WHAT CANADA AND THE UNITED STATES STAND FOR... IN THE AGE OF GLOBALIZATION

BY Charles F. Doran

IN NORTH AMERICA, SOCIETIES ARE STRUCTURED NOT TO INDUCE GOVERNMENTS TO COMPETE AGAINST EACH OTHER, BUT TO ENABLE FIRMS TO COMPETE WITH EACH OTHER, AND TO ALLOW INDIVIDUALS TO COMPETE. IN THE MID-19TH CENTURY, LONG BEFORE MOST OTHER GOVERNMENTS, CANADA AND THE UNITED STATES LEARNED TO CONSTRAIN THE NATURE OF THEIR COMPETITION AND TO INTERNALIZE THAT COMPETITION. THE DEMOCRACIES OF NORTH AMERICA LEARNED, IN LOCKEAN TERMS, TO STAND ON HEAD THE OLD DICTUM, STILL PROMINENT IN MANY PARTS OF THE WORLD, THAT GOVERNMENTS MUST COMPETE ZERO-SUM AGAINST EACH OTHER, OFTEN BASED UPON FORCE USE. THIS OLD DICTUM HELD THAT 'THE NEIGHBOR OF MY NEIGHBOR IS MY FRIEND,' IMPLYING THAT ONE'S IMMEDIATE NEIGHBOR WAS AN ENEMY IN NEED OF BEING CONFRONTED AND BALANCED. THUS, ALTHOUGH POWER AND COMPETITION EXIST IN THE CANADA-U.S. RELATIONSHIP, THE USE OF FORCE IS UNTHINKABLE. THE SO-CALLED WESTERN "DEMOCRATIC PEACE" IS THE SIMPLE INVERSION OF THAT OLD DICTUM OF INTERNATIONAL POLITICS MADE POSSIBLE BY A SALUTARY AND PRODUCTIVE COMPETITION.

Theoretically, out of such benign competition emerges more productive, richer and, therefore, potentially more just societies. (There can be no successful general economic theory of cooperation because co-operation, when generalized, always leads to collusion – which causes inefficiency and rigidity.) Because some additional wealth can be used to cancel corresponding degrees of poverty, the society possesses the potential to become more just. The purpose of the government then is to establish the rules of economic competition, as well as the rules of taxation and of spending. It also must see that these rules are observed.

The rules that the United States and Canada possess to govern the competition are not identical. But, based on democracy and the market, the rules are complementary. The rules in some areas, for example concerning regulation and trade dispute resolution, are even convergent. That has been the task of the Canada-U.S. Free Trade Agreement and its successor, the North American Free Trade Agreement. Complementarity and competitiveness are the two forces that have driven societal change in North America, including Mexico, toward a freer, more efficient, more prosperous set of social relations.

Perhaps the most visible recent application of this principle of salutary competition in North America occurred not within the economy, but within the polity, when Mexico after some 70 years of one-party rule finally elected the PAN to power, thus establishing a more competitive political party system. Absence of competition leads to stagnation, and worse, to corruption. Through competition, both regarding the market and the political system, emerges a more productive, truly more representative, form of interaction.

Hence, a kind of polity has emerged in North America that is known for (1) democratic institutions (2) capitalism accompanied by a modified social safety net (3) human rights, and (4) a society formed from an immigrant base. Democratic pluralism has become its watchword.

Democratic pluralism assumes that individual cultural-linguistic communities can live together in freedom, and with tolerance and prosperity, under a single democratic roof. The variants of this social philosophy are evident in Canada and in the United States. In Canada, the notion of a thin bilingualism, accompanied by the preference for French in Quebec and for English in the rest of Canada, ensconced within a multicultural mosaic is the outstanding feature of democratic pluralism. In the United States, English is dominant but many languages are spoken in large enclaves across the land. But as with the Afro-American community or the various Hispanic communities, there is no fear of loss of identity merely because the community is geographically dispersed or uses English as the working language.

So democratic pluralism has a unique characterization in each of the two countries, but its normative message remains the same. Differing ethnic, cultural, or linguistic communities can interact positively and harmoniously inside a federal, democratic framework.

TRADE AND NORTH AMERICA

Canada is a great trading nation. An index of this propensity to trade is the value of Canadian foreign trade as a percent of Gross Domestic Product (GDP). At above 40 percent, Canada ranks on this index among the highest in the industrial world. Likewise, the United States, because of the huge size of its GDP, is deeply involved in world trade and investment. The United States has been at the forefront of every multilateral trade round since the founding of the General Agreement on Tariffs and Trade (GATT). Presently, despite some differences at the margin of policy, Canada and the United States have interests regarding the importance of further trade and investment liberalization that are scarcely open to doubt or qualification.

Yet, in the age of globalization these interests and this involvement are under siege, not just by noisy demonstrators at WTO meetings, but by rank and file labor members, by business firms in aging industries like steel, and by threatened members of the Canadian Parliament and of the U.S. Congress seeking re-election. The far-left and the far-right have linked hands condemning globalization and the values underlying it. So what are those values, and how do Canada and the United States articulate them? In terms of Canada-U.S. relations, where do the differences lie? In the age of globalization, what do Canada and the United States really stand for?

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DEFINING GLOBALIZATION

Globalization is not a lot of things it has been claimed to be. Globalization is not just internationalization, for that has been going on since the founding of the nation-state in the 17th century. Globalization is not merely economic interdependence among markets and countries. At the end of the 19th century, the very high degree of economic interdependence in Europe, and between Europe and its colonies, in terms of the mobility of capital and labor was only once again matched in the 1990s. Globalization is also not Americanization. That fast-food restaurants happen to be equated with MacDonald's does not deny that Burger King is British-owned. That the mania for rapidly served, cheap, standardized, and comparatively nutritious food happened to emerge at a time in history when the United States was politically prominent and industrially mature does not mean that there is anything innately American about fast food. Industrial innovation, as a func-

tion of the historical interval and culture are being confused and falsely intermixed here.

Globalization is the confluence of two factors at the end of the 20th century. One factor is the capacity of the modern corporation to source globally regarding production, and then to market globally in terms of sales. A Nokia cell-phone, for example, is nominally made in Finland where the home office of the company is located. Yet according to the accompanying brochure, it contains parts and labor contributed by Japan, Thailand, Taiwan and the United States. The determination of where the cell-phone is actually is "made" must be a custom agent's nightmare. Yet a cell-phone is a typical product in the age of globalization that is sensitive to the slightest fluctuations in price anywhere in the world market and is totally dependent upon an open investment and trading system.

The second force that contributes to the definition of globalization is the information revolution. The speed and volume of information transmittal has transformed not just information flows in the areas of finance, investment and trade, but has reduced the number of managers by eliminating the middle echelons. Productivity has increased not just in industry but in the services where it has lagged the most. The information revolution has changed those businesses most that were previously thought the most traditional, like agriculture. The information revolution has changed business in North America profoundly by substituting communication for transportation and by flattening and broadening managerial responsibility. Transformation of the old economy by the information revolution is much more important than the transformation of the so-called new economy.

Hence, globalization – a product of both the changed nature of global production and distribution on the one hand, and of the information revolution on the other – has contributed greatly to the prosperity of North America. But notwithstanding that reality, Canada and the United States still perceive globalization in somewhat different ways. These differences become politically important and require evaluation.

DIFFERENCES IN PERSPECTIVE REGARDING GLOBALIZATION

Foreign Investment. Canada is a country that was built on a foundation of foreign investment. Economist Paul Krugman has gone so far as to say that Canada is the only successful example of the Import Substitution Model in the history of economic development. This model was based on the notion that, if a country maintained high tariffs, capital would come in from abroad to take advantage of the protected market. Local firms would prosper in this "infant industry" atmosphere where they were protected from intense outside competition. Both things did happen.

Domestic firms prospered, but unfortunately they were not very efficient and often were unable to compete in international markets. Foreign firms did invest in Canada to the extent that it had the highest level of foreign investment of any of the advanced industrial countries. But these firms often were branch plants which, like the domestic firms, produced only for the local market.

The Canada-U.S. Free Trade Agreement, followed by NAFTA, changed much of the industrial structure of Canada. Canada's great banks and its corporations like NORTEL, Bombardier, and many other companies, rapidly developed more of a worldwide competence. The North American automobile industry continued to remain a central part of both the Canadian and U.S. economies. Economic growth surged in Canada and in the United States as the three economies – Canada, the United States and Mexico – became more specialized and productive.

Yet Canada and the United States still look at foreign investment, as opposed to foreign trade, somewhat differently. "National treatment" is something the United States embraces but Canada accepts. With a very high level of foreign investment, and a lower degree of investment abroad on the part of its own companies, Canada in some quarters is less enthusiastic about unbounded investment openness (as opposed to trade openness) than the United States. To the average Canadian, globalization looks a bit more like a "mixed bag" than to the average American. Structural differences in the two economies, combined with a different history of economic development, yield different attitudes towards, for example, how the Economic Development Corporation as opposed to the World Bank should operate. These differences of perspective are felt in the way that future trade and investment liberalization is approached by the two countries.

Culture. Notwithstanding that French is spoken in Quebec and English is spoken in the rest of Canada, whereas English is the primary (though not the sole) language throughout the whole of the United States, deeper differences exist in the way the two countries view culture. The United States does not think very much about its culture; Canada is quite reflective about its own. The United States tends to distinguish between "mass" culture and "elite" or "high" culture. Canada, France and many other countries, such as China or Russia, tend to make no such distinction and instead tend to emphasize how mass and high culture intermingle. The United States looks at mass culture as a commodity to be sold in the marketplace. Canada believes that all of Canadian culture is precious and must be either protected or promoted.

In consequence of these differences of perspective regarding culture, the

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trade policy of the two countries regarding culture is much affected. Canada wishes to exempt the "cultural industries" from trade liberalization. The United States looks upon the cultural industries as a source of foreign exchange. Canada worries that trade will bash Canadian culture. The United States worries that barriers to trade in culture will prevent American companies from selling enough of it abroad.

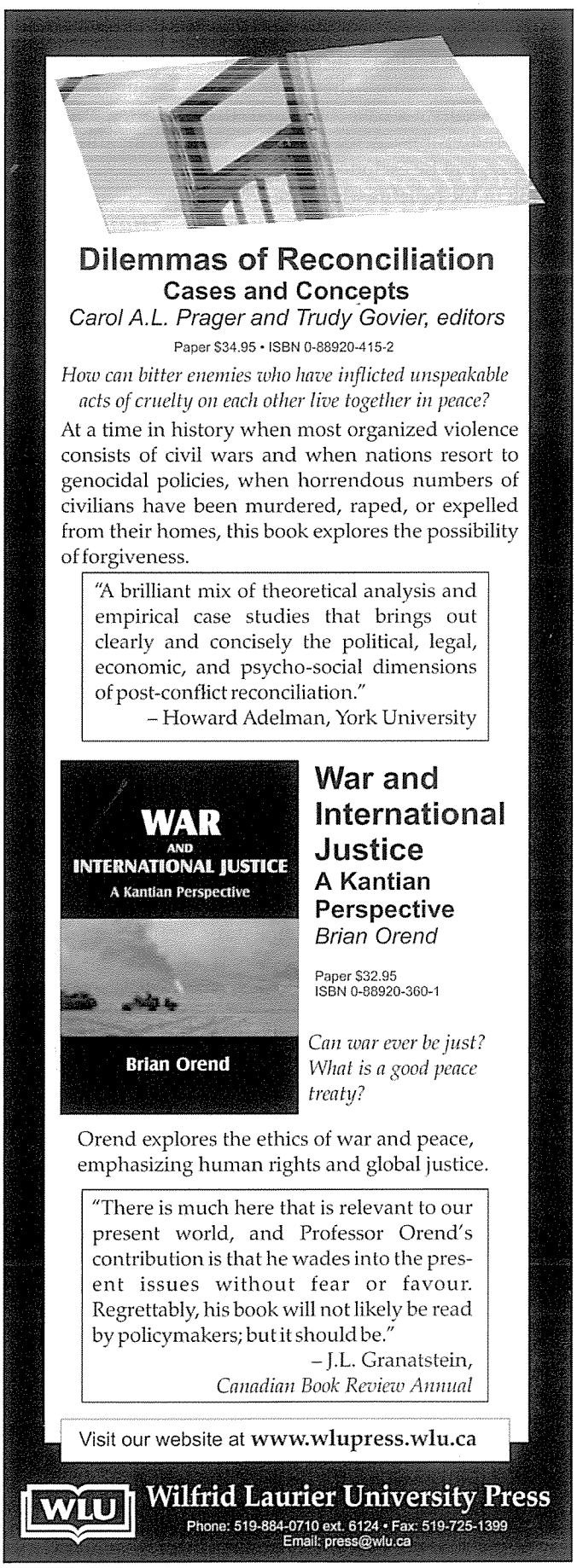
At heart, Canada thinks of itself as an importer of culture whereas the United States thinks of itself as an exporter. Indeed, both perspectives are probably wrong. The United States in gross amounts probably consumes more foreign culture than any other country in the advanced industrial world. Canada, one-tenth the size of the United States, nonetheless across the entire spectrum of the arts, music and the media, produces and exports a far greater amount than the ratio of one-to-ten would suggest. Canada, for its size, is one of the giants of cultural production and export in the world today.

Collective versus Individual Enterprise. Despite the reality that both Canada and the United States historically have had a very dynamic co-operative movement, the two countries are very different in their preferences for individual versus collective enterprise. The Canadian penchant for Crown Corporations has some equivalents in the United States, such as regarding the huge electrical power projects in some regions of the United States, but not many such initiatives. Canada also has dairy product purchasing boards, many collectives in Quebec, for example, that are similar to, but not identical with, the American savings and loans, and the soft-wood lumber marketing arrangements. Each of these collective initiatives is bred of a fear of smallness in the market, fear of an inability to compete with larger foreign-based producers.

American commercial enterprise is so firm-centered that it is very difficult for American governments and American corporate elites to understand what the collective movement is about. There is a deep American suspicion that these are price-fixing arrangements, much like the cartels which since 1912 American government has been regulated or broken up. Hence the sense that, in the soft-wood lumber negotiations, Canada must be doing something illegal because it is not relying on an open auction in the way Americans are.

Given the different approaches to commercial enterprise in Canada and the United States, at least on the margin of the economy, rules for commercial activity must be quite different. Where differences in institutions persist, a greater effort must be made by economists, news analysts and government spokespersons to show that the outcomes in terms of production, distribution and price may not vary much at all. Otherwise, the commercial activities of the two countries will continue to clash over distinctions where in most cases there are no real differences in terms of outcomes.

Security versus Economic Development and Humanitarian Concerns, No single statistic so distinguishes Canadian foreign policy, from that of the United States, than proportionate military spending. The United States spends 3 to 4 percent of its GDP on average for security. Canada spends



perhaps 1 percent. This is big money. Why such a stark difference?

There is a theory in international political economy that considers alliance security a collective good, that is, as indivisible. Also, none of the members can be excluded from participating in the benefits which are regarded as equal. Under these circumstances, the big actor does what it must and the small actor does what it thinks it can. The big actor spends a lot to protect itself; the small actor spends as little as possible, thinking that it cannot influence the security situation much anyway. The small actor becomes a "free-rider". This model does have relevance for the Canada-U.S. dyad.

But at a deeper level of analysis, Canadians, because of their historical experience, place a higher value on economic development and humanitarian concerns than on security relative to Americans. Americans tend to rely more on force use in international relations than Canadians. Canadians are more idealist about world politics than are Americans. Given these differences of value, perspective and power, not surprisingly Canada will adopt one position vis-a-vis Cuba and the United States will take another even though each government has exactly the same ultimate goal in mind, that is, a more market-oriented, more democratic Cuba.

CANADA-US RELATIONS AND GLOBALIZATION

As governments, Canada and the United States have learned to create a region in which competition between themselves, though real, is benign and minimized, and in which the opportunity for rule-based competition among firms and among individuals is at a maximum. That is the secret to North American prosperity: comparative transparency of institutions and unequaled independence of individuals. While some difference between the two countries exists regarding the relative emphasis of these values and outcomes, these in general and in contrast to much of the world are what Canada and the United States stand for.

These are the same values and the same dimensions of behavior that allow globalization to flourish. Globalization requires a minimization of violent conflict between governments through security arrangements and adequate power, and a maximization of salutary competition between firms, organizations, coalitions and individuals. Many have spoken of the collapse of the state and of the obsolescence of the firm, but nothing could be further from reality. At the dawn of the 21st century, the state and the firm are the preferred form of political and commercial organization, respectively. Globalization has added greatly to the vitality of each.

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But North Americans must avoid smug condescension towards others in the world whose lot may be improving but not as fast as that in North America. When globalization is combined with self-centeredness, and the image that the rules are being written to benefit the rich and powerful, globalization builds within itself its own destruction. Naïve paternalism, calculated to win votes at home, in the form of well-intentioned, but scarcely useful or lasting, foreign assistance can be just as objectionable.

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A response to terrorism is essential. But terrorism, and the response to terrorism cannot be allowed to derail globalization that promises so much for everyone around the world. Borders must remain open, although more carefully monitored, immigration must continue, and the bulk of foreign policy attention must be on the productive and product-creating aspects of existence, not the negative or restrictive aspects. The fight against terrorism may be long and it must be adequate, but it cannot be allowed to distort understanding of the fundamentals of trade or diplomacy. In statecraft, interactions between governments remain key; in commerce, interactions between firms remain primary.

Globalization requires choices and strategic vision. Canada and the United States must decide whether the principal objective ought to be the region and the Free Trade Area of the Americas or, alternatively, another global round of trade and commercial liberalization. Canada, the United States and Mexico must decide how to deepen NAFTA. The NAFTA countries need to think about whether they and the European Union, or APEC, or ASEAN, have something to talk about concerning the issues of regulation and deregulation. Globalization will never (and should not) replace localization because localization can do many things best. Localization will back and fill behind globalization, within a shifted context that will enable localization to perform even more effectively. Through salutary competition, every one of these choices yields positive-sum benefits to the citizens living within the North American region and the world.

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