

Focus
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**Canada-US Relations: A Case Study
of Trump Era**

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Abstract

Canada and US are traditional neighbouring allies, sharing not only a border but also certain values, commerce, goals, interests and, history. Therefore, their relationship despite having seen ups and downs has been mostly cooperative and is the focus of this study. Allan Gottleib asserts that Canada has a split personality disorder and that its foreign policy goals shape its behaviour. He maintains that from time to time Canada's policy has fluctuated from romanticism to realism and vice versa. Canada, under Prime Minister Justin Trudeau, has shifted its focus more towards multilateralism and romantic ideals such as bridging the North-South gap and promotion of democratic values, in complete contrast to Trump's 'America First' policy of protectionism. Since Canada maintains an independent stance in international affairs to maintain difference with the US approach and also to promote a rather soft image of itself, a, the two countries seem to be going adrift. Trump's protectionism has further strained the trade and economic ties between the two countries. Trump has also renegotiated the old

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North American Free Trade Agreement (NAFTA) and imposed tariffs on Canadian steel and aluminium. The paper aims to highlight the two trends in Canadian foreign policy under Prime Minister Trudeau and their impacts on trade, economic and, security relations with the US. It also highlights the impact of President Trump's policies of aggressive economic nationalism and protectionism on the Canada-US relationship and their economic interdependence.

Introduction

The Canada-US relationship is primarily forged by shared geography, values, goals, common interests, personal connections and, their multi-layered economic ties. Traditionally, Canada and the US have been close, as they share the longest border in the world, i.e., 5,500 miles (8,851 km) long.¹ Both countries have a history of cooperation during many wars, for instance, engagement during both World Wars, the Korean War and, also in Afghanistan. Both US and Canada have also cooperated on certain important security matters of international significance and aided each other in ensuring a secure international environment, especially in fighting against the Islamic State (IS).

The two countries also share mutual security commitments under the North Atlantic Treaty Organisation (NATO) and North American Aerospace Defence Command (NORAD) which is a bi-national agreement on continental defence. In terms of intelligence partnership, Canada and the US are members of the 'Five Eyes' group of nations.

The bilateral economic ties have strengthened significantly over the past three decades because of agreements

like the 1989 US-Canada Free Trade Agreement and then the 1994 North America Free Trade Agreement (NAFTA). Canada is America's second-largest trading partner. Both states have a strong trade and investment relationship. US is the largest investor in Canada and Canada is a source of Foreign Direct Investment (FDI) for the US. Recently both countries have been cooperating in relation to the energy sector as well. Other initiatives on cooperation include management of the trans-boundary environmental and water issues such as the 2013 Pacific Coast Action Plan on Climate and Energy.²

According to Allan Gotlieb, Canada has a dissociative identity disorder in terms of its external behaviour, as seemingly divergent goals shape its behaviour at the same time. In that, two trends are dominant in Canadian foreign policy, i.e., romanticism and realism, where romanticism favours the pursuit of idealism in its foreign policy, taking logic and reasoning into account. Whereas, the romantic goals of the Canadian foreign policy include the promotion of democracy, justice, equality and, eradication of poverty with a special focus on humanitarianism. Realism (*real politik*) focuses on the need of protecting and promoting its national interests.³ Sometimes, these two goals seem to be irreconcilable and at other times they lead to coherent strategies like those in the 1990s, where both national and international aspirations were pursued in sync. This paper focuses on how Canada is using both romanticism and realism simultaneously and how the aforementioned is manifest in Canada-US relations.

Canada has differed from its traditional allies like the US from time to time on the basis of strategy and not on the basis of goals. The bilateral relations have suffered on a few occasions, for

example, Canada did not participate alongside the US in the Iraq War in 2003. Canada's refusal to engage in war reflects that it not only took a different path from the US for the sake of maintaining a divergent stance but also for the promotion of its soft image and romantic ideals. President Obama rejected the Keystone XL pipeline while Trump approved it, suggesting that the relations have changed under different presidencies. Canadian support for the US initiatives faces many challenges as the Trump administration caused a lot of rifts between the two states on trade issues.

Additionally, Canada's foreign policy shows an independent approach in many cases while maintaining hints of the Commonwealth legacy. It has the underlying fear of being overcome and overpowered by the powerful neighbour, i.e., US. The two traditional allies have different leaders with different worldviews and therefore different visions and goals. The divergence in their trade policies is mainly because of the two different leaders in power. Trudeau supports multilateral agreements and efforts, whereas Trump has populist policies which reflect in his protectionist agenda. The Trump administration withdrew from international accords like the Paris Agreement on climate change. Not only he imposed tariffs on Canadian steel and aluminium and also renegotiated the North American Free Trade Agreement (NAFTA). Hence, Trump's protectionist policies and trade war deeply influenced the economic, security and, social relations between the two countries. It is important to explore how Trump's 'America First' Policy has influenced Canada-US relations. Allan Gottleib holds that Canada has a split personality conflict and contradiction in between the two poles of Canadian foreign policy which may very

well be due to the economic constraints on the country. Trump's "America first" policy, was mostly a policy of aggressive economic nationalism and protectionism. Canada, US and, Mexico, all three were beneficiaries of North American Free Trade Agreement (NAFTA), signed in 1994 as an instrument of integration of the economies of these three states through increased trade. The Trump administration criticised this deal and was of the view that it caused unemployment and outsourcing in the United States, hence, Trump time and again threatened to withdraw from NAFTA. The deal was renegotiated and the new NAFTA deal i.e., United States–Mexico–Canada Agreement (USMCA) was signed. This paper will focus on how the USMCA could potentially affect trade and economic interdependence among these states involved, particularly, the US and Canada.

Canada is dependent on the United States for its economic and security needs. Due to Trump's protectionist policies under the new agreement i.e., the USMCA, the economies of all three states may suffer and the relations between the US and Canada, in particular may be strained as Canada is likely to form different alliances with other centres of power to expand its trade and market. The US withdrawal from the climate accord has provided Canada with the opportunity to fill the power-vacuum generated by portraying its soft image and becoming a global leader on the issue of climate change.

Canada and US: Foreign Policy Preferences

Although Canada and US share common goals of promotion of democracy, rule of law and, human rights tensions between the two countries heightened, when in 2018 Trump imposed tariffs on Canadian steel and aluminium. The central

threat to the Canadian economic development during the last century has been American economic domination. Therefore, it would not be wrong to assume that the Canadian relationship with the US may be driven by shared values and history, but it is definitely strained by Trump's protectionist agenda. The Canadian government unlike the US is not against globalisation and is working towards getting maximum benefits out of economic integration and free-trade. Trump has criticised economic liberalism and free-trade agreements and blamed them for the loss of jobs in US.

Canada-US relations thus, sways between liberalisation and protectionism. The three primary strands of Trump's 'America First' policy include:

- a) disengaging the US from global politics,
- b) disdaining allies
- c) developing relations with authoritarian/autocratic leaders.⁴

Trump believed that these multilateral agreements cause US more harm than benefit as they empower other states as well. Therefore, he preferred bilateral agreements so that the US emerges as the stronger partner, with little to no chances of having to compromise. USMCA includes some improvements like strict labour standards in Mexico.

US-Canada Trade Relations

In an era of globalisation and global value chains, Trump's hawkish policy of protectionism to dismantle the global trade and free-trade agreements in hopes that it will aid the US industrial base is a lost cause. The US and Canada enjoy a bilateral commercial relationship. These relations were governed in the

past by the United States-Canada free-trade agreement 1989 and later, by the 1994 NAFTA. The two countries supported and were the leaders of an open and multilateral rule-based trading system. The two are not only the founding members of the World Trade Organisation (WTO) but also, the General Agreements on Tariffs and Trade (GATT). Under the Trump administration the NAFTA agreement was renegotiated since the Trump administration had already started engaging in the unilateral tariff measures, criticised multilateral agreements and also withdrawn from the Trans-Pacific Partnership regional-trade agreement. Both states have one of the largest trading relationships in the world and in 2017, \$1.6 billion of goods crossed the border per day. The United States is one of Canada's largest goods export destination and import supplier.⁵

Trump blamed NAFTA for the imbalance in the trade deficit and surplus. The reduction of trade deficit in bilateral agreements was the primary goal of Trump's trade policy. He criticised Canada for running a trade surplus with the US. The statistics, however show a smaller trade deficit between Canada and the United States.

"Canada has treated our Agricultural business and Farmers very poorly for a very long period of time. Highly restrictive on Trade! They must open their markets and take down their trade barriers! They report a really high surplus on trade with us. Do Timber & Lumber in US?"

—President Donald Trump on Twitter, June 1, 2018

There were several challenges in the trade relationship between the two, under Trump era as there were some old irritants like soft-wood lumber and dairy products and aviation

etc. Nevertheless, the renegotiation was itself a challenging and a tiring task.

The NAFTA Renegotiation

NAFTA's main focus was on liberalising trade and removing the tariffs between the three countries with a major focus on agriculture, textile and automobile manufacturing. The cross-border investment and regional trade grew significantly under the deal. Mainly aimed at integration of Mexico with the developed economies of Canada and US, it also helped US and Canada, providing the two countries with a lower-cost investment location for their companies.

The trade between America and its neighbours tripled in the years after NAFTA was signed. Estimates show that more than one-third of the total US exports go to Mexico and Canada. The deal is said to have increased the US Gross Domestic Product (GDP) by 0.5 per cent which meant that several billion dollars of added growth to the US economy was due to this deal. NAFTA not only lowered the costs, it also increased the productivity and made the US more competitive by contributing to the cross-border supply chains. Without NAFTA's tariff reductions and protections of the intellectual property, US could not have developed an advanced auto sector that was capable of competing with China. Trade deals have reinforced the globalisation of the American economy.⁶ Critics of the trade deal blame it for wage stagnation, low-wage competition, a widening trade-deficit in the US. Some argue that almost six hundred thousand US jobs were lost over the two decades and all of this was due to the surge of imports, at the same time they also admit that some of the import growth would not have been possible

without the deal.⁷ The decline in manufacturing jobs in the US was also blamed on the deal. Some economists on the other hand, assert that the US economy has gained overall, although there was some loss in jobs due to the imports but the quality of the goods also improved and the consumers also benefitted significantly.⁸

NAFTA not only proved beneficial for America, in Mexico it increased the employment rate in the manufacturing sector, opening up a previously protectionist Mexican economy as well. Not only was the trade in Mexico liberalised, it also helped in stabilising the inflation. Some economists argue that NAFTA caused unemployment in Mexico. The industrial north of Mexico had rising wages whereas the South suffered from unemployment as it was agrarian.⁹

Canada had huge gains due to the NAFTA agreement, the cross-border investment between US and Mexico increased and the US investment accounts for more than half of Canada's FDI. Overall, Canada's dependency for trade increased on the US, having 75% of its exports relying on the US. Despite their close ties, Trump used the Canadian dependence as leverage, threatening to initiate new tariffs if Canada did not agree to trade concessions. Clear evidence of Trump's aggressive economic nationalism at home and protectionist policies that strained the relations between the two states.

Trump opposed trade-liberalisation stating that the US needed 'a better deal'. In 2018, Trump implied import tariffs on Canadian steel and aluminium as a tactic of bargaining leverage. In 2019, he agreed to incorporate strong labour laws enforcement and therefore won the Congressional support on the new NAFTA agreement, i.e., the USMCA. He signed USMCA on 29 January

2020.¹⁰ This new deal is a part of Trump's economic plan. Trump aimed to lower the trade deficit between the United States and Mexico. With Canada, the trade deficit was at \$27 billion which was comparatively smaller than Mexico.¹¹ So it meant that Trump's threat was either to renegotiate NAFTA or that the tariffs would be reinstated.

USMCA stands different on six accounts:

The auto manufacturing

USMCA protects Mexico and Canada from any further US tariffs and the US is expected to have more jobs in the auto sector. This will affect the US exports to China.¹²

The Canadian dairy market

It was agreed upon that Canada must open its dairy market to the United States farmers, this was what Trump intended. This would allow US to enter the Canadian market and export American goods.

Mexican trucks

The Mexican trucks were required to meet the US safety standards before crossing the border. The Mexican workers were also allowed to form unions. This was a win for Mexico.

Patents and trademarks

Intellectual property rights were adopted under the new agreement and a protection was provided for the patents and trademarks.

Pharmaceuticals

US under USMCA was allowed to sell biologic products to Canada and Mexico for 10 years instead of the previously agreed upon eight and five years respectively.

Dispute resolution

Chapter 11 of the NAFTA deal remains intact. However, companies can no longer use or refer to chapter 19 of the deal for dispute resolution.¹³

Effects of United States–Mexico–Canada Agreement (USMCA)

Renegotiation of NACTA had serious implications for US relations with its trading partners. The Pacific Alliance in 2011 created a free-trade zone between Mexico, Colombia, Chile and, Peru. Since Trump had extended his protectionist agenda, Mexico turned towards the Pacific Alliance. It also started working on improving its relations with the European Union by introducing talks on the removal of tariffs between the two countries.

USMCA can prove beneficial for America as it can restore around 700,000 manufacturing jobs. This was a significant economic achievement for the United States. There might be some negative impacts for the US economy as well considering that the raised prices of the affected imports may result in inflation. Mexican exports would be sufficiently damaged and therefore there is a risk of immigration from Mexico to the US. 80 per cent of Mexico's imports go to the United States and therefore it might damage Mexico's economy and the new restrictions might reduce the overall trade between these three partners.

Canada had significant gains under the NAFTA deal, the Canada-US trade increased as Canada was in the process of its trade liberalisation. In the agriculture sector, the Canadian trade with the US tripled since 1994. Due to all these factors, Canada became more dependent on US for its trade. Canada believes that USMCA is just a modernisation of the previous deal, i.e., NAFTA. Overall, the GDP of all these three trading partners may suffer negatively.¹⁴ The trade relations will be governed by the governments and people-to-people connections will also be strained, but most importantly Trumpian nationalism and democratic progressivism would hinder the growth.

In a hyper-globalised society like US where there is liberal democracy, an anti-globalisation stance continues to prevail, resulting in the election of populist leaders with protectionist agendas. Trump tried to reverse globalisation but failed. His efforts had a negative impact on the US relations with other countries, free-trade regime and its open economy. Trump's focus was on domestication through economic nationalism and protectionism, this is due to the economic insecurity and cultural backlash which are the effects of hyper-globalisation. Therefore, Trump has not only opposed such free-trade agreements, he had also withdrawn from other multilateral accords as he favoured bilateral and unilateral action. But the trade war has harmed the US economy more than an open economy or globalised market and trade ever could.

The Trudeau Government and Defence Relations with US

US and Canada have an extensive defence relationship in place with more than 800 agreements to assist the governance of

defence relationship between the two countries.¹⁵ The North American Aerospace Defence Command (NORAD) is the most important defence partnership which was initially made to defend North America against the Soviet long-range bombers. Today, NORAD consists of aerospace warning, aerospace control and, maritime warning systems. Since the 9/11 terrorist attacks, both the states have been working to ensure border security. Both Canada and the US signed Beyond the Border Declaration in 2011 to jointly assess the threats and share information with each other. The implementation of these initiatives has been slow due to Canadian concerns about sovereignty. NATO is the cornerstone of the Trans-Atlantic security and according to Trump it cannot be dismissed. Both Trump and Obama insisted that the allies for increased budget for defence purposes.

The Trudeau government is focused on making Canada less reliant on US for trade and security. In this regard, PM Trudeau has restored the traditional approach in Canadian foreign affairs. The support for multilateral agreements like the Paris Climate Accord (ratified by the Trudeau government) shows the traditional romanticism in Canadian foreign policy, whereby Canada believes that the world needs more of its presence and participation to ensure the humanitarian values, rights, promotion of democracy, free-trade and, peace-building. The Trudeau government has shown clear signs that Canada has its own sovereign course. So, on issues like free-trade, globalisation and, climate change, Canada continues to maintain a different stance than US. Canada under Trudeau is trying to renew and strengthen the international order.

Trump's protectionist policies became evident at the G-7 meeting in 2018, which showed that the United States is not in

favour of a rule-based and multilateral system. Trudeau gave the new defence policy in 2017 where he reaffirmed his support for the international security efforts and supported active Canadian engagement abroad. Canada is likely to increase its defense budget to invest in new capabilities and expand its military influence. It has also promised to increase the investment on cybersecurity considering its heavy reliance on technology sector.

Trudeau called for democratic reforms and blamed protectionism as the root cause of trade issues, hence making the case for 'free and fair trade'. He also favoured active involvement through military development to ensure global stability, hinting at realism in order to lessen Canada's dependence on US for security and defence needs.

Canada as a Global Leader

In these unprecedented times, where President Trump withdrew from the Paris Accord on Climate Change, there is a power-vacuum on the climate change front. US under Trump moved towards protectionism and therefore it saw the Paris Accord as nothing but a waste of resources and time. Today, Canada has a chance to play the role as an advocate for the global environmental concerns. Canada under Trudeau can and should lead from the front and put the climate change concerns at the heart of the decision-making process. Not only will it help Canada become the global leader, it will also help further its soft-image in the world and assist in the formation of new alliances, which in turn will help it counter the US dominance. Canada can also tokenize its forests and increase funding for the environmental preservation by assuming a leadership role in sustainable finance. The world needs global leadership to limit global warming and to

build an economy beyond fossil fuels. Ambitious decision-making is needed to transform words into actions and policies. With US out of the picture, Canada can achieve its romantic and realist goals, by introducing new agreements and working on the already existing climate change agreements like the Paris Accord. Although US and Canada were both working toward lessening the green-house gas emissions under the US-Canada GHG Emissions Cooperation, but the US is more focused on opposing free-trade which leaves room for Canada to carry out this task and win global legitimacy and support. Therefore, Canada can make a significant contributions while addressing the climate change issues, particularly by leading other states by example, with the introduction of technology and innovative resources that help limit the GHG emissions.¹⁶

Conclusion

Canada under Trudeau has made use of both, romantic and realist approach hand in hand while dealing with the US. With a protectionist leader like Trump in power, US has withdrawn from many multilateral agreements and his protectionist policies have not only affected the relations with Canada but have also negatively contributed to the economy and GDP of these states. The economy suffered after the tariffs were imposed and Canada adopted the policy of forming allies elsewhere and to make its economy more open, it even approached China. The renegotiation of the old NAFTA deal and the implementation of the USMCA will reap benefits as well as losses. Since Canada heavily relied on US for security and trade, Trudeau's realist policy of ending reliance and dependence on the United States by working towards economic and defence independence is worth

acknowledging. He increased the defence budget and moved towards active engagement abroad strategy and investing in new capabilities. This shows that Canada is willing to take on the role of the global policeman through active peace keeping missions. It is also working on its romantic ideals of environmental preservation, through these peace-keeping and climate change fronts. Canada is in actuality trying to overcome the US dominance and to maintain its sovereignty in foreign affairs. It is also working for free and fair trade and looking for new markets. This will facilitate economic interdependence and collective security.

Canada's relations with the US may best work under the realist policies. Canada cannot just leave the US which is not only its neighbour but also its traditional ally. Since Canada is reluctant to use its resources in foreign policy, it needs a realistic foreign policy. It should not differ from the United States just for the sake of difference as US can help it in gaining credibility in the world to pursue its romantic ideals. Since US has moved towards protectionism, Canada needs to become a part of regional organisations that will help reduce its dependence on the US for security and trade. To achieve economic and security independence, Canada should adopt a functionalist approach and work towards developing cordial relations between states for the benefit of its own people. It not only has to end reliance on the US, but at the same time realise that these two are geographically linked and must pursue a more creative approach to multilateralism, while ensuring engagement to solve regional conflicts.

Canada needs a strategy of moving towards other centres of power. It should increase its involvement in the NATO and UN

to have more say in the international politics. Canada must also consider developing bilateral cordial relations with Russia by cooperating on the environmental, climate, diseases and, cybersecurity issues as this will provide an opportunity for the former to move beyond its traditional ally America. Canada's relationship with China could arguably be a challenge for the US-Canada relationship. Canada needs an alternative strategy to fill the gap since the American influence is seemingly declining. Therefore, Canada needs a more rational and active approach to engage other centres of power. Although both Russia and China stand against the romantic ideals that Canada promotes, it can overcome the dangers of a bipolar economic disorder which has emerged as a result of the US-China trade war. Russia and Canada are both EU members and the two have an Arctic Alliance as well. Hence, Canada can work with both China and Russia toward the creation of a new multilateral economic order.

The country may see new opportunities in case of a possible US withdrawal from Afghanistan creating a power vacuum and hence as another chance for new ventures in the South Asian region for Canada. A potential for a joint collaboration between US and Canada may then prove significant in maintaining stability in Afghanistan and hence the region. Due to the shared values of the US and Canada, it is in the best interest of both states to continue their cooperation while maintaining their independent foreign policies. Hence, Canada should pursue its romantic as well as realist goals side by side by using a more rational and functional approach in its foreign policy.

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- ⁶ CFR's Edward Alden is of the view that the growing income inequality and wage gaps have risen and are not keeping up with the labor productivity, therefore the American economy under these trade deals is highly globalized which is causing opposition from the populist leaders.
- ⁷ The Center for Economic and Policy Research's (CEPR) Dean Baker and the Economic Policy Institute's Robert Scott have made this assumption.
- ⁸ Gary Clyde Hufbauer and Cathleen Cimino-Isaacs of the Peterson Institute for International Economics (PIIE) have put this view forward. Their 2014 PIIE study of NAFTA's effects found a net loss of about fifteen thousand jobs per year due to the pact—but gains of roughly \$450,000 for each job lost, in the form of higher productivity and lower consumer prices.

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