

## FTA in Canada-US relations

societies were both quantitatively and qualitatively extraordinary. Third, the relationship has been unusually peaceful, harmonious and cooperative. Fourth, the extensiveness of both bureaucratic and private sector activities was unparalleled. And, finally, there has been substantial bilateral cooperation in areas of special concern.

The International Joint Commission (IJC) and the North American Air Defence Agreement (NORAD) are excellent examples of the willingness to establish specific institutional arrangements when the need arises. The relationship has also been unique on the process side. First, this extensive relationship has traditionally been managed through very few formal mechanisms. For the longest time, harmonization of policies and coordination of policy expectations were achieved primarily through the exercise of personal contacts or quiet diplomacy. Ad hoc, low key, non-adversarial consultation was a critical feature of Canada-US relations. Second, and perhaps most important, conflict and confrontation was avoided by the simple fact that each side accorded to the other a special status. In return for access to its domestic market and a secure supply of natural resources to feed the expanding US industrial economy, Canada repeatedly sought and was granted exemptions to key US economic legislation.

While all of these considerations are important in understanding the relationship, each country has tended to view specialness in slightly different terms. In Washington, the Canadian-American relationship was regarded as unique in the sense that it allowed two sovereign states to effectively maintain a single open market. In Ottawa, exemptionalism was clearly the key feature of the relationship. Trade and investment grew substantially during the "long decade of the 1950s," with Washington consistently giving Canada the benefit of the doubt on NATO and GATT issues and consistently exempting Canada from potentially harmful US economic measures. Under these conditions, Canada successfully managed to avoid the fallout from the Interest Equalization Tax of 1963, the Voluntary Cooperation Program of 1965 and the Mandatory Direct Investment Guidelines of 1968.

### Growing strange

During the 1970s, however, the special relationship fell upon hard times. Weighed down by the burden of maintaining global security arrangements and overcome by increasing balance of payments problems, the US government moved in 1971 to end the Bretton Woods system. The implications for Canada were made clear when Treasury Secretary Connally refused to listen to appeals for Canadian exemptions to the 10 percent import surcharge and the rules of the newly created Domestic International Sales Corporation (DISC). At the same time, the US government proceeded with uncharacteristic bluntness — to press Canada to raise the value of its dollar. And, if the message was not clear at this point, it became crystal clear when President Nixon addressed a joint session of Parliament in April of 1972. In that speech, he reinforced the Nixon doctrine and expressed his view that each state must define its own interest, provide its own security, and be responsible for its own progress.

The US position softened somewhat after Mr. Nixon left office, but the damage was done. Ottawa had no choice but to respond. And, encouraged by the so-called new nationalism that emerged from the 1970 White Paper on foreign policy (*Foreign*

*Policy for Canadians*), the Trudeau government crafted a response based on trade diversification and limitations on foreign (read American) ownership. The two most important "policy statements" were the "Third Option" paper of autumn 1972 and the legislation creating the FIRA in 1974. In a paper authored by Mitchell Sharp, then Secretary of State for External Affairs, the government made the case for "lessen[ing] the vulnerability of the Canadian economy to external factors, in particular the impact of the United States, and in the process, to strengthen our capacity to develop a more confident sense of national identity" ("Canada-US relations: Options for the Future" in *International Perspectives*, Special Issue, Autumn 1972).

What followed the confusion of the early 1970s was a period of relative calm characterized by uneasy and uncertain behavior in both capitals. What this led to, however, was a full-blown crisis in the relationship in 1981 and 1982. As Stephen Clarkson has argued, the coming to power of a conservative administration under Ronald Reagan in the United States, coupled with the return to power in 1980 of a newly energized and nationalist Trudeau government in Canada, had disastrous results for the relationship. In Canada, the Trudeau government pushed forward with the creation of the National Energy Program. It made constant references to a "beefed up" FIRA, and it supported the notion of greater "Canadianization" (though it was not very clear about what that might entail). In the United States, protectionism in the Congress threatened to cut off or cut back access to the US market. Reagan's new economic policy (combining tight money, high interest rates and exchange rate pressures) was the source of much concern and confusion in Ottawa. And, more broadly, the private sector/deregulation thrust of the Reagan administration was out of synch with current thinking in Ottawa.

### Close, but not so "special"

By all indications, the "specialness" had gone out of the special relationship — if not in the early 1970s, then surely by the fall of 1981. On each of the dimensions used to identify and clarify the special character of the Canada-US relationship significant changes were evident. With respect to ideological and philosophical similarities the relationship had clearly changed. And, while much of the divergent philosophies phenomenon derived from calculations about the extent of the differences in the two countries, the atmosphere of the relationship had definitely soured. With reference to interaction, there is little doubt that productive contacts were fewer after 1971. On the trade front, which is much easier to measure, a significant slowdown can be discerned. For example, exports to the United States, which had grown from a little over 50 percent of total exports in the late 1950s to nearly 70 percent in 1971, stagnated during the 1970s and dropped off in the early 1980s. Exports to the United States accounted for only 66 percent of total exports in 1981.

The relationship ceased to be harmonious and cooperative. Irritants which had occupied prominent positions on the bilateral agenda for years (such as energy exports, investment, the environment and defence spending) suddenly became the source of acrimony. Extensive bureaucratic and private sector activities persisted, but they did so in a decidedly less cooperative environment. Bilateral institutional arrangements, such as the IJC, fell on especially hard times. And even more striking was the failure of the process of management. The coordination of policies and