Canada and Trump: A New Focus on Mitigating Risk

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While it can be difficult to discern precisely what the incoming Trump administration will or won't adhere to in foreign policy terms after a campaign fraught with mixed signals and a transition that seems to have ushered in a new era of improvisational diplomacy, there are some areas of bilateral concern in which careful planning can mitigate risk.

Donald Trump's campaign rhetoric was anti-trade, anti-pluralism, anti-immigration, anti-climate mitigation and anti-multilateralism. The contrast with the Trudeau government's core policies could not be starker. Is conflict, then, inevitable? Not necessarily, but sophisticated risk management needs to be the order of the day as the Canadian government pursues its policy objectives.

The handling of the complex risks inherent in such an asymmetrical relationship as that which binds Canada and the United States has always been integral to Canadian "statecraft" by both government and business. It remains so and requires, now more than ever, not wrung hands, but cool heads.

No one can yet see the shape and contours of the incoming Trump administration's agenda. It remains prudent, therefore, to keep a low profile in Washington in the short term so as not to become a target in the uncertain discourse shaping the next four years. That said, we need to plan strategy and reinforce alliances of influence across the United States to help us meet the challenges ahead.

Canada's brand in the United States is positive but opaque. We are rarely at the top of the U.S. political agenda with the result that we are rarely the targets for aggressive policy making. The negative is that when domestic interests in the U.S. deem it useful to do so, we face calls to pay for the broad relationship with concessions on individual issues such as softwood lumber protectionism and "Buy America" campaigns. While the vagaries of the U.S. political system may intensify now, they should not present an unprecedented challenge. We have to do our homework, look to the long term, propose ideas for mutual benefit, defend our interests and explore new opportunities.

The primary risks to Canada are clear: a renegotiation of NAFTA, whereby the US will push to retain jobs and investment with a particular focus on Mexico; a "thicker border" intended to reassure Americans that they are safe from illegal immigration and terrorism but that could impede the smooth flow of goods and people; and, a more aggressive approach to security, which could affect many bilateral relationships. On all these fronts, while we must protect our core economic interests and values, there is a range of mutually beneficial opportunities that we could pursue.

Both the Canadian government and the new U.S. administra tion are committed to large infrastructure investments to stimulate short-term demand and rebuild potential growth over the longer term. Given the integration of our economies, the interoperability of our infrastructure and the compatibility of our systems, there is considerable scope for a joint or coordinated approach to infrastructure projects. These could include the improvement of north-south transportation linkages, electricity transmission links, and smart systems and customs plazas to improve border crossings. Indeed, we might consider proposing a joint infrastructure investment fund, free of "buy national" constraints, to undertake beneficial joint projects.

Security is under threat around the world. We face an increasing risk of global terrorism, an escalation of cyber threats to data privacy as well as core infrastructure, a dramatic increase in human migration due to civil wars and fragile states, and a return of "Cold War geopolitics". Canada and the United States share that threat to an unusual degree given our contiguous territories, our integrated economies and related social values and rights. Neither of us can, for all practical purposes, totally separate our security from that of the other.

What might this mean in practice? Canada should consider measures to better protect the security of our national perimeter. This includes a greater focus on our obligations for Arctic sovereignty, particularly as the Arctic region becomes more navigable, and making the required investments in surveillance technologies, ice breakers, science and on-the-ground capacity. It also suggests greater investments in our security screening capacity at all points of entry—ports, airports and land border—to better protect our perimeter and to thereby reassure on the Canada-U.S. border. And, as committed multilateralists, we should reinforce our support of NATO with both military dollars and political capital at a time when this crucial alliance is under threat from within and from outside, particularly by Russian expansionism.

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But Canada’s willingness to seize opportunities in this more uncertain global environment can and should extend beyond the bilateral relationship.

The uncertainty about the direction of U.S. trade policies poses challenges and creates opportunities. On energy, while it is possible that the new administration might approve the Keystone XL pipeline, the key question is whether to perpetuate our total reliance on the U.S. market for our oil and gas exports, particularly as the U.S. ramps up shale production. Energy market diversification is essential, and this requires pipeline access to both coasts. The government’s decision on the Trans Mountain pipeline was a welcome step in ensuring our energy sovereignty; moving oil and gas to the east coast should be next.

More broadly, the prospect of heightened U.S. protectionism should propel us to make concrete choices about trade diversification given our huge dependency on the American market. With the demise of the TPP, we could sign an early bilateral trade deal with Japan, which will be looking for new partnerships along TPP lines. With escalating China-U.S. trade tensions, we have an opportunity to negotiate a series of sectoral trade agreements with China, leading eventually to an FTA when circumstances permit. With chances of a U.S.-EU trade agreement now gone, CETA allows us to position Canada as the preferred North American location to produce and access the huge EU market as Mexico now does effectively thanks to its own agreement with the EU.

With a less welcoming U.S. attitude to both immigration and foreign direct investment, especially in the high-tech areas that demand world class talent, we should place a greater focus on attracting foreign investment in the new economy, along the lines of the Invest in Canada hub Finance Minister Bill Morneau unveiled in the November fiscal update. We are uniquely well positioned to do this. Canadian values of openness, tolerance, diversity and respect have a particular appeal in a world where they are increasingly in short supply. But Canada offers more than “niceness”—we have an excellent education system, strong research capacity, emerging start-up innovation clusters, liveable cities and stable public institutions. We need to better market these enormous assets around the world, including in the United States, as part of the “Canada brand” if we want to own the podium in the global hunt for talent.

Similarly, with respect to climate change policies, Canada can embark on a different approach than the United States, notwithstanding the integration of our business sectors. Indeed, we have done so successfully in the past—universal healthcare, the GST, the CPP-QPP and distinct banking regulation being obvious examples. The key is design: to change relative prices, not absolute costs. A coordinated national carbon tax along the lines of British Columbia’s, with its clear recycling of revenues to maintain business competitiveness, combined with a flexible exchange rate and simplification of existing regulations, would be more effective and pose fewer competitiveness risks than complex cap-and-trade systems with unclear revenue recycling regimes.

Finally, there is also room to consider how a more protectionist U.S. trade stance could increase willingness for reform within the Canadian economy, for instance in opening intra-provincial trade and rationalization of supply management, as well as burnishing our fiscal credibility by setting out a clear path back to fiscal balance at debt-to-GDP levels well below the U.S. and other major economies.

Uncertainty in U.S. policy making means Canada needs to be strategic in managing the dynamic risks and in pursuing potential opportunities. Free trade access to the American market and an open and efficient border are crucial to Canadian prosperity. It is the time for Canadian governments to strengthen connections with U.S. states whose largest export market is Canada. It is the time for Canadian businesses who export to the U.S. to work more closely with their American counterparts who profit from access to the Canadian market. And it is clearly the time to pursue talent, trade and investment opportunities globally.

But at its heart, the imperative for Canadian governments remains the same as ever—to pursue and protect our national interests, maintain the highest level of compatibility between our deeply connected North American economic systems, coordinate on shared global challenges, and take maximum advantage of opportunities opened to us by changes in U.S. policies, intended or otherwise. P

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