CANADA-USA RELATIONS

June 11, 2018

eResearch Comment: *The following article was published by* ***The New York Times Magazine*** *on Saturday, June 9, 2018, before the blow-up between President Trump and Prime Minister Trudeau. Its message is, perhaps, even more poignant now. Relations between Canada and the United States MUST get back on track. Achieving that goal will present a formidable, but not unsurmountable, challenge.*

THE NEW YORK TIMES MAGAZINE

Feature

First Canada Tried to Charm Trump.

Now It Is Fighting Back.

Inside Justin Trudeau's campaign against the American trade war

June 9, 2018

By Guy Lawson

Guy Lawson is the author of "War Dogs," which inspired the film of the same name. His last feature for the magazine was about an expedition to the North Pole by snowmobile.

Guy Lawson, born in Toronto, has traveled the world reporting on war, crime, politics, and sports. His work has appeared in many national publications, including the New York Times, Harper's, GQ, and Rolling Stone, and he is the coauthor of The Brotherhoods. He and his family make their home in upstate New York.

Guy Lawson's article begins on the following page.

First Canada Tried to Charm Trump; Now It Is Fighting Back

The Canadians could see the trouble looming in the summer of 2016. Chrystia Freeland, Canada's trade minister at the time, found herself, along with millions of Canadians, fixated on the unfolding United States presidential election, and it was becoming impossible to overlook the gathering clouds of protectionism. Donald Trump and Hillary Clinton were each casting aspersions upon NAFTA as if it were self-evidently a bad deal for American workers, especially for the hollowed-out working and middle classes in the Midwestern states, like Ohio and Michigan, that would decide the election. Incredibly, at least according to Trump, America's seemingly benign and milquetoast northern neighbor was an economic predator taking advantage of its naïve neighbor; America was the victim and Canada the villain.

American ignorance about Canada has long been a fact of life — and an eye-rolling joke — for Canadians. But with the election of Trump, Americans' lack of knowledge suddenly appeared to the inner circle of Prime Minister Justin Trudeau's government to be a geopolitical threat. What was most troubling was less that Trump lacked a sophisticated understanding of Canada-United States relations but that he apparently deliberately didn't care to develop one. He seemed to treat facts as negotiating tools, as if conducting diplomacy with an ally was the same as a brass-knuckled, zero-sum Manhattan real estate transaction. At a closed-door fund-raiser, Trump bragged about this tactic, gleefully recounting a White House meeting with Trudeau in which he insisted, against Trudeau's protestations, that American had a trade deficit with Canada. "I didn't even know," Trump told the crowd. "I had no idea." He then doubled down on his fact-challenged assertion via tweet: "P.M. Justin Trudeau of Canada, a very good guy, doesn't like saying that Canada has a Surplus vs. the U.S. (negotiating), but they do ... they almost all do ... and that's how I know!"

Trump's deficit claim was based on measuring trade in goods, but trade balances are commonly measured by goods and services, and by that score, the website of the United States trade representative acknowledged that rather than having a trade deficit with Canada, the United States had a relatively small but substantial trade surplus of $8.4 billion in 2017. Canada is the second-largest trading partner with the United States, with commerce of $673.9 billion in 2017; Canadians buy more goods from the United States than from China, Japan and the United Kingdom combined; nearly nine million jobs in America depend on trade with Canada. No nation is more deeply entwined with the United States, the weave so complex that it is no exaggeration to say that each country depends on the other for economic well-being, civil order and survival, though of course the United States has a much, much larger economy and Canada is more at the mercy of its neighbor.

This interdependent relationship raised difficult questions for the Canadian government in light of Trump's evident animosity and imperviousness to facts. How to politely make the case for free trade and NAFTA in a way that didn't insult the thin-skinned president? How to make an evidence-based argument in a post-truth political environment? How to respectfully, firmly but subtly, preferably attracting as little attention as possible — qualities that Canadians understand well — guide Trump to change his mind about Canada? Put another way, how to engage in a covert propaganda campaign aimed at Trump, without upsetting his elephantine ego?

Soon after the election, an elite unit known as Team Canada was established inside the prime minister's office to forge connections with the new administration; Freeland was promoted to minister of foreign affairs and put in charge of the most consequential portfolio in generations for a nation suddenly in peril. She and a select few of Trudeau's senior aides quietly made their way to New York to meet with Jared Kushner and other top transition officials, always away from the press and Trump Tower to avoid giving any impression of grandstanding during the chaotic early days of the transition.

Scores of Canadian officials subsequently fanned out across America, from cabinet ministers to consuls general, meeting with more than 300 members of Congress and 65 governors and lieutenant governors. Informally, aides discreetly but systematically set out to establish relationships with incoming senior White House officials, the soft-power ingratiation efforts methodically assigned, including the prime minister's accompanying Ivanka Trump to the Canadian feel-good Broadway musical "Come From Away." Freeland, whose portfolio included befriending her three counterparts — the secretary of state, the commerce secretary and the United States trade representative — placed on her desk a quote from President Reagan about Canadian-American relations that began: "We're more than friends and neighbors and allies; we are kin."

Freeland was raised on a farm in Peace River, Alberta, 300 miles north of Edmonton, about as backwoods as it gets, but she left to attend Harvard, won a Rhodes scholarship and forged a distinguished career as a reporter in Ukraine, Moscow, London and New York. And yet she has maintained the lack of pretense of a prairie farm girl; in person, the 49-year-old Freeland comes across as friendly, sincere and, well, very Canadian. She doesn't own a car, instead pedaling a red three-speed bike for the 20-minute commute to her office high above Lake Ontario in downtown Toronto — even when it's snowing outside, as it was on the mid-April day when we met for an interview. As I sat down she offered me a glass of water, and when I indicated that I'd brought a bottle with me she shot me a quick disapproving look while crossing the room to pour me a glass from a jug; even though my water was packaged not in plastic but in eco-conscious cardboard, it still apparently failed to pass muster.

Freeland was uniquely qualified to take the lead in Canada's attempt to sway the president and the United States to respect its longstanding alliance with Canada. Trump was busily selecting plutocrats to populate his cabinet, and Freeland had written a best-selling nonfiction book titled "Plutocrats," a close study of the excesses of the superrich in the age of growing inequality. As trade minister, she successfully concluded a new free-trade pact with the European Union in 2016, a rare instance of openness prevailing in recent times. From her time as a highly connected expat business journalist in New York City, Freeland was at home in the wealthy real estate and media circles of Manhattan. (Freeland's husband is a reporter for The Times.) She brought a level of sophistication and familiarity with the American elite at the absolute highest level that was unparalleled in the Canadian government. And so, suddenly, the political neophyte was a geopolitical asset.

During our conversation, Freeland — who insists that everyone call her Chrystia — came off as acutely conscious of the perils of the moment, of how a provocation or an insult, perceived or real, could damage Canada's relationship with the United States, or at least with the current president. What has been the most durable and reliable alliance on the planet for the past century now seemed to hang on one man's easily excited sense of grievance. The minister carefully chose her words as she described how Canada had responded to the repeated threats from Trump and explained the thinking behind a series of "report cards" the government had commissioned to educate American leaders on trade with Canada.

"We should be clear from the outset that a core point of the Trump administration's view of trade is to view a deficit or a surplus as a 'report card' on whether the relationship is working," she said.

The Canadian report cards were simple and easy to understand; with primer-like graphic illustrations and pie charts, the two-page presentations aimed at the level of sophistication of a slightly dim fifth-grade student. "Canada is Ohio's #1 CUSTOMER," the Ohio-specific report shouted, further noting that 308,700 jobs in Ohio depend on Canada, with $18.9 billion in annual exports in goods from Ohio to Canada, compared with $12.2 billion of goods imported from Canada. "Canada buys more goods from Ohio," the report card concluded, "than its next eight largest merchandise export markets combined."

“When it comes to the economic relationship between Canada and the United States, I am optimistic because it is a balanced, mutually beneficial relationship,” Freeland said. “That is what the numbers say. That is not rhetorical flourish. The numbers reflect a deep economic reality. Our labor standards are comparable; if anything, labor standards are higher in Canada. Environmental standards are comparable; if anything, they’re higher in Canada. So if you’re worried about jobs getting outsourced to a country that is cheating because of lower wages or undercutting labor or environmental standards, that’s something we understand on behalf of Canadian workers.”

The obvious implication, regarding NAFTA at least, was that if Canada was not the problem, then Mexico was. But the minister didn’t say so, and what remained unspoken was telling. Many people in the United States, she allowed, are upset about the abusive trade practices of other countries: “But it does not apply to how Americans think about Canadians.”

Last June, Freeland gave a speech to Parliament that was met with near universal praise, not a few tears and the jubilant and grateful embrace of Trudeau. Freeland had, as always, done her homework for the speech, carefully reading keynote addresses on foreign policy by past prime ministers, including the Nobel laureate Lester Pearson, who initiated the idea of blue-helmeted United Nations peacekeepers during the Suez Crisis in the 1950s — the kind of enlightened leadership that is fundamental to Canada’s self-image as a good global citizen.

Freeland spoke emotionally about her grandfather’s fighting — and her great-uncle’s dying — in the Second World War and laid out Canada’s geopolitical strategy in the Trump era of American retreat from world leadership. Canada needed to “set our own clear and sovereign course,” she said. Maintaining international institutions as a form of protection against American strong-arming was never spoken outright, of course, but it was impossible to miss the meaning: “Canada has a huge interest in an international order based on rules. One in which might is not always right. One in which more powerful countries are constrained in their treatment of smaller ones by standards that are internationally respected, enforced and upheld.”

After Freeland graduated from Harvard in the early ’90s and before going to Oxford, she traveled to Ukraine and turned herself into a stringer journalist, reporting on the implosion of the Soviet Union, giving her a close view of the fast-moving and unpredictable spectacle of an empire collapsing. She has said that she thinks a lot about the “fraught moment” we now find ourselves in and how it resembles the period immediately after the First World War, when the hyperglobalized rule of the British Empire ended and resulted in the rise of fascism and the catastrophe of World War II.

“I think there are two related megaproblems in the world right now,” she told me in her office. “The first problem is that the rules-based order is under more strain than any time since it was invented after World War II. The other very related issue is authoritarianism is starting to make gains on democracy. They’re not the same thing. The second is as much about domestic policy as it is about international politics. But they are closely related. I worry that we — and I mean Canadians, but I think this applies broadly to citizens of Western democracy — take for granted these great institutions and liberal democracy because we’ve had them for a while.”

America and Canada have had serious differences in the past, among them the Vietnam War and the invasion of Iraq in 2003. As a kid growing up in Toronto in the 1970s, I witnessed widespread anti-Americanism, including in my father’s house, where the milk glasses read “Nixon Drinks Canada Dry.” Protecting Canadian industry and culture from American multinational corporate depredation was considered by many to be a paramount priority. In 1984, when a corporatist conservative leader named Brian Mulroney was elected prime minister, the country decided to take a new approach to trade and relations with the United States, one that at the time was much ridiculed by the intelligentsia as toadyism.

“I believed a comprehensive free-trade agreement with the United States would give us privileged access to the largest and richest market in the world,” Mulroney, now 79, told me. “There is more than one way to skin a cat.”

When trade negotiations stalled, Mulroney reached out to President Reagan with a simple message: If he could strike a deal on nuclear weapons with America’s archenemy, the Soviet Union, why couldn’t America make a deal on trade with its best friend, Canada? The ploy worked; within 20 minutes word came back that the logjam was broken, and the first Canada-United States trade agreement was signed in 1987, a pact that was virulently opposed on the political left in Canada as a concession of sovereignty but that Mulroney delighted in describing three decades later as a wild success. Trade exploded by 300 percent over the next 20 years, he said, creating the largest trade relationship in history.

In the early 1990s, George H.W. Bush decided that the United States-Canada deal was so beneficial that he wanted a similar treaty with Mexico. Always eager to tag along with America, Mulroney instantly said that Canada wanted in on that deal, too — and thus was born NAFTA. This was a massive leap in logic and faith. Canada and America are similar countries, in myriad ways, while Mexico has a much different history, political landscape and, most important, economy; lower wages in Mexico instantly began incentivizing companies to move factories from both the Canadian and American industrial heartlands. But even as thousands of good industrial jobs migrated south, over time a consensus emerged across the political spectrum in Canada that NAFTA was a desirable part of the fabric of the nation. “History has had its say about NAFTA now,” Mulroney said. “There are two vital things for any Canadian prime minister to get right. The first is national unity. The second is U.S.-Canada relations.”

This was precisely the mantra I heard repeatedly from Freeland and other top Canadian officials, and that was no coincidence. A true America-phile, Mulroney had known Trump for decades, having lunched with him in Manhattan in the mid-’90s and encountered him often over the years, as they both have residences in Palm Beach and move in the same moneyed conservative social circles. Mulroney often dined at Mar-a-Lago.

Mulroney’s connection to Trump was known in political circles in Ottawa, and in the bewildering days after the election, access to the new president was at an absolute premium. Trudeau had enjoyed a close friendship with Barack Obama, and the Canadians had deep ties to Hillary Clinton and her people, but now they realized with horror that they had no relationship with Trump. One way Trudeau defeated his hawkish neoconservative predecessor in 2015 was by pointing out that he had a terrible relationship with Obama, because of ideological differences; the center-left Trudeau knew it was vitally important that he get along with Trump, no matter their political points of view. Trudeau’s aide Gerald Butts reached out to Mulroney for help, and in short order the former prime minister was advising Trudeau; one was conservative, the other liberal, but both were Canadian leaders and understood that the gravity of the situation at hand far outweighed any partisan consideration; the fate of the nation was at stake.

“I worked on a way to make certain that the prime minister got to Washington very early to start to build a relationship with President Trump on a personal basis,” Mulroney said. “That worked for me with Reagan and Bush and Clinton and helped Canada through many storms.”

There was no magic formula or trick to dealing with Trump, according to Mulroney. It was a matter of establishing rapport, being a reliable partner and exhibiting a special understanding of the burden of world leadership the United States carries and avoiding any hint of sanctimony or disrespect — qualities that too often infect Canadian thinking about America. “Anyone who tells you that personal friendship doesn’t count in the conduct of foreign affairs — that nations only have interests and nothing else — doesn’t have a clue what he is talking about,” Mulroney said.

Trudeau's first phone call with Trump went surprisingly well, with the president-elect recalling how he met the former Canadian prime minister Pierre Trudeau (Justin's father) in Manhattan at an awards ceremony in the early 1980s and liked him a lot. An idea was quickly hatched to find, frame and give to Trump a portrait of him with the elder Trudeau, a gesture that met with great success during the younger Trudeau's first encounter with the president in Washington a few weeks later. Trudeau practiced how to personally parley with Trump, down to perfecting a judo-like maneuver to counter the president's domineering handshake style. The prime minister had been schooled by Mulroney on a quote that would be sure to gain the attention of the president, who had just put a bust of Winston Churchill back into the Oval Office. During a joint news conference, Trudeau turned Trump's head by saying, "Winston Churchill once said that the long Canadian frontier from the Atlantic to the Pacific oceans guarded only by neighborly respect and honorable obligations is an example to every country and a pattern for the future of the world."

A week after the Trudeau-Trump meeting, Mulroney was at a charitable fund-raiser at Mar-a-Lago when he was invited onstage to sing "When Irish Eyes Are Smiling," a tune he famously sang with Ronald Reagan and their wives during the "Shamrock Summit" in 1985 that celebrated the leaders' shared Irish heritage and close bond. The shovel-chinned Mulroney can't be described as a particularly gifted singer, but he has blarney galore. Just as Mulroney started singing, Trump and his wife, Melania, entered the packed ballroom and walked to Mulroney's table, leading the standing ovation as he finished.

Mulroney told me the president then had a quiet word with him: "You know, Brian, you were right about Justin. I was told he's a good guy, and he is. I think we can do good business together." Mulroney passed the remark along to a relieved Trudeau.

"I tell Chrystia and the others that when they say NAFTA is the worst deal ever, remind them of what it has done," Mulroney told me. "There are 500 million people who are 7 percent of the world's population producing 29 percent of the world's wealth. Trade has allowed America to reach high levels of prosperity and a historically low unemployment rate of 3.9 percent. How can you argue that trade treaties are bad for you when unemployment is so low? I tell them to take it easy, keep your head down and don't say anything — don't take the bait. Prepare, prepare, prepare. The Americans will figure out it would be very foolish to kill NAFTA. They know a good deal when they see one. There would be a pitchfork revolution in the Midwest when the farmers realized what would happen to their markets."

As NAFTA negotiations continued through the spring, members of Team Canada felt they could see the terms of a deal coming into view. Trudeau offered to travel to Washington to negotiate directly with Trump, hoping to draw on the personal capital he'd tried to develop with the president, but he was rebuffed. Vice President Mike Pence delivered an ultimatum to the prime minister that any NAFTA deal would have to include a sunset clause, meaning it would need to be renewed with American consent every five years, a poison pill seemingly designed to force manufacturers to invest in the United States because it created too much uncertainty for companies to spend billions in Canada when the deal could be ended at any time at the whim of the president. Trudeau did not travel to Washington.

On May 31, the Trump administration announced that the United States would impose steep tariffs on Canadian exports of aluminum and steel, even though the United States runs a trade surplus in the latter commodity. World Trade Organization rules allow nations leeway to override restrictions on tariffs when national security is at stake, and so that was the justification the administration used: that Canadian steel posed a threat to the national security of the United States; the same argument was applied to Mexico and Europe. The United States also announced that it had instigated an investigation into the national-security implications of the importation of cars and automobile parts, with the final decision lying in the thumbs-up-thumbs-down hands of the president, creating a much larger and far more dangerous threat to Canada, Mexico and the European Union.

“Everything will be a lot more expensive,” said Kristin Dziczek, a vice president of the Center for Automotive Research, an independent industry analysis group, anticipating how tariffs that hit multiple products will affect the market. “I don’t know how consumers can take a 25 percent tariff on vehicles and parts. Think about all the things people buy that have steel and aluminum in them. It’s cumulative. Working people who buy anything will be impacted.”

A few days after the tariff announcement broke, I met again with Freeland, this time at the Canadian Embassy on Pennsylvania Avenue in Washington, in a large sixth-floor room decorated with Inuit soapstone sculptures and iconic paintings of the northern wilderness. Freeland said she heard about the impending tariffs only the morning they were announced, while American officials waited for the president to reach his final conclusion. She said that Canada has learned not to be shocked by anything this administration does, but that this move was still astonishing. “It is an illegal act,” Freeland said. “That is extremely problematic between any two allies. What adds insult to injury is the national-security pretext, which is absurd and insulting.”

Trudeau immediately announced sweeping dollar-for-dollar tariffs not only on American steel and aluminum but also on specific products like bourbon from Kentucky (targeting the Senate majority leader, Mitch McConnell) and Wisconsin gherkins (the House speaker, Paul Ryan). “We were very prepared,” Freeland said. “Witness our list. We made a decision not to talk about what our appropriate response would be in detail ahead of time, partly to keep our powder dry and partly because we’ve felt that might increase tension unnecessarily at a time when we were trying to drive toward a deal.”

The paradox was that in feigning a national-security threat to the United States, Trump had created a real one for Canada. America didn’t grasp, or pretended not to grasp, the Canadian response. Secretary of Commerce Wilbur Ross said the economic impact was only a “blip.” Trump’s top economic adviser, Larry Kudlow, said Canada was “overreacting.” But for Canadians, the tariffs broke fundamental matters of trust, respect and the rule of law, and seemed to signal the beginning of the end; NAFTA wouldn’t die in one day, it appeared, but in a series of humiliating and bewildering tweets and diktats that would ultimately harm millions of Canadian working families.

“It hurt our feelings, it’s very emotional,” Freeland said. “It’s not exclusive to our government. It’s a feeling that all Canadians have. I’ve had hundreds and hundreds of emails in the past week. The sentiment expressed is that they can’t believe the Americans are doing this to us.”

Jim Balsillie, a former chief executive of Research in Motion (creator of the Blackberry), is an adviser and friend of Freeland’s — one with a contrarian view about Canada-United States relations. “Business isn’t personal,” he said. “It’s hard-edged. People do these things to their neighbors. We need to manage our strengths and vulnerabilities. Trump’s behavior is unfortunate, but it has underlined that it’s really important to change our economy. We don’t want to be here again.” Balsillie believes Canada needs to move away from overreliance on commodities like timber and oil and canola and into high-margin businesses that sell intellectual property, which is much more valuable and impervious to the predation of America.

Freeland takes Balsillie’s point about diversification. But she argues that using the analogy of business as the paradigm for government is dangerous. “I believe we have been more than transactional,” she told me. “We have alliances rooted in a ‘never again’ view of the horrors of the past and also in a conviction that we had profoundly shared values. By working together we could support each other and make the world safe for those values.”

The optimism Freeland displayed only weeks earlier was now mostly gone. With the United States imposing tariffs and threatening the legally binding NAFTA treaty, Freeland believed much larger and more troubling issues had been raised. She was worried that Western nations were forgetting

the lessons of history from the 20th century and taking for granted the institutions of a rules-based global order constructed over decades under the leadership of the United States. America's closest friend and ally and a country that might see America more clearly than it sees itself now offered a dire warning about the perils to liberal democracy in this "fraught" era. Freeland said she had recently come across a "terrifying" quote from Adolf Hitler, explaining his rise to power in Germany in a time of economic uncertainty and grievance. "I will tell you what has carried me to the position I have reached," Hitler had said. "Our political problems appeared complicated. The German people could make nothing of them. ... I, on the other hand ... reduced them to the simplest terms. The masses realized this and followed me."

She leaned forward, a look of concern in her eyes. "How do you attract voters and public support compared with the flashiness of exciting, chaotic, fact-ignoring populism?" she asked. "The reason Hitler won was because all of the other politicians were giving complicated and difficult explanations about difficult things. Hitler just told people simple things that they wanted to hear."

"Worthwhile Canadian Initiative" was the title of a column that ran in The Times in 1986 on the topic of Canada's campaign to forge a free-trade deal with the United States. The headline was declared by Michael Kinsley, then the editor of The New Republic magazine, to be the most boring imaginable. Freeland herself referenced the much-ridiculed headline back in 2010 when she was a journalist, but now she cited it to make a far more serious point.

" 'Worthwhile Canadian Initiative' can seem so boring," Freeland said. Decades ago, at the dawn of NAFTA, it was easy to ridicule the earnestness of "worthwhile" Canadian ideals like free trade, a rules-based international order and the strategic importance of United States-Canada relations. But now a bewildering and belligerent new reality seemed to have dawned, one that inspired a final question for Freeland. It was a question that not so long ago would have seemed unthinkable to have to ask: If Canada can't rely on the United States, then what country can?

She considered for a moment before replying, speaking slowly, cautiously, but with resolve. "Americans should be asking themselves that," she said. "It's a good question."

FOR: The New York Times Magazine
BY: Guy Lawson

A version of this article appears in print on June 17, 2018, on Page 38 of the Sunday Magazine with the headline: Borderline Personalities.

*e*RESEARCH DISCLAIMER

*e*Research Disclosure Statement

*e*Research Corporation was established in 2000 as Canada's first equity issuer-sponsored research organization. As a primary source for professional investment research, its Subscribers (subscription is free!!!) benefit by having written research on a variety of small- and mid-cap, under-covered companies.

*e*Research also provides unsponsored research reports on middle and larger-sized companies, using a combination of fundamental and technical analysis.

*e*Research complements its corporate research coverage with a diversified selection of informative, insightful, and thought-provoking research publications from a wide variety of investment professionals.

*e*Research provides its professional investment research and analysis directly to its extensive subscriber network of discerning investors, and electronically through its website: www.*e*Research.ca.

*e*Research does not manage money or trade with the general public, provides full disclosure of all fee arrangements, and adheres to the strict application of its Best Practices Guidelines.