. Rather Mexico has escaped because it was able credibly to promise Ford that its trade policy would soon produce a free trade deal with Brazil under which Mexican-built Fords could be competitively shipped into the lucrative Brazilian market.

The obvious lesson for Canada is to practice more vigorously the Chretien version of Canadian diversification – by concluding bilateral free trade agreements more rapidly with ever more and larger countries abroad, with number two Japan itself as the near term goal.. Canada’s experience with Chile proves the point. U.S. fast track and its own looming bilateral deal with Chile underscore the urgency here. Closer to home the immediate opportunity it to seek, secure and properly fund a modernized Defence Production Sharing Agreement with the United States, in which the old ITARs disputes would be prevented and in which Canada’s information technology industries, and

provincially stewarded domestic security industries, would have a completely secure place.

## **2. Temporary Tempest**

What then of the second scenario of “temporary tempest”. Despite its initial sponsorship by Jean Chretien, in broad terms it is proving to be as inaccurate as that of the apocalyptic terminal transformation alternative. But its evidentiary puzzles also point to some promising policy prescriptions.

This second scenario began with the argument that September 11<sup>th</sup> was nothing really new – just yet another enhanced version of a sequence of terrorist attacks on American military personnel that began in Lebanon in 1983 and that had come to New York City a decade later in 1993. The response this time would be proportionately larger - firing off more than a few futile cruise missiles – but otherwise essentially the same. The US would do the easy and safe things – ridding Afghanistan of the Taliban. But the long hard job of ridding the world of the terrorist network and their present and potential states sponsors, giving Afghanistan a functioning national government, and taking continuing combat casualties to do it, would soon run up against the post Vietnam, 1983 confirmed historical constraints. If the US really wanted to get Bin laden, the argument goes, they would have sent the “first team” of real American forces in full force into Tora Bora and taken the combat casualties required to get the job done. Bill Clinton’s cruise missiles are just like

George Bush's Daisy Cutters in this respect, providing the air cover while the Vietnamese/Afghani local allies are relied upon to do the work on the ground. Canadians, led by their Prime Minister, would breathe a sigh of relief as these post-Vietnam confines became apparent, for they felt that the real problem was always the unilateral militarized instinct to overreaction on the part of an unrestrained United States, and one that would infect Canada's multicultural harmony at home.

The evidence suggests, however, that no rapid return to normalcy is in store. Although few average North Americans are now as obsessed with CNN-like September 11th stories as they were in the anthrax and rumour laden months following September 11th, the psychological effects have entirely not worn off in the United States. The expenditures for Olympic security, new terrorist alerts that authorities act on, and the murder of reporter Daniel Pearl show September 11<sup>th</sup> still has a hold on the America media's and thus mass citizens' minds. These facts, together with an Al Quada and Taliban leadership still at large, enable President Bush to highlight the war effort in his State of the Union address and to advance his ambitious military budgetary requests. At a bare minimum, only with the capture or confirmation of death of Bin Laden and Mullah Omar and all their ranking lieutenants can Americans feel that the war is over. But until Afghanistan itself is securely under the full control of an American friendly government, the real sense of danger will remain. Even without hard evidence about Iraqi complicity, Americans now have a firm belief in the dangers of unfinished business, of bringing the troops home before the full job is done.

As importantly, Canadians themselves have also come to understand that the war has just begun. The federal government has wisely left the door open to Canadian support for an participation in a future attack on Iraq, should the evidence and logic suggest this is the wise course. The polls suggest the Canadian people are even ahead of their government in this respect. As Canadians have already in the past fifty years gone to war against Iraq and North Korea, and sprinted besieged American diplomats out of the Iran when the current fundamentalist regime seized power, there should be no real doubt about whose side Canada is on or what it might do in a confrontation with the entire “axis of evil.”

The new government foreign policy and defence reviews, premised on the primacy of September 11<sup>th</sup> in producing a new world, will keep Canadians focused on this enduring danger. They might even lead to the inverse of the result of the last review. Those 1994-5 reviews promised full strength combat capable forces able to fight with the best against the best, but the government subsequently funded enough for only a poorly armed constabulary dependent on others for airplane rides to the front lines. The new reviews could produce a doctrine of “smart security,” with a new generation of spending to bring it to life. Here the path has been set by Paul Martin, who is intent that the new December defence spending not be a one time Keynesian stimulus but smart investment that breeds the permanent productivity increases that Canada needs. The analytic challenge is to identify the new generation of leapfrogging technologies that produce short term security from terrorists at home and abroad, and that can fuel the Canadian economy into the medium term. Here one might ask what is the plan for developing Ontario’s new generation defence industrial base?

A second opportunity, that has been enhanced by September 11<sup>th</sup>, is further North American energy integration. This might appear to represent a return to pre-September 11<sup>th</sup> normalcy, when California was gripped by an energy crisis and George Bush in a close presidential election race. But the President was always focused less on California itself than on Mexico and America's energy security in the face of unstable suppliers such as Venezuela and the Gulf states.<sup>3</sup> September 11<sup>th</sup>, and the threat of an attack on Iraq, will enhance this interest and opportunity. The return of vibrant economic growth in the US will give it additional force. The challenge is to identify how this renewed Presidential interest can be broadened from oil, gas and tar sands crude to the forms of energy that Ontario can produce.

### **3. Seizing the Wartime Opportunities**

Such evidence and the logic behind it should turn attention toward a third scenario – the way in which times of war will again, as they always have, open opportunities for further Canada-US economic integration on terms favourable to Canada. From the Hyde Park Agreements of 1941 to the present post cold war, globalizing world, this linkage has always been in effect. Indeed, it can have an enhanced appeal in the future, as globalization has made America much more vulnerable than before.

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<sup>3</sup> John Kirton, "A Continental Energy Policy" in David Rudd et al., *Playing in the Bush League: Canada-US Relations in a New Era*, (Toronto: Canadian Institute for Strategic Studies), pp. 41-48.

America's new vulnerability was shown by the American failure to deploy SAM's around the Pentagon to prevent the Al Qauda attack that the Italians has successfully deterred at the Genoa G8 Summit a mere two months before. They are quickly discovering that all-American homeland perimeter security is an impossibility for a country as geographically, economically and physically open as the USA.<sup>4</sup> They will soon discover that their new defence buildup and broad economic will require easily access to the Canadian components of their costly to replace supply chains. Such facts will compel them to seek outward looking, liberalizing responses to solve their long term, comprehensive security challenges. And here Canada will be first in line in the list of potential new partners.

Here the first Canadian response is to construct a comprehensive inventory of where – from energy supplies to defence components – Canadian components are physically and economically indispensable to the United States, and to make the full extent of this known to those in the US, and investors abroad. A second is to identify ways where September 11 can produce further nation-building moves as a foundation for continental partnership, such a creating a single all Canadian center for securities regulation, if only in the name of combating terrorist finance. A third is to identify ways in which the NAFTA machinery, largely unused in the September 11<sup>th</sup> aftermath, can be put to use to ensure and enhance Canadian access to the US.<sup>5</sup>

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<sup>4</sup> Stephen Flynn, "America the Vulnerable," *Foreign Affairs* 81 ((January/February 2002): 60-74.

<sup>5</sup> John Kirton, "Resusitating defence and foreign policies," *Canadian Speeches* 15 (November/December 2001): 27-29.