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**INTERNATIONAL CONSEQUENCES
OF NORTH AMERICAN POLICY CHOICES**

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It is truly an honor to be here. As a columnist for the *Globe*, I've often felt when I was standing before a gathering to give a talk that there were people in the room who knew more than I did about what it was I was talking about. I've never felt that more acutely than today. However, persevering despite ignorance is a hallmark of daily journalism, so I'm just going to plow ahead and talk very briefly about the state of things in Canada and the state of things in Canada/U.S. relations.

I was lucky in that there were two news stories yesterday that perfectly represented the two points that I wanted to make today. Also, there is a news story today, in case you haven't heard: The Canadian dollar closed above par with the U.S. I had my first job as a clerk in a pharmacy in Gravenhurst, Ontario, the last time that was the case. Maybe our merchants will take the American dollar at par and maybe they won't. We'll see.

The news story on the front page of yesterday's *Globe* was that the Canadian fiscal surplus for fiscal '06-'07 has closed at 14 billion dollars, which is 5 billion dollars more than it was projected to close at. For years, really since '97, federal finance ministers have been underestimating the surplus. I once wrote a column calling this "the necessary lie." The idea was that Canada needs to pay down its debt, but, of course, if you declare a surplus, there are all sort of pressures for you to spend that surplus, so finance ministers would lowball the surplus estimates and then when the surplus came in above what it was expected to be, they would apply it to the debt.

John Manley, who will be speaking to you and who, of course, is a former finance minister, sent a very sharp letter to the *Globe and Mail* saying that finance ministers do not lie, at least liberal finance ministers do not lie. But now even a conservative finance minister is trying to explain how once again he managed to so egregiously underestimate the size of fiscal surplus. It points to what really is a golden age right now for Canada. We are—and we love to recite this, certainly the prime minister loves to recite it over and over again, but it happens to be true—the only G7 country that has now ten years of surpluses, is paying down the government debt, has fully funded the pension plan, is steadily lowering taxes. It is, in all sense, a very virtuous circle.

In fact, Paul Wells, a columnist from *McLean's Magazine*, and I were talking to the EU heads of mission in Ottawa last April, and Paul said, I will give you this advice to take back to your presidents and prime ministers. Balance your budgets, cut taxes and deregulate. Not only is it good for your country but you always get re-elected, and certainly in North America it seems to be true.

Of course, part of it is the fact that we are now a petrol currency. Commodities generally are high, especially oil, and we have lots of it. And it is also true that the picture is not rosy everywhere. Ontario

has shed 200,000 manufacturing jobs in recent years. Ontario's economy is going through a bit of creative destruction, but in the long run it's going to come through. It's part of the transformation of that economy to high technology, financial services, and that will be where Ontario goes in this century, so overall the message is very encouraging.

It's also very encouraging on the political front. We seemed to have stabilized instability or made it a part of the culture, and it seems to be working, so separatism in Quebec is at an all time low. In my lifetime probably, separatism is less popular in that province than it's ever been before. But at the same time, there is a process of devolution of power that has been ongoing since the mid-1990s and is continuing under the current government of devolving powers from the federal government to the provinces, getting them out of spheres of provincial jurisdiction. I'm a strong provincialist, and I've always argued this was a good idea, and I think it's good that it's continuing and lessening tensions across the country.

We might even be moving in the not too distant future to proportional representation. There is a ballot question in the current Ontario election referendum on whether Ontario should move to PR. So, entrenching the idea that we're always going to have minority governments of one kind or another and indeed may move to permanent minority governments in the not too distant future seems to be working.

But it's more than all of that too. I wrote a book a couple of years ago called *The Polite Revolution*. The first sentence of the book was: "Sometime, not too long ago while no one was looking, Canada became the world's most successful country." Why would I make such an outrageous claim? Well, it's not just the fact that we have our fiscal house in order, and it's not just the fact that we are living in a politically peaceable kingdom. It's because Canada got multiculturalism right. Canada got it right in a way that no one else in the world has got it right yet. The future in this century is going to be one of countries that get it right the way that Canada is getting it right and prosper, and countries that get it wrong and don't prosper.

What is that multiculturalism? As you know, Canada takes in more immigrants than any other country in the world—twice as many per capita as the United States does, at least legally. But it's not just the number of immigrants we bring in. It's the kind of immigrants we bring in. Twenty-five percent of all of our immigrants come from China or the countries surrounding China. Twenty-five percent come from India and the countries surrounding India. And the other 50 percent come from the Caribbean, Latin America, the Middle East, Africa, even a few from Europe, though no one from Europe seems to want to come to Canada anymore.

The result is that we are turning into, first of all, one of the world's most urban countries. There is also a steady exodus from the rural into the urban and even from the mid-sized urban into the large urban—Halifax, Nova Scotia, for example. Brian Crowley of the Atlantic Institute for Market Studies once said that Nova Scotia used to be a province with a city in it and now it's a city with a province around it. Halifax is taking in people from rural Nova Scotia, but it's losing people west. That's happening all through central and northern Quebec, through northern Ontario, through Saskatchewan and Manitoba.

You have two great migrations on the way—from the rural to the urban, and from everywhere else in the world to the six big cities. In fact, Canada is really turning into six cities with a whole bunch of bush in between. In those cities, you have an amazingly diverse population. Sometime in the next decade, it is predicted that Toronto and Vancouver will both become majority immigrant cities. They are in the mid-40s now. Most of the people living in Toronto and most of the people living in Vancouver will have been born overseas.

Because we are not bringing all the immigrants in from one particular area, as too many countries are

doing, but mixing it up, we are in fact producing a remarkably diverse society, where a Guatemalan boy meets a South Korean girl and they get married and they have babies and a wonderful fusion cuisine results. You're finding in the office spaces, there is tremendous cultural creativity, which I would contend is the reason behind the sort of entrepreneurial explosion that is taking place in much of Canadian business, the incredibly boring country that now dominates book prize short lists and the like. I think it is that diversity and that creative and entrepreneurial energy caused by diverse multicultural cities that is pushing Canada forward and that will continue to push us forward in the course of this century. This means we're halfway there.

The other news story that appeared yesterday was a report from the General Accounting office of Congress. They sent undercover teams with large suspicious packages of things that looked like radioactive material to see if they could get across the Canadian border. All fourteen succeeded in getting across the Canada/U.S. border without being stopped. They went through those check points in the rural areas where there is only one guy and he goes home at five o'clock and puts up a sign saying, "Don't cross the border." One of the teams actually excited so much suspicion that the local residents phoned the police and said "Who are these guys crossing the border?" but they couldn't find them. That was that. This, of course, has led to all sorts of shouting in Congress that Canada is a terrorist capital and that we are a dangerous threat to American security. This is all very regrettable. What is even more regrettable is that as the Americans move incrementally to tighten that border, moves to counter that effect are not proving successful.

The most important of those moves was supposed to be the Security and Prosperity Partnership which was inaugurated in Waco, Texas and given a push last year, but that seems to be fizzling into nothing at Montebello. There is incremental work going on. On a broad range there are communiqués that say that on economic issues as well as security Canada and the United States are moving towards harmonization. Nothing really is being done. In fact, however fuzzy the communiqué that came out of Montebello was, it seemed to perhaps suggest that at least in the area of industrial chemicals the two countries, Canada and the United States, could harmonize their regulatory regimes. That led, of course, to cries of surrender of sovereignty, and only yesterday the minister of health, Tony Clement, said there would no harmonization of the regulatory regimes for industrial chemicals between Canada and the United States, so that didn't last very long.

Meanwhile, you have the lunatics on the left in Canada and on the right in the United States, which is always a potent combination, claiming that we're heading to a North American union if only because the SPP has been done behind closed doors and because no political leader would actually expend an ounce of political capital in defending it. It's being turned into a conspiracy theory on the web while in fact it achieves virtually nothing in terms of any concrete further integration of the two countries. When we should be looking at the possibility of a customs union, and we should be looking, I believe strongly, at the idea of labor mobility, we should be looking at some kind of continental security arrangement so indeed we don't have nasty things crossing each other's borders. Nobody seems to worry about the Americans sending terrorists up to Canada, I noticed.

That is not going to change. It's not going to change because we have perpetual minority governments in Canada. It's not worth the Canadian prime minister's political capital. No American president since Reagan—since Clinton, I guess—has been prepared to really expend capital on deepening integration. It won't happen until you have a president of the United States who is prepared to work aggressively to further integrate, a Canadian prime minister who is prepared to do the same thing, and both of them have control of their respective parliaments sufficient to get such a thing passed. I doubt that I'll be covering those negotiations.

In spite of all that, I do believe fundamentally that the Canada/U.S. relationship is sound and that both countries are, in fact, prospering. There are concerns about an American recession and concerns that it might drag Canada down with it. Interestingly though, and you can take this as good news or bad news, trade with the United States peaked at about 85 percent of exports in 2002. It's gone down to 79 percent in the course of the last five years. I thought that it was all going to China but, in fact, Canadian exports to the EU have been increasing at 12 percent per annum every year since 2002 and just about equally make up for the loss of trade to the United States, which is probably healthy for all of us.

As I've said, I'm very optimistic about Canada's future because we finally have real grounds for optimism, and the Americans are perpetually optimistic people and with good reason. I'm just reading Alan Greenspan's book. He points to the enormous resiliency of the American economy. People are running around like chickens with their heads cut off over sub-prime mortgages, but they just went through September 11th and Katrina. I think they could probably weather this. So, in a very un-journalistic way, I have great confidence in the ability of both countries to prosper and, though at this point slender, hopes that they will, in fact, be able to integrate more fully, as they should, their economies within the North American context.

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