

CanadaWatch

PRACTICAL AND AUTHORITATIVE ANALYSIS OF KEY NATIONAL ISSUES

EDITORIAL

Mr. O goes to Washington: The bigger-than-big agenda

MODERNITY'S FIRST WEB 2.0 PRESIDENT

Obama's political capital is at its zenith and eventually the tide will turn; but for now, Leader Obama is unlike any other contemporary political figure. What sets him apart is a combination of his youth, his forceful ideas, the jaw-numbing crisis he faces, and the innovative way he constantly networks with his base, integrating it into the policy process. All of this has pushed him and us, Canada and Mexico, into uncharted waters because he is committed to changing the way politics is done and how the economy operates.

BY DANIEL DRACHE AND
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In office a month over 100 days, and Obama's action agenda to rescue the American economy seems hesitant and in danger of being derailed. His message is that Americans both need and expect action: "Millions of jobs that Americans relied on just a year ago are gone; millions more of the nest eggs families

worked so hard to build have vanished. People everywhere are worried about what tomorrow will bring. What Americans expect from Washington is action that matches the urgency they feel in their daily lives—action that's swift, bold and wise enough for us to climb out of this crisis" (*Washington Post*, February 5, 2009).

The push back from the Republicans and neo-conservative movement is a major obstacle to a really strong stimulus package. At present, Obama's bipartisan approach is not working. Skeptics don't believe he will succeed, and pragmatists

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SECURITY AND IMMIGRATION POST-BUSH

The quest for the perfectly secure border

THE THREAT OF POROUS BORDERS

Andrew Speaker had at least this in common with a terrorist: he was determined not to be caught. Speaker, a US citizen, had been warned by American health authorities in May 2007 to stay at home in Atlanta after he contracted a highly infectious, drug-resistant strain of tuberculosis. But he had plans to be married in Europe, so he ignored the warning and flew to Paris. Two weeks later, after US officials had tracked him down in Rome, he promised to get treatment there and refrain from travelling. Yet the

BY EDWARD ALDEN

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next day he broke his word and boarded a flight from Prague to Montreal, where he rented a car and drove across the US border at Champlain, New York. When the news broke, it became Exhibit A for those who think that porous borders remain the biggest threat to US security. Congress immediately convened hear-

ings to vent its outrage at the Department of Homeland Security. If a known TB carrier could be waved into the country across the northern border, they argued, how much harder could it be for one of bin Laden's operatives?

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redefine THE POSSIBLE.

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are uncertain of its benefits. The bipartisan strategy on Obama's stimulus bill failed to win over a single Republican.

A PARADIGM SHIFT: EYES WIDE OPEN PLEASE

Fundamental reforms can be thought of as what experts call a "paradigm shift" or, in simpler language, a fundamental reordering of the function and structures of the institutions of the global economy. The collapse of greed-ridden Wall Street as the financial epicentre of the global economy has produced seismic shock waves throughout the rest of the world. The US economy is contracting at a rate of 6 percent, the once muscular German economy at 7 percent, the troubled Japanese economy at 12 percent, and the formerly dynamic Korean economy at 22 percent over the fourth quarter of 2008. These numbers present a chilling reality for the new US president. He is most preoccupied with the hundreds of thousands of Americans losing their employment as layoffs soar each month.

Obama's stimulus package has to restart American factories and find ways to reduce a mountain of trade deficits. It is likely there will be new rules for multinational US enterprises to keep more value-added production at home. The salaries of bank presidents whose institutions have received billions of taxpayers' dollars in bailouts need to be capped, the sooner the better. On the trade front, serious initiatives will be made to resuscitate the collapsed WTO trade round to help get the world over the worst of the crisis. However, it is the magnitude of the rise of mass unemployment that is most dangerous to the future political life of any politician whether in the United States or any other country that has been brought to its knees by the impact of the current crisis. The United States is losing 500,000 jobs per month, Brazil lost 650,000 jobs in December, and Beijing, the one-time dynamo of the global economy, reports that an astonishing 20 million Chinese workers have seen their

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jobs disappear since the financial crunch began. The world economy now depends increasingly on the life support measures of the Obama administration to counter the worst effects of the global slowdown. It is not clear whether the United States can do this alone without a coordinated strategy between banks and governments across the world or even whether this Mount Everest-sized collapse of financial markets has reached bottom yet.

A PUBLIC POLICY IN NEED OF LEGS

By any standard, Obama's agenda for action is unimaginably complex. Millions of Americans are demanding swift and effective new policies. Under President Bush, the number one strategic priority was homeland security—overriding all public policy goals and framing every decision large or small. The mantra of the Obama administration is America first, and he has much to fix because so much is broken. A great deal of the current debate focuses on these pressing questions: is the stimulus on offer big enough and does it direct funding to the right places?

Experts, divided on these questions, are looking to the past for answers. In the 1930s, the United States faced a day of reckoning from debt disintegration

and mass unemployment. As with the earlier collapse of financial markets, the extreme monetary policy of the last two decades has produced a cascade of debacles that has precipitated mass corporate default and ruined millions of consumers whose life savings have disappeared down a sinkhole of corporate mismanagement and financial greed. Few experts doubt that Obama will have to find his own way out of the crisis.

The challenge for Obama is to impose regulatory discipline on markets while at the same time keeping the system going by absorbing a mountain of debt. Everything hinges on the outcome of deleveraging, an economist's term for finding a safe harbour for \$3 trillion in toxic assets! The key issue is whether Obama will in the end nationalize the banks, as George Soros and Joseph Stiglitz are predicting, and finance a takeover of the system or whether he will choose to pour money into resuscitating failed institutions. It is not inconceivable in the present climate that like many governments, Obama's will have to own some of the largest banks in order to save the American banking system.

NAFTA, THE TIE THAT DIVIDES AND UNITES US

Canadians and Mexicans were glued to their television sets on November 4, 2008 to watch Obama become the 44th president-elect. They also cheered the end of the degraded Bush-Cheney presidency along with millions of Americans. According to the latest public opinion polls, Obama is twice as popular as Stephen Harper in Canada, and the numbers are no less extraordinary for Felipe Calderon in Mexico. The widely held perception is that the Canadian and Mexican governments are out of sync with the momentous changes coming from the White House. It was said of Lincoln, in a biography by Doris Kearns Goodwin, that his eloquence "was of a higher type which produced conviction

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in others because of the conviction of the speaker himself.” By contrast, Mexicans and Canadians do not have leaders that raise the bar of public life or inspire the “hearer” toward a new kind of politics.

For North Americans, the strategic reality that defines their relationship to the United States is NAFTA. Mexico and Canada have invested everything in this difficult and often disappointing economic-legal agreement with its exemptions and circumventions. There is no commonly agreed to definition of a subsidy, no restriction on the deployment of US trade law, and no guaranteed opt-out from many state and federal laws.

The contributors to this special issue of *Canada Watch* offer conflicting views about NAFTA’s significance for the future and other topics that have become essential to the ongoing integration process itself. Some of our contributors urge a full throttle acceptance of a NAFTA-plus, and certainly there is plenty of room for cooperation to build infrastructure to move people cheaply and easily all over the continent particularly from north to south. Others argue that the Obama administration will move swiftly and with determination to create jobs for out-of-work Americans. In the election campaign, Obama promised to revisit NAFTA, an exercise many Mexicans and Canadians also believe is long overdue. He argued that the United States needs to look at what is broken and what is working. North America’s future will be dysfunctional without its reform, and the need to revisit this landmark agreement is essential.

MEXICO AND CANADA: DIVERGENT NEEDS

Our contributors point to a more fundamental problem between Obama and his NAFTA partners. Canada and Mexico have neither voice nor representation in the forging of the new consensus. Canadians and Mexicans are anxious about the future of their auto, steel, and manu-

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facturing industries. The multi-billion-dollar “Buy American” stimulus package and the new law giving the United States the exclusive right to supply iron and steel as well as other manufactured goods are spitefully protectionist and set a dangerous precedent if the language is not moderated and the bills withdrawn.

The Harper government is furiously lobbying the US Congress for an opt-out provision from US law, but it has no legal ground to stand on and even less political clout with a Congress focused on America’s domestic crisis. “Buy American” laws are excluded from NAFTA’s legal regime according to trade experts. Obama said that his administration would “massage” the language in these bills but he was defeated in the Senate. Canadians can’t expect Obama to rescue the Canadian economy, but it is still unclear whether the Harper government has any strategic plan to protect Canadian jobs and businesses. It is operating on the old reflex that access to the US market is the priority and that building policy space through smart government intervention is a second-order goal.

The Mexican administration is, on the other hand, deeply troubled by the urgency of the crisis, which attacks Mexican stability on several crucial fronts. Apart from being anxious about the future of some strategic industries,

the government is simultaneously confronting the most asymmetrical and dangerous war of all—the war against unmanageable organized crime and a corrupted political class, if not a corrupt institutional political establishment—which has provided reason to speculate on whether or not Mexico is a failed state. Mexico has failed to deliver a death blow to narco-terrorism not only because of the increasing incompetence of the whole Mexican political system but also because of US culpability in the escalation of violence in terms of drug demand. In the United States, there are 35 million consumers of illegal substances and an abundant supply of black market weapons, which end up in the hands of the cartels.

The meeting between Obama and Calderon in the days leading up to the inauguration was both a tremendous diplomatic achievement and an example of the leverage that Mexico, embracing fully its role as partner, can have in the US security agenda. And yet, although Obama may be a one-of-a-kind leader, he is not the North American Moses, let alone the Mexican salvation. Still, a cooperative and multilateral presidency in the United States may be understood as a window of opportunity for Mexico to boost, at last, a comprehensive agenda for the bilateral relationship in both traditional and alternative areas such as energy, environmental issues, and cooperation education, among others. Only this broader approach can redefine and relaunch the next positive chapter in North American relations within an atmosphere of cooperative and respectful behaviour from both governments.

THE END OF THE NAFTA CONSENSUS

North America will look radically different in a year’s time as huge shifts in production and employment will make this vast market economy more difficult to manage. The once easy consensus over NAFTA and its benefits has disappeared


into the pages of history. The current fiscal collapse looks particularly frightening because all three North American economies are moving into recession or are already there. The near collapse of the banking sector and the imminent bankruptcy of GM, Chrysler, and possibly Ford signal that the worst is far from over. In fairness to Obama, it needs to be said that he has not yet given a lot of thought to the architecture of deep integration post-Bush.

It is unlikely that he will use his Washington office to discredit the policies of his predecessor; but it would be better to use his power to frighten bankers, business people, and investors into

accepting that financial stability is needed to calm the markets and to return to a sense of proportion so as to avoid any further catastrophic losses in the financial markets. Narco-terrorism in Mexico and a massive illegal trafficking of handguns in both Canada and the United States have begun to broaden the debate over security. The situation on both counts is likely to get worse before it gets better.

It has been observed that when countries abandon old, orthodox assumptions about public policy, innovative diplomacy is possible because it is in everyone's self-interest. This insight applies particularly to the future of North

America. NAFTA illustrates the clash between liberal elements mixed with *dirigiste*, power-based rules that have left Canada and Mexico permanently off balance. The collapse of the US housing market, its troubled financial institutions, and the sea of job loss have made huge holes in the idea of North America as an integrated set of markets.

What we don't know is this: Will Obama be solely responsible for setting a coherent North American agenda? What will be the role and responsibility of Mexico and Canada? Will they be able to renegotiate a comprehensive and inclusive social agenda? We are all waiting to exhale. 

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The reaction to Speaker's sojourn was a warning about what is still to come as the mentality of "homeland security" becomes ever more firmly entrenched in Washington, despite the years that have passed since the 9/11 attacks. The administration of Barack Obama may change the nuances and nudge the priorities, but it is a world view that is shared by Democrats and Republicans alike. And it will make life still more complicated and difficult for America's neighbours on its northern and southern borders.

HOMELAND SECURITY

Since its establishment in 2003 at the urging of congressional Democrats, the Department of Homeland Security (DHS) has conceived its mission as one of plugging vulnerabilities. For the United States, this was a radically new concept. In its modern history, America had always defended itself far from its borders, either fighting wars abroad or deterring the handful of adversaries capable of striking US territory by threatening massive retaliation. Although 9/11 did not abolish that paradigm, it certainly altered it. Because suicide terrorists could not be deterred, the reasoning went, they must be kept outside the United States.

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That launched the quest for the perfectly secure border, and it has brought a gradually escalating effort to deploy people, technologies, and old-fashioned barriers to keep the "bad guys" out of the United States. It began with the most obvious threats revealed by the 9/11 attacks, but has since fanned out to ever more ambitious efforts to protect against ever smaller threats—not just terrorism but drug runners, illegal migrants, and careless travellers with communicable diseases. It is an approach that has its own expansive logic: once you plug one gap in the border defences, the next one on the list looms that much larger.

The US list began, quite reasonably, with the hijackers themselves. All 19 had come from Middle Eastern countries on validly issued visas, so the first step was to tighten visa procedures, especially from countries known to have an al-Qaeda presence. All had flown to the

United States, so Washington forced airlines to turn over their passenger lists for all future incoming flights. At least two of the hijackers, and possibly more, should have been on US terrorist watch lists, so Washington broke down internal barriers to information sharing and added hundreds of thousands of names.

Those measures—more careful visa scrutiny, advanced information on incoming passengers, and a robust, if not terribly discriminating, terrorist watch list—probably went 90 percent of the way to keeping out al-Qaeda operatives. But that's where it started to get complicated. As terrorism experts point out, al-Qaeda is an adaptable adversary, so once the obvious routes to the United States were blocked, they could be expected to look for others.

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