

# U.S. ECONOMIC AND TRADE RELATIONS WITH CANADA AND MEXICO

*American Political,  
Economic and  
Security Issues*

*Daniel S. Morales  
Luis A. Medina*  
Editors

NOVA

AMERICAN POLITICAL, ECONOMIC, AND SECURITY ISSUES

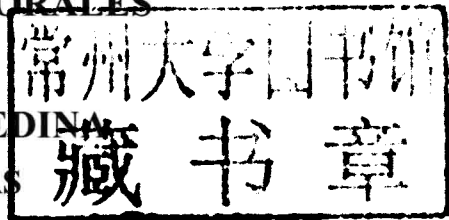
# U.S. ECONOMIC AND TRADE RELATIONS WITH CANADA AND MEXICO

DANIEL S. MORALES

AND

LUIS A. MEDINA

EDITORS



---

**Nova Science Publishers, Inc.**

*New York*

Copyright © 2011 by Nova Science Publishers, Inc.

**All rights reserved.** No part of this book may be reproduced, stored in a retrieval system or transmitted in any form or by any means: electronic, electrostatic, magnetic, tape, mechanical photocopying, recording or otherwise without the written permission of the Publisher.

For permission to use material from this book please contact us:

Telephone 631-231-7269; Fax 631-231-8175

Web Site: <http://www.novapublishers.com>

### NOTICE TO THE READER

The Publisher has taken reasonable care in the preparation of this book, but makes no expressed or implied warranty of any kind and assumes no responsibility for any errors or omissions. No liability is assumed for incidental or consequential damages in connection with or arising out of information contained in this book. The Publisher shall not be liable for any special, consequential, or exemplary damages resulting, in whole or in part, from the readers' use of, or reliance upon, this material. Any parts of this book based on government reports are so indicated and copyright is claimed for those parts to the extent applicable to compilations of such works.

Independent verification should be sought for any data, advice or recommendations contained in this book. In addition, no responsibility is assumed by the publisher for any injury and/or damage to persons or property arising from any methods, products, instructions, ideas or otherwise contained in this publication.

This publication is designed to provide accurate and authoritative information with regard to the subject matter covered herein. It is sold with the clear understanding that the Publisher is not engaged in rendering legal or any other professional services. If legal or any other expert assistance is required, the services of a competent person should be sought. FROM A DECLARATION OF PARTICIPANTS JOINTLY ADOPTED BY A COMMITTEE OF THE AMERICAN BAR ASSOCIATION AND A COMMITTEE OF PUBLISHERS.

Additional color graphics may be available in the e-book version of this book.

### LIBRARY OF CONGRESS CATALOGING-IN-PUBLICATION DATA

U.S. economic and trade relations with Canada and Mexico / editors, Daniel

S. Morales and Luis A. Medina.

p. cm.

Includes index.

ISBN 978-1-61209-447-2 (hbk.)

1. United States--Foreign economic relations--Canada. 2. Canada--Foreign economic relations--United States. 3. United States--Foreign economic relations--Mexico. 4. Mexico--Foreign economic relations--United States. 5. Free trade--North America. I. Morales, Daniel S. II. Medina, Luis A.

HF1456.5.C2U185 2011

337.73071--dc22

2011003976

*Published by Nova Science Publishers, Inc. † New York*

**AMERICAN POLITICAL, ECONOMIC, AND SECURITY ISSUES**

**U.S. ECONOMIC AND TRADE  
RELATIONS WITH CANADA  
AND MEXICO**

## **AMERICAN POLITICAL, ECONOMIC, AND SECURITY ISSUES**

Additional books in this series can be found on Nova's website under the Series tab.

Additional E-books in this series can be found on Nova's website under the E-books tab.

## **TRADE ISSUES, POLICIES AND LAWS**

Additional books in this series can be found on Nova's website under the Series tab.

Additional E-books in this series can be found on Nova's website under the E-books tab.

## PREFACE

This new book presents and discusses the economic and trade relations between the United States, Canada and Mexico. Topics discussed include Canada-U.S. relations; the United States-Canada trade and economic relationship; NAFTA and the future of commercial trucking across the Mexican border and the Cuban migration to the United States.

Chapter 1 - Relations between the United States and Canada, though generally close, have undergone changes in tenor over the past three decades. During the 1980s, the two countries generally enjoyed very good relations. The early 1990s brought new governments to Ottawa and Washington, and although Canada's Liberal Party emphasized its determination to act independently of the United States when necessary, relations continued to be cordial. In early 2006, a minority Conservative government assumed power in Ottawa. It was regarded as being more philosophically in tune with the Bush Administration than the Liberals were; some observers believe that this compatibility has helped facilitate bilateral cooperation. The election of President Obama November 2008 signaled a new chapter in U.S.-Canada relations; unlike President Bush, Obama is quite popular in Canada.

The two North American countries continue to cooperate widely in international security and political issues, both bilaterally and through numerous international organizations. Canada's foreign and defense policies are usually in harmony with those of the United States. Areas of contention are relatively few, but sometimes sharp, as was the case in policy toward Iraq. Since September 11, the United States and Canada have cooperated extensively on efforts to combat terrorism, particularly in Afghanistan.

The United States and Canada maintain the world's largest trading relationship, one that has been strengthened over the past two decades by the approval of two multilateral free trade agreements. Although commercial disputes may not be quite as prominent now as they have been in the past, the two countries in recent years have engaged in difficult negotiations over items in several trade sectors, including natural resources, agricultural commodities, and the cultural/entertainment industry. However, these disputes affect but a small percentage of the total goods and services exchanged. In recent years, energy has increasingly emerged as a key component of the trade relationship. In addition, the United States and Canada work together closely on environmental matters, including monitoring air quality and solid waste transfers, and protecting and maintaining the quality of border waterways.

Many Members of Congress follow U.S.-Canada environmental, trade, and transborder issues that affect their states and districts. In addition, because the countries are similar in

many ways, lawmakers in both countries study solutions proposed in the other to such issues as federal fiscal policy and federal-provincial power sharing.

This report provides a short overview of Canada's political scene, its economic conditions, and its recent security and foreign policy, focusing particularly on issues that may be relevant to U.S. policymakers. This brief country survey is followed by several summaries of current bilateral issues in the political, trade, and environmental arenas. The report is updated annually.

Chapter 2 - The United States and Canada conduct the world's largest bilateral trade relationship, with total merchandise trade (exports and imports) exceeding \$596.9 billion in 2008. The U.S.-Canadian relationship revolves around the themes of integration and asymmetry: integration from successive trade liberalization from the U.S.-Canada Auto Pact of 1965 leading to North American Free Trade Agreement (NAFTA), and asymmetry resulting from Canadian dependence on the U.S. market and from the disparate size of the two economies.

The economies of the United States and Canada are highly integrated, a process that has been accelerated by the bilateral U.S.-Canada free trade agreement (FTA) of 1988 and the NAFTA of 1994. Both are affluent industrialized economies, with similar standards of living and industrial structure. However, the two economies diverge in size, per capita income, productivity and net savings.

Canada is the largest single-country trading partner of the United States. In 2008, total merchandise trade with Canada consisted of \$335.6 billion in imports and \$260.9 billion in exports. In 2007, China displaced Canada as the largest source for U.S. imports for the first time. While Canada is an important trading partner for the United States, the United States is the dominant trade partner for Canada, and trade is a dominant feature of the Canadian economy. Automobiles and auto parts, a sector which has become highly integrated due to free trade, make up the largest sector of traded products. Canada is also the largest exporter of energy to the United States. Like the United States, the Canadian economy is affected by the transformation of China into an economic superpower. The United States and Canada also have significant stakes in each other's economy through foreign direct investment.

Both countries are members of the World Trade Organization (WTO) and both are partners with Mexico in the NAFTA. While most trade is conducted smoothly, several disputes remain contentious. Disputes concerning the 2006 softwood lumber agreement are under arbitration and Canada has sought WTO consultations over country-of-origin-labeling requirements. In addition, the United States has placed Canada on its Special 301 priority watch list over intellectual property rights enforcement issues. Canada has also vigorously protested the implementation of the 'Buy American' provisions of the economic stimulus package.

The terrorist attacks of 2001 focused attention on the U.S.-Canadian border. Several bilateral initiatives have been undertaken to minimize disruption to commerce from added border security. The focus on the border has renewed interest in some quarters in greater economic integration, either through incremental measures such as greater regulatory cooperation or potentially larger goals such as a customs or monetary union. Congressional interest has focused mostly on trade disputes, and also on the ability of the two nations to continue their traditional volume of trade with heightened security on the border. This report will be updated periodically.



Chapter 3 - NAFTA set forth a schedule for implementing its trucking provisions that would have opened the border states to cross-border trucking competition in 1995 and all of North America in 2000, but full implementation has been stalled because of concern with the safety of Mexican trucks. Congress first addressed these concerns in the FY2002 Department of Transportation Appropriations Act (P.L. 107-87) which set 22 safety-related preconditions for opening the border to long-haul Mexican trucks. In November 2002, the U.S. Department of Transportation announced that all the preconditions had been met and began processing Mexican applications for U.S. long-haul authority. However, a suit over environmental compliance delayed implementation further. After the suit was resolved, in February 2007, the U.S. and Mexican Secretaries of Transportation announced a demonstration project to implement the NAFTA trucking provisions. The purpose of the project was to demonstrate the ability of Mexico-based motor carriers to operate safely in the United States beyond the border commercial zones. Up to 100 Mexico- domiciled carriers would be allowed to operate throughout the United States for one year and Mexico would allow the same for up to 100 U.S.-based carriers. With passage of the U.S. Troop Readiness, Veteran's Care, Katrina Recovery, and Iraq Accountability Appropriations Act, 2007 (P.L. 110-28), Congress mandated additional requirements before the project could begin. After failing to defund the demonstration project in the FY2008 Consolidated Appropriations Act (P.L. 110-161), Congress succeeded in terminating the demonstration project through a provision in the FY2009 Omnibus Appropriations Act (P.L. 111-8). Subsequently, Mexico announced it would retaliate by increasing import duties on 90 U.S. products. The Obama Administration has indicated it intends to propose a revamped program that will address the concerns of Congress.

One truck safety statistic, "out-of-service" rates, indicates that Mexican trucks operating in the United States are now safer than they were a decade ago. The data indicate that Mexican trucks and drivers have a comparable safety record to U.S. truckers. Another study indicates that the truck driver is usually the more critical factor in causing accidents than a safety defect with the truck itself. Service characteristics of long-haul trucking suggest that substandard carriers would likely not succeed in this market.

As shipment distance increases, the relative cost of trucking compared to rail increases, and thus shippers utilizing long-haul trucking are willing to pay more because they require premium service, such as precise delivery windows or cargo refrigeration. These exacting service requirements would seem to disqualify truckers with unreliable equipment or incompetent drivers.

In contrast, the short-haul "drayage" carriers that Mexican long-haul carriers would displace, typically use older equipment because of the many hours spent idling awaiting customs processing at the border. If Mexican carriers do eventually receive long-haul authority, the short term impact is expected to be gradual as Mexican firms deal with a number of stumbling blocks, including lack of prearranged back hauls and higher insurance and capital costs, in addition to the customs processing delays. In the long run, use of drayage companies is likely to decline as they lose part of their market share to Mexican long-haul carriers. The most common trips for these carriers will probably be from the Mexican interior to warehouse facilities on the U.S. side of the border or to nearby cities in the border states.

Issues for Congress include evaluating the Obama Administration's pending proposal and evaluating the safety record of Mexican trucks. Other oversight issues include whether the role of Mexican customs brokers and drayage operators in cross-border trade is a barrier



against U.S. trucking firms, and the leasing of Mexican trucks and drivers by U.S. firms for use in the United States.

Chapter 4 - Many of the issues surrounding Cuban migration are unique but not new. Normal immigration from Cuba has been elusive since Fidel Castro came to power. Over the past 50 years, the practice of Cubans fleeing by boat to the United States has become commonplace, and at some points reached the levels of a mass exodus. Since the last upsurge of “boat people” in the mid-1990s, the United States and Cuba worked toward establishing safe, legal immigration, which includes returning migrants interdicted by the U.S. Coast Guard. These migration policies, however, are not without critics.

The immigration of Cubans to the United States has increased since 1995, although the actual admission numbers have ebbed and flowed over this period. Cuba consistently ranks among the top 10 source countries for legal permanent residents (LPRs). Cuba ranked fifth as a top immigrant-sending country—after Mexico, China, India, and the Philippines—in FY2008. A total of 49,500 Cubans became LPRs in FY2008.

U.S. Coast Guard interdictions of Cubans have fluctuated since the mid-1990s, yet the general trend has moved upward. Cuban interdictions reached a 12-year high of 2,868 in FY2007. In FY2008, the U.S. Coast Guard reported 2,199 Cuban interdictions. Similarly, U.S. Border Patrol apprehensions of Cubans peaked at 4,295 in FY2007 and slipped to 3,351 in FY2008. Cubans who arrived at ports of entry without documents exhibited a comparable pattern, reaching high of 13,019 in FY2007 and falling slightly to 11,278 in FY2008.

The change in leadership of both the United States and Cuba may provide openings for revisions in U.S. policy on Cuban migration. Fidel Castro’s departure as head of government in July 2006 has prompted some observers to call for a reexamination of U.S. policy toward Cuba overall, and a potential opportunity to restart the migration talks that had occurred semi-annually for a decade after the 1994 U.S.-Cuba Migration Accord.

After serving temporarily, Raúl Castro, brother of Fidel Casto, officially assumed the Cuban presidency in February 2008. This transfer of power between the Castro brothers led some to question whether there would be much of an opening for renewed migration talks between the United States and Cuba.

During the 2008 U.S. presidential campaign, however, President Barack Obama stated he would seek to change U.S. policy by allowing unlimited family travel and remittances to Cuba, signaling to some the possibility of resuming the migration talks.

In his opening speech at the Summit of the Americas on April 17, 2009, President Obama expressed the hope of “a new beginning with Cuba,” specifically mentioning migration as an issue. A bipartisan group of congressional leaders are expressing support for a resumption of the migration talks with Cuba.

This report does not track legislation but will be updated if policies are revised. For a discussion of U.S. foreign policy toward Cuba, see CRS Report R40193, *Cuba: Issues for the 111<sup>th</sup> Congress*, by Mark P. Sullivan

Versions of these chapters were also published in *Current Politics and Economics of the United States, Canada, and Mexico*, Volume 12, Numbers 1-2, edited by Frank Columbus, published by Nova Science Publishers, Inc. They were submitted for appropriate modifications in an effort to encourage wider dissemination of research.

# CONTENTS

<b>Preface</b>		<b>vii</b>
<b>Chapter 1</b>	Canada-U.S. Relations <i>Carl Ek</i>	<b>1</b>
<b>Chapter 2</b>	United States-Canada Trade and Economic Relationship: Prospects and Challenges <i>Ian F. Fergusson</i>	<b>79</b>
<b>Chapter 3</b>	North American Free Trade Agreement (NAFTA) Implementation: The Future of Commercial Trucking Across the Mexican Border <i>John Frittelli</i>	<b>105</b>
<b>Chapter 4</b>	Cuban Migration to the United States: Policy and Trends <i>Ruth Ellen Wasem</i>	<b>135</b>
<b>Index</b>		<b>157</b>

## *Chapter 1*

# CANADA-U.S. RELATIONS\*

*Carl Ek*

## ABSTRACT

Relations between the United States and Canada, though generally close, have undergone changes in tenor over the past three decades. During the 1980s, the two countries generally enjoyed very good relations. The early 1990s brought new governments to Ottawa and Washington, and although Canada's Liberal Party emphasized its determination to act independently of the United States when necessary, relations continued to be cordial. In early 2006, a minority Conservative government assumed power in Ottawa. It was regarded as being more philosophically in tune with the Bush Administration than the Liberals were; some observers believe that this compatibility has helped facilitate bilateral cooperation. The election of President Obama November 2008 signaled a new chapter in U.S.-Canada relations; unlike President Bush, Obama is quite popular in Canada.

The two North American countries continue to cooperate widely in international security and political issues, both bilaterally and through numerous international organizations. Canada's foreign and defense policies are usually in harmony with those of the United States. Areas of contention are relatively few, but sometimes sharp, as was the case in policy toward Iraq. Since September 11, the United States and Canada have cooperated extensively on efforts to combat terrorism, particularly in Afghanistan.

The United States and Canada maintain the world's largest trading relationship, one that has been strengthened over the past two decades by the approval of two multilateral free trade agreements. Although commercial disputes may not be quite as prominent now as they have been in the past, the two countries in recent years have engaged in difficult negotiations over items in several trade sectors, including natural resources, agricultural commodities, and the cultural/entertainment industry. However, these disputes affect but a small percentage of the total goods and services exchanged. In recent years, energy has increasingly emerged as a key component of the trade relationship. In addition, the United States and Canada work together closely on environmental matters, including monitoring air quality and solid waste transfers, and protecting and maintaining the quality of border waterways.

---

\* This is an edited, reformatted and augmented version of CRS Report 96-397, dated May 12, 2009.

Many Members of Congress follow U.S.-Canada environmental, trade, and transborder issues that affect their states and districts. In addition, because the countries are similar in many ways, lawmakers in both countries study solutions proposed in the other to such issues as federal fiscal policy and federal-provincial power sharing.

This report provides a short overview of Canada's political scene, its economic conditions, and its recent security and foreign policy, focusing particularly on issues that may be relevant to U.S. policymakers. This brief country survey is followed by several summaries of current bilateral issues in the political, trade, and environmental arenas. The report is updated annually.

## OVERVIEW [1]

Relations between the United States and Canada, though generally cordial, have undergone several changes in tenor over the past three decades. The 1980s and early 1990s were marked by an increasingly close partnership, whose milestones included the mid-1980s "Shamrock Summits" (named after the Irish heritage shared by the two countries' leaders, Brian Mulroney and Ronald Reagan), the 1988 U.S.-Canada Free Trade Agreement, and the 1993 North American Free Trade Agreement (NAFTA). To many Canadians, however, Ottawa seemed at times to have drawn a bit too close to Washington, D.C., with Canada casting itself too willingly in a secondary role.

In 1994, one Canada watcher observed that in the foreign policy arena, Canada "politely distances itself from the United States" in certain ways [2]. In an interview that year, the newly elected Liberal Prime Minister Jean Chrétien summed up his view of the bilateral relationship: "We like each other. I just don't want Canada to be perceived as being the 51st state of America.... With me, a more mature relation will exist between us and the United States" [3]. Some believe, however, that this initial show of mild reserve was intended for domestic consumption, particularly during election campaigns, and that Canada and the United States in fact continued to enjoy excellent relations. Chrétien and Clinton are said to have had congenial meetings; they focused on areas where the two countries were able to reach agreement, including environmental issues, cooperation on border measures and technology projects.

In February 2001, President George W. Bush met with Chrétien. The two leaders discussed energy, missile defense, and trade. After September 11, however, economic and environmental issues often took a back seat to joint efforts to improve security, both at home and abroad. Canada became involved in the crisis at the outset, and has cooperated closely with the United States in efforts to combat international terrorism. In the immediate aftermath of the 9/11 attacks, U.S. airspace was temporarily closed and Canada allowed more than 200 flights to American destinations to be diverted to Canadian airports.

Nevertheless, Chrétien did not establish with President Bush the same rapport that he had enjoyed with Clinton. Differences over a number of issues tended to strain relations. The Bush administration inherited some long-standing trade disputes, most notably over wheat and softwood lumber, and Canada and the United States were on different sides of several international issues, including the U.S. withdrawal from the ABM treaty and the International Criminal Court. In addition, the Liberal government's plan to decriminalize marijuana raised concerns in Washington. But it was over security-related matters, particularly defense spending, Iraq, and missile defense, that the two governments had their sharpest differences.

Notwithstanding these controversies, Canada and the United States have continued to work together on a number of fronts to thwart terrorism, including strengthening border security, sharing intelligence and expanding law enforcement cooperation. The Canadian government passed a new anti-terrorism act, and Canada has contributed significant military assets to the coalition in Afghanistan. Although bilateral tensions heated up in 2005 over the issues of missile defense and softwood lumber, Canada's government and private citizens responded promptly and generously to assist the United States after hurricane Katrina.

Paul Martin, who became prime minister in December 2003, met several times with President Bush. At the January 2004 Summit of the Americas, the two leaders discussed several topics and came to agreement on Canadian eligibility to bid on reconstruction contracts in Iraq and on the ground rules for U.S. deportation of Canadian citizens. In April 2004 in Washington, D.C., Martin and Bush met once more and talked about a variety of issues, from terrorism to the "mad cow" crisis. In November 2004, during President Bush's first official visit to Canada, missile defense, border security, and global "hot spots" were on the agenda [4]

In February 2006, after a come-from-behind election victory, the Conservative Party assumed power as a minority government, and Stephen Harper became Canada's 22nd Prime Minister, the first Conservative to lead the country in 12 years. Observers believe that Harper's government is somewhat more politically compatible with the Bush administration in many areas. However, although the policy orientation of Harper's Conservatives may be similar to that of the Republicans in Washington, differences have still arisen on certain issues, particularly those that touch upon matters of perceived sovereignty. For example, on January 26, 2006, days before his inauguration, Harper sharply took exception to comments made earlier by U.S. Ambassador to Canada David Wilkins and asserted Canada's sovereignty over the so-called Northwest Passage, the frozen arctic region that global warming may turn into a waterway linking Asia and Europe [5]

The election of Barack Obama as America's President in November 2008 signaled a new chapter in U.S.-Canada relations. Unlike President Bush, Obama is quite popular in Canada—one public opinion poll put the new American president's approval rating in Canada at 86%. This favorable view may facilitate the Harper government's cooperative efforts with the United States. In addition, although Harper has a somewhat more conservative orientation than Obama, both leaders are pragmatic in their approach to solving public policy problems, and observers believe the bilateral relationship will continue to be collaborative and productive. On February 19, 2009, renewing a tradition broken in 2001 by President Bush, Obama made Canada his first official foreign visit. He and Harper focused on trade, climate change, and Afghanistan, among other issues [6]

## **Canada's Domestic Scene**

### ***Background and Current Political Situation***

In August 2002, Jean Chrétien, who had served as Prime Minister since 1993, announced that he would retire from politics when the Liberals held their next leadership vote. Paul Martin, the former Finance Minister, became Prime Minister in December 2003. Although elections need not have been held until late 2005, Martin called for a vote in spring 2004. Maintaining a Liberal majority appeared to be a safe bet when Martin took office, but such an

outcome became doubtful in February 2004, when the “sponsorship scandal” erupted. Canada’s Auditor General published a report stating that, under a program intended to build support for Canadian unity, the Chrétien government had funneled C\$ 100 million in public funds for dubious contracts to Québec advertising firms associated with the Liberal party [7].

The Liberals’ standing in the polls plummeted, and the opposition parties gained strength. To the right of the Liberals, two conservative parties had merged under a popular new leader, Albertan Stephen Harper. And to the left, the New Democratic Party (NDP) likewise had recently elected a dynamic party chief, Jack Layton. In the June 2004 elections, the Liberals won 135 out of 308 seats in the House of Commons—a loss of 33 seats—and chose to govern as a minority.

In May 2005, the Liberals survived—by one vote—a proxy confidence vote and avoided spring elections. But in November they lost a second confidence vote, and federal elections were held on January 23, 2006. This time, the Conservatives won a plurality. They took 127 out of 308 seats in the House of Commons, and have been governing as a minority (the Liberals captured 96 seats, the Bloc Québécois 48, and the NDP 30. Four members were seated as independents, and there were three vacancies.) [8]

Some analysts cautioned that the Tory victory did not necessarily represent a “paradigm shift” to the right in Canadian politics; they noted that the Conservative party won only 37% of the popular vote. Because minority governments only last an average of about 18 months in Canada, Prime Minister Harper has been keeping one eye on the next elections [9]. In addition, Harper has relied upon the ad hoc support of the other three parties to ensure passage of the various items on his legislative agenda. Many therefore believe that is why he has advocated fairly centrist policies, by, for example, seeking legislative approval of the five priorities on which he campaigned: 1) greater government accountability; 2) shorter health care wait times; 3) tax cuts; 4) child care assistance; and 5) criminal law reform [10]

Harper immediately began to work on these items. The first bill his government introduced in parliament was the Federal Accountability Act, intended to “change the way business is done in Ottawa forever” by addressing such issues as whistleblower protection, political contributions, lobbying reform, and government contracts and appointments. Some critics charge that the new law is selective, while others maintain that it represents overkill. Supporters praise the measure as an effort to bring about long-overdue changes [11]. During his tenure as prime minister, Harper has dealt with several other issues, including the environment, crime, Senate reform, and health care. For the most part, he has not forcefully advocated controversial social issues.

However, Harper has been willing to challenge public opinion over Canada’s participation in the international stabilization effort in Afghanistan, where the Liberal government deployed troops in 2002. In 2006, he won a narrow vote in parliament to keep Canadian troops in Afghanistan for two additional years. Harper initially characterized the mission as humanitarian in nature and also asserted that it was in Canada’s national interest to demonstrate its ability to play a leadership role internationally. Over the past three years, however, Canadian operations have shifted from peacekeeping to counter-insurgency, and public support for Canada’s presence in Afghanistan has diminished. The government has been banking on approval of an approach that emphasizes training Afghan troops to replace departing Canadians. In the fall of 2007, Harper appointed an advisory panel to review options on the mission. The commission found that the troop presence was justifiable and that the mission should be maintained until 2011, but recommended that Canadian forces be

withdrawn unless NATO allies stepped up their contributions. This became the basis of a March 2008 compromise between the Liberals and Conservatives. Harper declared that Canadian troops would be withdrawn in 2009 unless other NATO countries provided an additional 1,000 troops. At the April 2008 NATO summit in Bucharest, France announced it would commit 800 additional troops, and the United States was expected to add to that number. Canadian troops are now scheduled to be pulled out by the end of 2011. At the April 2009 NATO summit, Canada reportedly pledged to send an additional 100 civilian specialists to Afghanistan [12].

Canada's most recent elections, held on October 14, 2008, did little to change the makeup of parliament. The Conservatives, who reportedly anticipated a weakening in future support, called the elections in hopes of capturing a majority. However, the Tories emerged only with a somewhat stronger plurality of 143 seats—a gain of 19, but still 12 shy of a majority. Currently, the Liberals hold 77 seats, the BQ 49, and the NDP 36, with one independent and two vacancies [13]. Canada has now had three minority governments in a row.

One casualty of the election was the Liberal party—which lost 19 seats—and its leader. In December 2006, after a months-long campaign, the Liberals had elected Stéphane Dion to lead them. A former academic, Dion had spearheaded Chrétien's federalist policies toward Québec and also served as Paul Martin's environment minister. A native of Québec, Dion came from behind to defeat the two front-runners for the party leadership post, Michael Ignatieff and Bob Rae. Dion had some difficulty gaining traction with voters. Even though he pressed hard on the environment—an issue of importance to Canadian voters, and not a strong point for the Harper government—he was perceived as ineffectual, and announced one week after the elections that he would be stepping down.

In November 2008, a budget bill put forward by the Conservatives precipitated a political crisis; the spending plan proposed, among other things, the elimination of federal funding for political parties. The opposition parties, which would have been severely affected by the plan, rebelled and were poised to vote down the government—ostensibly because Harper had failed to put forward a stimulus package that would respond to the economic downturn. Harper withdrew his proposals and, to avoid the no-confidence motion, prorogued (suspended or recessed) the session of parliament until January 2009; the shutdown was sharply criticized by many [14].

During this time, Stéphane Dion resigned and the Liberals named Michael Ignatieff as their interim leader, and ratified that choice at the May 2 party convention. Some believed that when Parliament returned in January, Ignatieff would seek to bring down the government and force new elections. However, he declined to do so, reportedly choosing instead to consolidate the party's strength rather than challenge the Conservatives immediately. Many observers now believe that he will challenge the Harper government with a no-confidence vote in the fall of 2009, which will likely result in Canadians returning to the voting booths in October. Currently, the Liberals are slightly ahead in the polls, particularly in Ontario. However, an uptick in the economy could help Harper. In addition, many argue that Canadians are weary of elections; at 59.1%, turnout for the last vote was the lowest in history. Voter participation may therefore play a key role in the next election [15]

### ***Budget Policy***

Canada entered into recession in the 4th quarter of 2008. While Canada is heavily dependent on the world economy, and thus easily affected by it, some Canadian policymakers



believed that the country was in a relatively better position to ride out the economic downturn. After all, Canada had profited handsomely from the resources boom that only began to wind down the summer of 2008. Also, Canadians were reassured by its comparatively more regulated banking system, which was able to avoid the worst excesses of the U.S. financial meltdown. However, Canada could not long avoid the effects of the collapse of the U.S. housing market, the woes of the U.S. automotive sector, and the seizing up of credit markets worldwide.

Canada was relatively late in responding to the economic downturn. Following the re-election of the Conservatives on October 14, 2008, the government issued its autumn economic statement, which maintained a balanced budget, did not include new stimulus measures, but, as noted above, did include such politically divisive measures as the end of subsidies for political parties [16].

Following the reconvening of parliament in January 2009, the government introduced a C\$258.6 billion budget, which calls for C\$40 billion in stimulus over the next two years. The stimulus consists of a package of income tax cuts, extending employment insurance (EI) benefit extensions, job retraining, 'hard' infrastructure spending, tax credits for home renovation, retrofits for social housing, and investments in First Nation's health programs [17]. In all, the C\$40 billion represents a stimulus of about 1.5% of GDP in the first year and 1.1% in the second year. Increased spending represents approximately 72% of this package and tax cuts contribute the remaining 28%. While a general consensus developed on the need for government stimulus spending, some criticized the budget proposals as a 'mish-mash' of proposals that did not address what is perceived to be Canada's long-term structural problems of lagging productivity and competitiveness [18].

The budget also marked a return to deficit spending for Canada after 12 successive budgets in balance or surplus. The budget contemplates a deficit of C\$34 billion the first year, and a total of C\$81 billion in borrowing over five years before the budget returns to surplus in 2013. The return to deficit spending, while acknowledged as necessary by most of the political spectrum to combat the severe economic recession, was not undertaken lightly. Prior to the 'austerity' budget of 1995, Canada had wracked up 27 straight years of deficit spending. At its peak in 1996, Canada's public debt represented 101.6% of GDP, and government sector spending reached 53.6% of GDP in 1993. Realizing this course was unsustainable, the Liberal government of then Prime Minister Jean Chretien and his Finance Minister Paul Martin embarked on a financial austerity plan using such politically risky measures as cutting federal funding for health and education transfers, applying a means test to those eligible for Seniors Benefits, and cuts in defense. A nationwide goods and services tax was introduced to help close the gap. Under this budget discipline, the government submitted a balanced budget in 1998 and a political consensus emerged not to resort to deficit spending, at least until now.

### ***National Unity***

For four decades, an emotional debate has raged over the status of French-speaking Québec, Canada's second largest province geographically and home to about one-quarter of its population. Many Québécois are concerned that their language and culture will be overwhelmed by the rest of English-speaking Canada. Some believe that their society may only be preserved if Québec separates from the rest of Canada and forms an independent

country. A 1980 referendum on “sovereignty-association” for Québec was defeated 60%-40%.

In October 1994 elections, after the provincial Liberals had governed Québec for several years, the province once more elected the separatist Parti Québécois (PQ). The victorious PQ held a referendum on sovereignty on October 30, 1995. Québeckers essentially voted on whether they wished to continue to remain a part of Canada, or strike off on their own. The question was decided by the narrowest of margins; the vote went 50.6% to 49.4% in favor of keeping the country whole. The wafer-thin margin shocked federalists and separatists alike. More than a decade later, the country is still affected by the impact of what has been called a “near-death experience.”

Québec held provincial elections once again in October 1998, and the PQ retained a comfortable majority in the provincial legislature. In 2003, however, Québec voters turned out the Péquistes and replaced them with the Liberals, led by Jean Charest. A former leader of the Progressive Conservatives at the national level, Charest is a committed federalist, which rules out another sovereignty referendum during his tenure. In the early part of his first term, Charest lost popularity when he attempted to reduce the economic role of the provincial government; those efforts prompted strong protests from the powerful public service unions. Some Québec-watchers assert that Charest learned from this experience and changed his tactics.

Charest was said to have been encouraged by the victory of Harper, who favors greater government decentralization. The two also share an opposition to sovereignty, and, for pragmatic political reasons, cooperated with one another in several areas [19]. Many believe that Harper (and, by association, Charest) won favor in the province in November 2006 by gaining parliamentary approval in Ottawa of a measure recognizing Québec as a “nation” within a united Canada. Some observers believe that Charest’s standing received a boost by Harper’s 2007 budget, which provided generous transfers from Ottawa to the province.

Québec held elections in March 2007, and the Liberals won a plurality (33%) of the vote. Charest remained premier, but he led the first minority government the province had had in more than a century. The PQ was knocked down to third place. Mario Dumont’s Action Démocratique du Québec (ADQ), which took 31% of the votes. A relatively new party, the moderate ADQ espoused a vaguely defined “autonomy” over outright independence for Quebec. It was believed to reflect the views of small towns and rural areas whose residents are proud Quebeckers, but do not wish to hold another referendum. Subsequently, however, Dumont’s ADQ fell sharply in the polls. In December 2008, Charest, sensing victory, called a snap election and won a narrow majority [20]. The PQ came in second and will be the official opposition; the ADQ failed to pass the 20% electoral threshold for official party status, and Mario Dumont announced his resignation [21].

Since the debate began in the 1960s, the United States government has assiduously sought to remain officially neutral on the issue of Québec, continually repeating the three-point “mantra” that the United States enjoys excellent relations with a strong and united Canada; that the Québec question is an internal issue that is for Canadians to decide; and that the United States does not wish to interfere with Canada’s domestic matters. However, some analysts detected a slight “tilt” on the part of Clinton Administration toward the federalists during the 1995 referendum campaign. If, at some future date, Québec eventually does leave the confederation, the U.S. government will be faced with difficult political and economic questions.