



## Bilateral Security Relations and Canadian Prosperity

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In the next 10-to-15 years, the odds are that Canadians will experience new terrorist attacks in North America and new border security requirements that affect movements of goods, people and, by extension, services. While some Canadians may be indifferent or even hostile to U.S. policies and politicians, Canada's prosperity will depend in large part on its ability to continue to capitalize on its geographica

The need for secure access to the U.S. market motivated Canada to pursue a bilateral free trade agreement with the U.S., followed by NAFTA. But the attacks of September 11, 2001, jeopardized the relatively predictable — albeit imperfect — access gained under those agreements. The U.S. effectively embargoed its own economy by virtually shutting down its borders and later adopted a series of new security requirements, many of them at border crossings.

Canadian officials tempered some of the negative economic consequences of the new measures by promoting a risk-based approach to security under the Smart Border Accord. Among other activities, the two countries expanded their joint program for facilitating low-risk travelers and established the joint Free and Secure Trade (FAST) program for fast-tracking cargo. Canada also secured exemptions for its citizens from the U.S. VISIT program, which requires fingerprint scans at United States entry and exit points, and fought to tone down advance notification requirements at the border. Ottawa developed a national security strategy and created a counterpart agency to the U.S. Department of Homeland Security, measures likely to improve trust and make U.S. decision makers more aware of Canadian interests. Despite these efforts, many U.S. decision makers still view the border as a front line of defense, and Canada's economy is still vulnerable to existing and potential security-related border restrictions — and the repercussions of another attack.

## **Issues**

As new threats unfold and Canadians determine how best to approach security as part of a shared regional economic space, they should consider the following:

*Canada has a large stake in regional security.* Security is not just a domestic issue; security risks in each country directly affect the other. When the two nations act individually, they may not take into account the effect of their actions on the other country, making clear the need for joint action in their mutual interests. From an economic viewpoint, trade and investment thrive in predictable and secure environments. With a relatively small, open economy, regional stability is critical for Canada. And with limited resooach security .0.000fi to existe5 -s r.002.00-0.00kcurity under the Smtual in33.215 -1.15 TD(W)

—Large parts of Canada's trade depend critically on predictable access to the U.S. economy. Manufacturing industries in Ontario and Quebec primarily use just-in-time (JIT) inventory management, a system in which goods must be delivered within hours of order. Uncertainty forces companies to carry more inventory, nullifying the increased competitiveness that JIT provides. Other Canadian exports, such as fresh seafood from the Maritime provinces, are also time sensitive and highly exposed in the event of border crossing uncertainty. Not only that, a significant proportion of trade takes place in intermediate, rather than final, goods (one-third of Canada's

interest, Canadian decision makers start with a number of givens. For example, Canada cannot choose to pursue bilateral initiatives that do not meet U.S. interests. The fact that Canada is highly integrated with the U.S. and with global markets is unlikely to change in the next 10-to-15 years. And there are probably going to be more terrorist attacks in North America. Decision makers' choices must be rooted in these realities.

Canadians must first determine what price they are willing to pay for security. Strengthening security — whether unilaterally or through coordinated action with the U.S. — can have an infinite cost. And other desirables, such as economic prosperity and civil liberties, can be eroded if security is pursued to the limit. Decision makers should also consider who should pay for security enhancement and cooperation — the private sector, governments, or both. And should industries or modes of travel that present relatively greater security risks have to bear greater costs?

Next, Canadians should determine which approach to security relations best meets their national interest. That decision can involve looking at a continuum of choices, ranging from acting unilaterally to maintaining ad hoc bilateral security relations to pursuing a much more integrated approach to security. Ad hoc relations might involve incremental improvements in the status quo that improve security and flows strictly at the border. That approach might require increased spending on staffing, infrastructure, new crossings and tighter border security measures. Or it might lead to increased investor locational incentives to offset border crossing costs.

A more integrated approach might focus on joint inspections at entry into North America, with random and intelligence-based inspections, as well as post-audits, rather than continued routine checks

deeper bilateral security relations may actually weaken Canada's ability to maintain its independence. Without a more proactive bilateral approach, Ottawa may have little or no influence over U.S. policies that greatly affect Canadian prosperity, jobs, investment and the incomes from which to finance high quality social goods, such as health care and education. Indeed, greater border uncertainty caused by U.S. security decisions could undercut domestic priorities. Also, a pre-established closer security relationship might enhance Canada's ability to differ on foreign policy without threatening the entire relationship, in the same way that NAFTA — essentially a pre-agreed set of trade rules — helped protect Canada from possible economic backlash after Ottawa decided not to support the U.S.-led invasion of Iraq.

*If secure access to the U.S. is difficult to achieve, should Canada diversify its trade, rather than cooperate on security to gain predictable access to the U.S.?*

The reality is that Canada's large, politically stable neighbour is already highly diversified by sector and region and will remain the predominant market for Canadian goods and services for the foreseeable future. Maintaining secure access to that market must be Canada's priority. At the same time, Canada must develop a parallel strategy for businesses to capitalize on market opportunities in growing regions such as Asia.

Additional issues to consider are whether Canada should incorporate Mexico into any trade and security initiatives, and whether Canada should adopt U.S. technologies to ensure compatibility, even when this results in inferior security or technology.

## **Recommendations**

Over the next 10-to-15 years, Canadians are likely to face new terrorist attacks in North America, and increased global competition for trade and investment. In the event of an attack with a Canadian connection, the U.S. government would almost certainly tighten border security. Although the border is unlikely to close permanently, crossing it might become so onerous and unpredictable that it would greatly discourage flows of both goods and people. In the medium-term this could have a critical impact on trade in both manufactures and services, though technological advances that allow some commercial services to be handled electronically or by phone might mitigate the severity of the effects on trade in services.

On the continuum of choices that I have outlined, Canadian decision makers would best serve the national interest by extending current security collaboration towards a more integrated relationship where possible and appropriate. Doing nothing fails to stop U.S. policymakers from taking decisions that could damage Canadian interests. Ottawa's current approach to bilateral security relations is largely ad hoc — a key exception being the Smart Border Accord. An ad hoc approach may be insufficient to protect Canadian interests and restore U.S. confidence in the security relationship.

With a more integrated relationship, and a seat at the table, Canada will be better able to boost the degree of trust between the two countries and ensure that U.S. responses

to security imperatives take into account the reality of the interconnected economies. Cooperation also enables greater Canadian influence over U.S. policies — even when views differ. At the same time, Canada should not pursue improved security relations at the expense of all other priorities.

Specifically, the prime minister might consider:

*An agreement in advance.* Because of the asymmetric relationship between Canada and the U.S., Canada's interests will be better served if the two countries agree on how they

advance and move inspections away from the internal border to North American entry points where possible. The U.S. will relentlessly address real and perceived security threats — with or without Canada. Canada's choice is to strengthen its relationship, protect its prosperity and have some influence, or accept a higher degree of risk and allow its national interests, including its prosperity, to erode.

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