



Prime Minister Justin Trudeau and President Barack Obama walking in the Rose Garden at the White House in March. Adam Scotti photo

# Careening off the Rollercoaster: Canada-US Relations Under Trump or Clinton

Derek H. Burney and Fen Osler Hampson

*Prime Minister Justin Trudeau has identified Canada-US relations as a key agenda item for his new government, a commitment manifested in his visit to Washington in March. While the new warmth marks the highest point in bilateral relations since the days when Brian Mulroney and Ronald Reagan were singing “When Irish Eyes are Smiling” together in Quebec City, it will require a reset in January, 2017. That recalibration will either be drastic, if Donald Trump is president, but only somewhat less so if there is a Democrat in the White House.*

Over the past three decades, Canada-US relations have been on a roller coaster. There have been peaks and there have been troughs, but the cart never completely came off the rails. That may well change if either Donald Trump or Hillary Clinton gets elected to the White House.

There is a new mood in American politics and American voters are angry. They are angry at Washington’s political class, who they see as self-serving

and out of touch. They are also angry at Wall Street and America's super rich who have only gotten richer. The fact that virtually no-one from Wall Street went to jail after the financial crisis of 2008-09 while many Americans lost homes and jobs is also a major contributor to that anger. Middle class incomes have been stagnant for more than a decade and traditional American optimism is decidedly on the wane. To some extent, the negative mood is a reflex against the Obama Administration's unfulfilled promise of "hope and change" eight years ago.

The mood in America is not confined to the US, but lies elsewhere, especially Europe, where unemployment is stuck in double digits in many countries, economies are stalled, the refugee influx only gets worse, and there is little enthusiasm anywhere for Brussels' bureaucrats and their suffocating rules.

However, there is also a deeper disquiet in America about the country's place in the world and the liberal international order that was constructed out of the ruins of the Second World War, which America essentially ran and from which it prospered. Many Americans now believe that the liberal international order, which is based on the principles of free trade and open competition, no longer serves their interests. They also believe that America can no longer afford to underwrite a disproportionate share of the security of the Western world.

It is that belief and a widespread sense of disenchantment against its elites that has driven voters into the arms of populist leaders like Donald Trump and Bernie Sanders. Both of them have hawked the same wares in America's primary presidential season—an anti-free trade, anti-NAFTA agenda and a view of foreign policy that seeks to shed America of its global security commitments and costly alliance partnerships.

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after a bruising fight with Sanders, has been forced by her political rivals to veer into the anti-free trade, protectionist lane. Like her Democratic and Republican contenders for the presidency, she has come out swinging against the Trans-Pacific Partnership (TPP) agreement negotiated by her former boss, which is supposed to be a cornerstone of the US "pivot" towards Asia. As the original architect of the "pivot" when she was Secretary of State, her own about-face is symptomatic of the shift that is taking place across the entire political spectrum.

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Polls now put the race between Clinton and Trump neck-and-neck. Of course, that could change and there could be unexpected developments by the time of the American presidential election on November 8. Both candidates have huge vulnerabilities—Clinton isn't trusted by the voters and Trump's foul mouth, scorch-

and-burn tactics against his political rivals and the media is wearing thin. For many, it has become a choice between the lesser of two evils.

If Trump wins, we should brace ourselves for a profound change in both the tone and direction of Canada-US relations.

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On the campaign trail, Trump is threatening to throw NAFTA into the wastebasket. If he were to tear the deal up with the support of the US Congress, which has opponents to NAFTA on both sides of the political aisle, we would be in deep trouble. It would likely be the last straw for nervous investors in our beleaguered manufacturing and resource extractive industries who are already worried about the lack of direction and focus in our energy and environmental policies. A flight of investment capital would knock the socks off any meagre prospects for growth.

**T**rumpp also would not likely treat Canada much differently from Mexico. He has already called for an end to Canadian soft-



Brian Mulroney and Ronald Reagan in the Rose Garden of the White House in 1984, the beginning of an era when Canada-US relations were at an “all-time high.” White House photo

wood lumber imports. Canada’s paltry levels of defence spending—barely 1 per cent of GDP compared to 4 percent in the United States—would not sit well with Trump, who on the campaign trail has threatened to disband NATO on the grounds that it is an “obsolete” Cold War relic. He believes that America’s allies, including Canada, are not carrying their fair share of the burden. Trump has repeatedly said he won’t defend “free riders.” He would also not take kindly to our own softer and gentler view of the world and professed desire to engage China and Russia. And, under Trump, you can forget the vaunted COP 21 Paris Accord. For him the environment is about “clean water and clean air”, period.

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Perhaps the one good note about Trump is that he has said he would approve Keystone XL. While welcome, that might prove to be the death knell for Energy East. Trump’s threat to extract a “piece of the profits” of Keystone in order to get “a better deal” also means that there wouldn’t be a level playing field under his administration. If anyone should pay more it would more likely be the American-owned refineries who want reliable Canadian oil. Trump’s stance on trade generally is unhinged from reality. Despite all his bombast, America would be as much of a victim from protectionist lunges as any country.

Would we do any better with Hillary Clinton in the White House? The conventional wisdom is that we would and polls show that Canadians vastly prefer Clinton to Trump. Some may take comfort in the fact that Clinton raised millions of dollars in Canada for the Clinton Foundation and her own electoral campaign in a cross-country speaking tour organized by CIBC and progressive groups like Canada 2020. They also believe that there will be little difference between Clinton’s policies and those of President Obama, who graciously feted our newly elected Prime

Minister at the White House. Perhaps we should think again.

Since her days as the junior senator from New York, Clinton’s views of Canada have been decidedly ambivalent. Clinton was quick to blame Canada as being the source of the 9/11 terrorists. Although she was subsequently proven wrong, she has never apologized for her rush to judgment. After months of silence on the Keystone XL pipeline she finally came out against it. There is certainly no difference between Clinton and Obama when it comes to snubbing Canada on a project of major national economic importance that would reap major benefits for both countries. Even more troubling, she has also said that she would reassess and “readjust” NAFTA while postponing negotiation on any new free trade agreements. During the campaign, she has repeatedly criticized the same agreement her own husband signed into law when he was president, alleging that NAFTA’s benefits have cost American jobs and only benefited the wealthy.

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As someone who urged vigorous military intervention in Libya and Syria when she was Secretary of State, “Hillary-the-Hawk” might not look favourably on Canada, which has pulled out of the bombing campaign against ISIS, and appears under Prime Minister Trudeau to prefer using “soft power” against terrorists and other threats to global security.



There is a bigger problem, however, that overshadows Canada-US relations, regardless of who wins the White House in November. The simple fact is that Canada doesn't matter as much to the United States as it once did.

Little noticed at the end of 2015 was that China replaced Canada as the United States' number one trading partner in goods, accounting for 16 percent of overall US trade, with the bulk of that trade being lopsided towards US imports of Chinese goods (\$482 billion versus \$116 billion of US exports). By this measure, Canada is now number two, accounting for 15 percent of US trade (though we still remain number one when services are added to the equation). Nevertheless, we sell far less to the United States than China does, only \$295 billion, and we are buying almost as much as we sell to the US—\$280 billion. Mexico will also eventually replace us as number two, given the rapid growth of its own economy, which is projected to grow between three and four percent in the next couple of years, while ours has flat-lined, and its much larger population (120 million versus our 36 million). Last year, Mexico imported \$236 billion from the US and exported \$294 billion, just \$1 billion shy of what we sold.

Despite all the talk about North American value chains and the integrated nature of the economies of Canada, Mexico and the United States, the US is increasingly a competitor to Canada. That has long been true of wood products and agriculture where, for years, we have wrestled with the Americans over stumpage fees for lumber and US labeling on our beef and pork. But that competition now extends to energy, metals and other commodities where the Americans are beating a path to Asia and running a lot faster than we are. The US has built LNG (liquefied natural gas) terminals on its West Coast and has already begun shipments to Asia. The torrent of US shale gas exports into the global mar-

ket is projected to lower the price of the heating fuel in Asia by almost 5 per cent while also reducing American dependence on Canada's energy exports. Notwithstanding Obama's aspirations on Climate Change, America is expanding production, dramatically outpacing us as we mire our projects in never-ending regulatory and consultation processes.

The all-time high in Canada-US relations came in the 1980s under Prime Minister Brian Mulroney, with major initiatives such as the Canada-US Free Trade Agreement, the North American Free Trade Agreement, and the bilateral treaty on Acid Rain. At the leadership level, relations were remarkably warm and close. As we now know, Mulroney was seen not just known as a friend by President Ronald Reagan and his successor George H.W. Bush, but a trusted interlocutor and adviser on pressing global issues such as how to manage political turmoil and the break-up of the Soviet Union under Mikhail Gorbachev and Boris Yeltsin or relations with key allies in the run-up to the first Gulf War.

Alas, those days are long gone. We have slipped badly in America's affections and its perceptions of its own national interests. Relations in the past soared and dropped like a rollercoaster. After Mulroney, there was a dip when Jean Chrétien went out of his way to criticize George W. Bush publicly over the second Gulf War and then under Paul Martin and Stephen Harper, who couldn't get much traction on issues that mattered to us like the "thickening" of the border and friction on a range of issues like energy exports.

However, relations never went completely off the rails and the problem now is that they easily could under the next US president. We need a clearer focus our own vital national interests whatever happens. A fundamental objective for Canada in a more protectionist world must be to maintain a competitive edge vis-a-vis the US on the tax and regulatory climate for business. At the moment, many

actions at both levels of government are running in the opposite direction and are not conducive to increasing investment or production in Canada. Sustaining prosperity should be "Job One" for all in government.

The anti-globalization mood that is spreading will oblige all governments to improve even more the platform for local production. That is a trend we ignore at our peril. But we should also look for trade deals such as with China and bilaterally with TPP partners like Japan, Malaysia and Vietnam if, as expected, TPP stalls. CETA would also benefit from a concerted political jolt. Doing something tangible on trade would give us some leverage in a more protectionist world and notably with the US. In short, we urgently need a more focused trade agenda and more decisive action on energy infrastructure before we will lose the export game completely.

Come next January, we will be obliged to work with whomever the Americans choose as their next president, but we also need to shore up our network of potential allies in Congress and at the state level in order to promote and defend Canadian interests with a full court press involving the prime minister, senior cabinet ministers and credible premiers. **P**

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