



Trading Up: Canada and the U.S. Have More in Common than Their Border

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With a healthy economy that is benefiting from its economically troubled neighbor to the south, Canada has little to complain about these days regarding its relationship with the United States. Yet there is always room for improvement on both sides of their lengthy, shared border.

That was the message from Canadian Ambassador Michael Wilson during a recent visit to Wharton during which he addressed a wide range of topics, including border movement and security, energy trading, rebuilding Afghanistan, and political posturing in the U.S. presidential campaign regarding the North American Free Trade Agreement (NAFTA). "The relationship between the U.S. and Canada is a huge one. We share a very long border, and we are each other's largest trading partner," said Wilson, who noted that more than 400,000 people cross the U.S.-Canada border every day.

Indeed, while many people believe that China is the United States' biggest trading partner, Canada annually spends more than \$200 billion on goods and services from the U.S. compared to China's \$65 billion. In addition, Canada is America's top energy trading partner, providing more oil, natural gas, electricity and uranium to the U.S. than any other country. Currently, about 7.1 million jobs in the U.S. are related to companies in Canada.

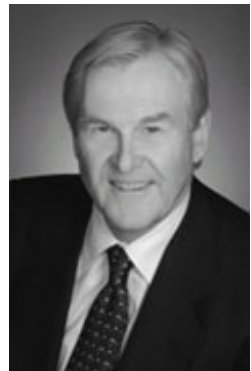
The Politics of NAFTA

Wilson, who helped negotiate NAFTA, said the agreement certainly needs improvement but should not be fully renegotiated. He described renegotiation as a "very dangerous process." Implemented in 1994, the pact between Canada, Mexico and the U.S. eliminated trade tariffs and generally aimed to improve trade between the three countries. NAFTA's critics in the U.S. have blamed the agreement for taking away jobs from working-class citizens.

"To the Democratic candidates who are talking about labor and renegotiating agreements, I say, don't do it," Wilson stated. "If we open up the whole agreement, it could put us back to square one" Some issues, such as environmental concerns, should be dealt with outside the scope of NAFTA to allow for more flexibility, he stated. "You don't want to lock yourself in with changing environmental issues that dramatically shift over very short periods of time. The way we talk about the environment today is very different from 10 years ago, or even 10 months ago."

Wilson in March was implicated in a controversy regarding U.S. Sen. Barack Obama's campaign in Ohio. Wilson spoke to a journalist before a story aired and was quoted as saying that Obama told Canadian officials that NAFTA criticisms were "just politics." Opposition parties in Canada have called for Wilson's resignation, claiming that Wilson went beyond his role as ambassador by interfering with a U.S. political campaign. Meanwhile, both Obama and his opponent, U.S. Sen. Hillary Clinton, have continued to criticize NAFTA, and the alleged incident involving Wilson and Obama's campaign has not been raised by the media nor by Clinton since the Ohio primary election.

Wilson also briefly described what seems to be a growing controversy regarding the U.S.-Canada-Mexico relationship. As America continues to grapple with the problem of illegal aliens from Mexico, Canada has concerns that illegal Mexican immigrants worried about deportation might see Canada as an attractive alternative. "This is a major problem that is just now bubbling up, but little attention has been paid to it so far," Wilson noted.



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Free and Easy -- and Secure

One recurring theme in Wilson's message revolved around Canada's continuing desire to improve border flow while respecting U.S. security concerns. "We don't want bad people in our country any more than you want bad people in your country," Wilson said, adding, however, that the border control practices of the U.S. tend to go too far, in spite of efforts to allow certain qualified travelers to earn an easier pass by taking extra steps to prove themselves safe.

Canadians have spent millions of dollars to participate in "trusted traveler" programs designed to do just that, but those travelers seem to be subject to random searches at the same rate as non-participants, he said. "We have induced these people to participate, but without any benefit."

He cited Europe as the logical model for border control, since most countries there have long dealt with multiple national borders. Meanwhile, Canada should continue a dialogue with the U.S. until sufficient trust and confidence allows for a more free-flowing, stabilized border.

Wilson also noted that Canada is a partner with the U.S., the UK and the Netherlands in efforts to stabilize the volatile southern region of Afghanistan. He highlighted successes in Afghanistan, where the number of enrolled students has risen from about 500,000 in 2001 to approximately six million today. A much higher percentage of these students -- about 40% -- are female. Health care has also improved, he added. Almost 90% of Afghans now have access to primary care, which was only available to about 10% of the population in 2001. Despite these successes, "we need to see more change. But we're not going to ... until we can stabilize and secure the situation there."

Wilson described his job as being Canada's "senior interface" with officials in the Bush administration, members of congress and various committees. "I have to work with [them] to make sure the Canadian point of view is well understood, and hopefully encourage them to accept [our] view on issues where we seem to have some common ground."

Trade and Productivity

About \$100 billion worth of energy and natural resources top the list of products sold to the U.S. by Canada, according to Wilson. A close second is automotive products. One third of Canada's exports to the U.S. are between subsidiaries of the same companies, and another third occurs along established supply lines. "A significant part of our business with the U.S. is feeding into what we call the North American supply chain," he noted.

For example, certain products, such as car parts, might cross the U.S.-Canada border multiple times before reaching their destinations. "If there are problems at the border, then you suffer and we suffer, because it raises both of our costs of doing business. We are not competing so much against each other as we are with other countries."

Canada remains on the downside of a persistent productivity gap with the U.S., and it may never totally close that gap due to "structural reasons," according to Wilson. More major companies have headquarters in the U.S. With that come the higher salaries of top corporate executives. Also, many companies prefer to locate their research and development facilities near the head office, thereby keeping even more higher-paying jobs in the U.S. "Our challenge is to stabilize where we are today, then try to narrow that gap, which has gradually widened over the years."

A program called "Advantage Canada" was included in the country's 2006 budget, and will become more of a priority over the next few years, Wilson said. The program will address a wide range of issues that relate to the nation's productivity: education, training, research capabilities and incentives for investment.

In the area of health care, "We can both learn from each other," Wilson suggested. "We have problems because the system is so good for consumers that there are long waiting lists." He described doctors in the U.S. as more "service-oriented" than their counterparts in Canada, crediting that difference to market competition as opposed to Canada's more socialized system. He said that a physician in the U.S. -- whom he had gone to for a relatively minor procedure -- called him at home one night to see how he was doing. "There's good and bad in both systems."

The Dollar Factor

On the economic front, as the value of the Canadian dollar has risen from 62 cents to near even with the U.S. dollar, the subsequent higher prices of Canadian goods sold to the U.S. mean more revenue for Canada, Wilson said. The price of Canadian products has risen 50% in some cases. At the same time, the price of equipment purchased from the U.S. has dropped, prompting Canadian companies to upgrade with greater investment in machinery, thus raising the value of the products while increasing productivity.

Wilson's career, which he summarized during his talk, has moved in and out of the public sector several times since he graduated from college. Born in Toronto, Ontario, Wilson attended Trinity College at the University of Toronto. He worked as an investment banker in Toronto's Bay Street financial district until he was elected to Parliament in 1979. From 1984 to 1991, he also served as finance minister under Prime Minister Brian Mulroney. Wilson then became minister of industry, science and technology as well as minister of international trade, which led to his role in negotiating NAFTA.

In 1993, Wilson returned to the private sector to form his own consulting and financial services firm. He remained in the private sector until 2006, when Prime Minister Stephen Harper nominated Wilson to be ambassador to the U.S.

Wilson is credited with introducing a new tax system in Canada while he was finance minister under Mulroney. The Goods and Services Tax (GST) of 1990, a sales tax on non-essential items, replaced a previous hidden tax on manufacturers. The GST has been praised for its transparency and its bolstering of Canada's budget, but it has been criticized for being burdensome for consumers and contributing to underground commerce that attempts to avoid the tax. The GST remains a controversial political issue for Canada.

Wilson's experience in both the private and public sectors "has given me an understanding and knowledge about how both sides work," he said. "It can be hard to understand what the public and private sectors can do for each other; having that experience myself can help bring the best out of both sides."

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