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**CHAPTER 2**

**STRUCTURAL REALISM AND TRANSACTION COSTS IN THE U.S.-CANADIAN PARTNERSHIP**

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With the appearance of *Forgotten Partnership* in 1984, Charles F. Doran established his reputation as a leading scholar of U.S.-Canadian relations. Already a distinguished scholar of foreign policy analysis and security studies, Doran produced a classic study of an “under-examined relationship” (Doran, 1984, p. 4) and introduced a cogent analysis of the meaning of partnership in international relations. For reasons that become obvious in this volume, his work resonates today.

Although Doran illuminated the myriad aspects of partnership that make the U.S.-Canadian relationship special, he concluded with a foreboding sense of crisis regarding the partnership itself, at one point describing
it as “precarious” (p. 273). How has Doran’s warning played out over the three decades since the publication of Forgotten Partnership? Clearly, the United States and Canada have navigated ups and downs in their relationship, ranging from the conclusion of a Canada-U.S. Free Trade Agreement (CUFTA) in the late 1980s (and subsequently the North American Free Trade Agreement, NAFTA) to the more recent row over the U.S.-led war in Iraq. Increasingly, a fundamental shift appears to be on the horizon: Several influential commentators in Canada are calling for the country to diversify its relationships beyond its partnership with the United States as a response to an emerging multipolar world. One such commentator, the influential Canadian International Council (CIC), released a report in 2010 entitled Open Canada that urged Canadians to “make more friends in a world in which power, wealth, and knowledge are accessible to all” (Greenspon, 2010, p. 89). Although the CIC report also urged Canada to become a “better friend” of the United States, such an expansion of its relationships would require that Canada shift resources and attention away from its partnership with the United States. Expansion would pose additional challenges if and when Canada’s new alliances make demands that run counter to the traditional security, economic, and cultural values embedded in the U.S.-Canadian partnership.

Any attempt to chart a new foreign policy course for either country, therefore, requires a reexamination of this relationship, which in turn demands a fundamental understanding of the meaning of partnership. As Doran demonstrated in Forgotten Partnership, the U.S.-Canadian partnership is more complex than the typical bilateral relationship. A starting point for understanding the complexities of this relationship is the application of structural realism, which places bilateral relations in the context of the overarching international system in which they operate, as Doran demonstrated in his penetrating work. The key question is to what extent this theory of international relations can explain the behavior of the United States and Canada toward each other. Today, though evidence suggests that changes to the international structure are straining U.S.-Canadian relations, close cooperation between the two countries persists. This continuity suggests that while structural realism is a necessary tool in explaining long-term trends in the relationship, it may not sufficiently account for the longevity of the U.S.-Canadian partnership. This chapter reflects first on how the traditional framework of structural realism was useful in explaining U.S.-Canadian relations at the time of Doran’s writing and examines structural realism’s relevance to the partnership today. We next analyze the 2009–2010 “Buy American” controversy in order to assess the extent to which structural realism accounts for recent trends in trade policy. The fourth section offers a supplementary framework of analysis, which we term a transaction-costs approach to partnership, to account for the persistence of U.S.-Canadian cooperation. We then demonstrate how this transaction-costs approach supports the conclusions offered by Doran in Forgotten Partnership as well as in his more recent scholarship. Finally, we reflect on the legacy of Doran’s seminal work and offer suggestions for future research on the meaning of partnership.

**Structural Realism and the U.S.-Canadian Partnership in the Cold War**

Of the many competing theories of international relations, perhaps none has been as influential over the past 30 years as that of structural realism. Developed in Kenneth Waltz’s Theory of International Politics—written just five years before Doran’s Forgotten Partnership—structural realism holds that the behavior of states is mostly explained by the structure of the international system that they inhabit. Because the structure of the system is anarchic, argued Waltz, states with greater power will exert greater influence, and all states act as a function of their relative capabilities. According to this line of thinking, states seek to maintain order in the system by containing aggressive, expansionist powers, leading them to form alliances and bilateral relations (Lamy, 2001, pp. 185–186).

At the time of Doran’s writing, this theory neatly explained how the United States and Canada became such close partners during the Cold War era. Analysts focused on the two superpowers—the United States and the Soviet Union—as the key shapers of a bipolar world order. Most conflicts could be explained in the context of a Soviet-led
Warsaw Pact alliance waging a protracted struggle with a U.S.-led NATO alliance. Within this framework, the U.S.-Canadian relationship represented classic balance-of-power politics. For the United States, the relationship helped preserve its position in the system by aiding in the collective defense it led against the Soviet threat; for Canada, the relationship served to bolster its position in the system by helping meet its security needs, as well as by improving its economic power through a robust trading relationship. A strong partnership, viewed through the lens of a structural realist, was thus the logical outcome of a bipolar international system.

Doran significantly supplemented this reductionist view of U.S.-Canadian relations in *Forgotten Partnership*, in part by introducing readers to a psychological dimension of the relationship. Rather than presenting a “black box” view of state behavior (in which states are seen as rational actors that respond predictably to security and economic needs), Doran argued that a state’s psychological needs—in particular, Canada’s need to assert its cultural autonomy—could also influence its behavior (p. 85). Similarly, analysts of contemporary U.S.-Canadian relations must ask whether and how this partnership squares with international relations theory. Today, 25 years after the appearance of *Forgotten Partnership* and 20 years after the collapse of the Soviet Union, how does structural realism explain the U.S.-Canadian relationship? More to the point, are the central tenets of structural realism sufficient to an understanding of such a partnership?

**U.S.-Canadian Relations in a Multipolar World**

Today’s international system has undergone fundamental change since the publication of *Forgotten Partnership*. Gone are the comparatively simple, albeit dangerous, days of the Soviet-American rivalry during the Cold War era, when a Moscow-led coalition of communist states stood front and center as the focus of U.S. concern. In its stead, the BRIC countries (Brazil, Russia, India, and China) have emerged as global economic and political powers, and rising powers such as Mexico, South Africa, Turkey, and Iran hold influence over several countries in their respective regions. Whereas the United States and the Soviet Union served as the dominant arbiters of international security issues at the time of Doran’s tour de force, the power to shape international events now has devolved considerably to multiple states that can each exert influence on the international system. The proliferating participants also include transnational actors, most notably terrorist organizations and multinational corporations, to a much greater extent than in the 1980s. A structural realist analysis of this emerging multipolar world suggests that significant changes are in store for the U.S.-Canadian partnership.

How have the roles of the United States and Canada changed in a multipolar system? In the 1980s, the United States was one of two clear hegemonic powers; as a result, Doran claimed, the most important priority for U.S. policy makers was to maintain a strong alliance that could provide a wall of collective defense against security threats. Today, the United States retains a role as a preeminent, if not hegemonic, actor in global politics, but it is facing increasing insecurity from multiple sources of power. From terrorist strikes to a collapse of the financial industry and the British Petroleum oil spill, the problems on the minds of most American policy makers in 2010 come from either nonstate actors or non–great power rogue states that may acquire weapons of mass destruction. Furthermore, the very concept of international security is broadening from its relatively narrow focus on military threats in the 1980s to an entire slate of fields that could be the sources of major disruption in American lives. The focus of American foreign policy very much remains on political-strategic issues, as Doran noted (p. 39), but these issues appear more complex and diversified to the eye in 2010. Consequently, the concept of collective security is now even more crucial from the American point of view in order to counter the transnational nature of threats like terrorism, financial risk, and catastrophic environmental damage.

Meanwhile, the rise of a multipolar world has also altered Canada’s role in the international system. Specifically, Canada’s traditional role
as a middle power is in crisis (Potter, 2009). In the early 1980s, Doran noted, Canada served as an important broker between industrialized and developing countries, its influence strong “not only [because] it functions as a communicator between two groups of nations with fundamentally different perceptions of international politics but also [because] it has the ear of Washington” (p. 39). But developing countries that previously relied on middle powers like Canada to represent their interests are now as powerful as the middle powers themselves; thus the need for Canada as a crucial link between the industrialized and developing worlds is quickly shrinking. Emerging forums such as the G20—an idea championed by former Canadian prime minister Paul Martin—now provide an institutionalized channel for member states like India, China, and South Africa to directly engage the United States and other industrialized powers on key international security and economic issues. From a zero-sum, structural realism point of view, the power that Canada had achieved during the Cold War as a middle power—a role that allowed it to “punch above its weight”—has diminished in a multipolar world replete with developing states that have achieved power in their own rights. In terms of public diplomacy, it is no longer clear what the Canadian brand means (Potter, 2009).

This view of the international system and the positions of the two states within it portends a strained relationship for the United States and Canada. On the one hand, the United States’ increasing emphasis on collective security means that it is making greater demands of Canada to contribute to its defense. This trend is already evident in NATO’s International Security Assistance Force (ISAF) operation in Afghanistan, where 2,800 Canadian personnel are participating in efforts to combat the Taliban, largely in its Kandahar Province stronghold. Although the Canadian Parliament reached consensus on a 2011 withdrawal for most of Canada’s combat troops, U.S. officials—notably secretary of state Hillary Clinton—have publicly pressured Canada to extend its combat mission past this timeline (Campion-Smith & Woods, 2010). To the extent that Canada was benefiting from U.S.-furnished security at the time of Doran’s writing, Washington is now demanding a down payment as it struggles to pay the bill.

In contrast, in a multipolar world Canada’s relative economic importance to the United States has diminished. Although Canada remains the United States’ largest trading partner, a structural realist would claim that the rise of global and regional economic powers offers the United States a multitude of relationships to pursue at the expense of its partnership with Canada. For example, from 2004 to 2009 the proportion of U.S. trade with China increased from 10.1% to 14.0% of all U.S. foreign trade, whereas the proportion of U.S. trade with Canada decreased from 19.5% to 16.4% (U.S. Census Bureau, 2010). It is not inconceivable, therefore, that China will eclipse Canada as the United States’ largest trading partner in the next five years. Moreover, with security threats increasingly emanating from the financial and environmental realms, these previously labeled “low politics” areas have been elevated on the American list of foreign policy priorities. Canada, as a key consequence, is facing increasing difficulties accessing the large U.S. market that it depends on, especially when sensitive economic or environmental issues are at play. Recent U.S.-Canadian trade disputes indicate that this is becoming a more common problem as America responds to these financial and environmental risks. (This trend is explored in further detail in the next section.)

At the same time, the rise of global and regional powers in the developing world also affords Canada new economic opportunities. A structural realist understanding of a multipolar world means that Canada’s economic interests now lie in diversifying its markets and relationships beyond its dominant partnership with the United States. This is especially true considering Canada’s increasing emphasis on its rich natural resources—from Alberta’s oil sands to Saskatchewan’s potash and Québec’s minerals—as a key to its prosperity. Given the voracious appetite of fast-growing countries, such as China and India, for precisely these types of resources, it is no surprise that prime minister Stephen Harper recently paid state visits to these countries in order to build economic ties.
Meanwhile, Canada’s courting developing world powers is accompanied by an increasingly environmentally conscious industrialized world that seeks to diminish its consumption of the resources Canada has to offer. If Canada wishes to maximize its standing within the international system, as a structural realist would claim, it would do well to increasingly align itself with the emerging powers that will provide a greater market for its economic riches. In fact, a June 2010 Ipsos-Historica-Dominion Institute survey of citizens from 24 countries suggests the possibility that Canada may undergo precisely such a restructuring of international relationships. Whereas only 50% of respondents from other G8 countries viewed Canada as “world economic power,” 76% of citizens from the BRIC countries viewed Canada as such. Similarly, only 44% of G8 country respondents believed that Canada “has an influence in world affairs,” but 69% of BRIC country respondents agreed with this statement (Friesen, 2010, p. A1). Canada thus enjoys a greater degree of prestige and interest from the emerging economic powers than it does from the established industrialized powers that it has long sought to emulate.

In sum, a structural realist analysis of today’s multipolar world suggests that the previously cozy U.S.-Canadian partnership is gradually unwinding. On the one hand, the United States faces rising insecurity from a multitude of sources and is making greater demands for Canadian contributions to defense against transnational security threats. Although this has led to close cooperation on some security issues, the United States is eliminating many of the economic privileges that Canada once viewed as a principal benefit of the partnership. Canada, meanwhile, has seen its influence as a traditional middle power decline at a time when several developing powers are increasingly capable of shaping the international system. At the potential expense of its close partnership with the United States, Canada is beginning to eye markets in China and India as a future road to maximizing its prosperity and economic power. Consequently, argues the structural realist, the United States and Canada look set to become simply one ally among many in each other’s eyes, rather than each being the other’s closest and best ally. This conclusion arises from the core structural realist belief that states’ foreign policies and relationships are dictated by the structure of the international system. But is there more than meets the structuralist’s eye when it comes to the U.S.-Canadian partnership?

**The End of Exemptionalism?**

*“Buy American” as a Case Study*

A telling test of how U.S.-Canadian relations have evolved in a changing international system, especially one defined by emerging economic powers, can be found in the two countries’ trading relationship. Doran’s warning of a looming “end of exemptionalism”—whereby the United States discontinues its practice of exempting Canada from protectionist policies (Doran, 1984, p. 80)—fits neatly into a contemporary structural realist understanding of U.S.-Canadian relations. In the post–World War II era, when Canada served as an influential middle power and the United States was building a wall of collective defense against the Soviet Union, the Truman administration allowed recipients of Marshall Plan foreign aid to make purchases in Canada as well as in the United States. This was one large example of a sustained practice whereby “the United States could be counted on to provide special economic treatment to its closest and best ally” (Doran, 1984, p. 79). Doran noted that Nixon’s 1971 decision to deny Canada an exemption to a new 10% import surcharge represents an initial deviation from this practice. Today, as the United States faces rising economic insecurity and challenges to its hegemonic status (and as Canada’s influence on the United States is declining relative to that of the rising developing powers), there is diminished impetus to offer these special privileges—especially in the context of sensitive economic or environmental issues. Indeed, the past decade has afforded several examples of highly politicized trade disputes between the two partners—including conflicts over softwood lumber, mad cow disease–tainted beef, the 2009 Buy American legislation, and a looming dispute over Alberta’s carbon-intensive oil sands—which evidence an end of exemptionalism and support the structural realist prediction of
a gradually unwinding relationship. However, a more nuanced study of these disputes indicates that the partnership is not unwinding as easily as one might predict. In what follows, we consider the Buy American dispute as a brief case study in order to analyze the applicability of the end-of-exemptionalism prediction.

Freshly inaugurated and facing a deepening recession, President Barack Obama signed into law a $787 billion spending bill in February 2009 with the purpose of stimulating U.S. economic activity by funding a massive amount of federal, state, and municipal infrastructure projects. Canadian officials and businesses, however, quickly noticed that the legislation contained a Buy American clause that prohibited Canadian firms from bidding on the state and municipal-level contracts, despite the fact that many firms north of the border regularly participated in U.S. construction projects. This hit the Canadian steel industry especially hard because U.S. construction had accounted for the majority of its exports; an estimated 200 companies were affected by these restrictions, and the Canadian Imperial Bank of Commerce (CIBC) issued a 2010 economic forecast projecting that the Canadian economy would grow at two thirds the rate that it would have grown without the restrictions (MacRury, 2009, p. A17). In an effort to counter growing economic insecurity, the U.S. federal government had enacted a policy that significantly harmed the economic interests of its partner.

Seeking an exemption in the vein of the special privilege that Truman had granted Canada in the Marshall Plan, Canadian officials mounted a campaign to repeal the restriction on Canadian bids for stimulus-backed contracts. On his first full day of work as Canada’s new ambassador to the United States, Gary Doer received his credentials from President Obama and reiterated Canada’s appeal that it be exempted from such restrictions. He then reassured the media that “[Obama] seemed to hear the issue of Buy America from our Prime Minister over and over and over again. But within the protocol it was useful to again mention it,” indicating that President Obama was well-aware of Canadian concerns (Potter, 2009, p. A17). Both prime minister Stephen Harper and international trade minister Stockwell Day publicly stated, on several occasions, their desire that Canada be granted access to U.S. stimulus money.

Meanwhile, probusiness groups on both sides of the border joined forces to lobby against the restrictions, and the Canadian Manufacturers and Exporters organization and the U.S. Chamber of Commerce conducted a joint press conference to highlight that Buy American rules were costing jobs in each of their respective countries (Canadian Press, 2009, p. A10). By October 2009, each country had appointed a special trade representative to negotiate a resolution to the issue. Though pressed with Canada’s desire for an exemption, U.S. negotiators emphasized that Canadian provinces and municipalities also excluded U.S. firms from bidding on their infrastructure contracts. Eventually, after Canadian premiers agreed in February 2010 to back resolution efforts, the two sides reached an agreement whereby Canadian firms could bid on remaining stimulus-backed contracts issued by the federal government and 37 participating states. In return, U.S. firms gained access to contracts issued by Canadian provinces and municipalities. Additionally, a fast-track consultation process was established so that similar issues between the two partners could be resolved more quickly in the future.

What does this recent episode illustrate about U.S.-Canadian relations today? On the one hand, the initial trade dispute arising from a U.S. policy action was not unpredictable, given the structural realist interpretation already discussed. This analysis suggests that the relative positions of the countries in today’s international system—the U.S. as a declining hegemonic power facing rising insecurity and Canada as a middle power with diminishing influence—are the fundamental drivers of the trade dispute. In this environment, it is only natural that the United States enact protectionist measures in response to increased insecurity and that these measure come at the expense of its traditional exemptions for Canada, which is losing influence in Washington. Even the settlement, critics argue, did nothing to substantially alter the situation, for most of the U.S. stimulus money had already been spent by the time agreement was reached and the settlement ended the monopoly Canadian firms had enjoyed while bidding on domestic government contracts.
On the other hand, that an exemption was eventually granted to Canadian firms indicates that both countries still find it important to maintain close trade relations, and it establishes a precedent for resolving future procurement issues. The fast-track consultation mechanism, in particular, may help ensure similar exemptions for Canada in future U.S. economic policies. A structural realist understanding of the partnership suggests that the United States is in a position of economic insecurity and is likely to enact protectionist policies; why, then, would the United States agree to restore exemptions for Canadian firms? The next section turns to the idea of transaction costs as a supplementary framework for analyzing the U.S.-Canadian partnership and issues such as the Buy American trade dispute.

**Transaction Costs and the Persistence of Partnership**

In *Forgotten Partnership*, Charles Doran investigated a previous trade dispute with ambivalent implications for the U.S.-Canada partnership. Writing about the failure of the 1979 East Coast Fisheries Treaty, Doran noted that some of its key principles—which ultimately doomed it in the U.S. Senate—ran counter to the trends of the U.S.-Canadian relationship at that time. Specifically, the treaty rested on the ideas of joint management of fishery stocks, and reciprocal access whereby U.S. fishermen could operate in Canadian territorial waters and vice versa. Crafting a treaty along these lines was surprising, argued Doran, in light of a shift towards increasing claims of sovereignty, especially on the part of Canada. (Doran listed unilateral Canadian claims on the Arctic and the continental shelf and even claims of exclusive fishing rights in other locations as examples of this “sovereignty shift” in the 1970s.) To explain this puzzling turn in U.S.-Canadian relations, Doran surmised that the treaty and its principles “were all perhaps residuals of an earlier, less sovereignty conscious era” (1984, p. 203). That is, the policy paradigms and customs of a previous era (perhaps the Pearson/Johnson epoch) continued to carry influence, if not predominate, in a subsequent political era (the Carter/Trudeau epoch) of the U.S.-Canadian partnership. The surprising persistence of cooperation—in both the East Coast Fisheries Treaty and the more recent resolution of the Buy American dispute—can be partially explained by examining the transaction costs of abandoning partnership.

The idea that the political reflexes of one era are influenced by the *historical* political paths of a previous era is quite different from the central assumptions of structural realism, which holds that these political reflexes are instead a reflection of the *current* international system. Yet a historical, transaction-costs framework has proved to be a useful tool for analyzing policy in different domains, especially that of technology. For example, a common explanation for the continued pervasiveness of fossil fuels, despite their known environmental consequences, is that industrial economies have become locked in to using them. This happens through a path-dependent evolution whereby the initial adoption of a technology (e.g., the use of gasoline to power vehicles) leads to the creation of institutions that support this adoption (e.g., gas stations, roads, and automotive clubs) and that work together to support further adoption of the technology. The effect is somewhat akin to an avalanche—an initial investment, under certain conditions, snowballs into an entrenched system. Conversely, the creation and entrenchment of such institutions often render the costs of a sudden shift to another technology or paradigm (e.g., the use of renewable sources of energy for transportation) prohibitively high—even if such a change would otherwise make sense.

A transaction-costs analysis may also be applicable to the field of foreign policy, especially to conditions of partnership, where initial investments in bilateral relationships evolve into a wide range of institutions and contacts across a wide range of policy domains. This evolution could account for how a policy tendency from a previous era is carried over into a subsequent era, as Doran noted in his case study of the East Coast Fisheries Treaty. From a transaction-costs frame of reference, the surprising inclusion of joint management and reciprocal access in the treaty was a reflection of past institutions and practices of the
U.S.-Canadian partnership. Indeed, Doran noted that Canada’s top negotiator, Marcel Cadieux, served as ambassador to the United States in the earlier part of the decade and appeared to disregard the information sent to him by the new staff at the embassy, suggesting that the treaty would face trouble in the U.S. Senate (Doran, 1984, pp. 199–200). Moreover, the International Convention for the Northwest Atlantic Fisheries—a multilateral initiative to jointly manage fisheries that included the United States and Canada and that gained the power to set total allowable catch limits in the early 1970s—is an example of a past institution that established the precedent for joint management of fisheries. Although its efficiency was often called into question, the historical experience that Canada gained through participating in such an institution may have contributed to the initial reluctancy to include joint management and reciprocal access in the East Coast Fisheries Treaty. Finally, the experience that officials on both sides of the border had gained through previous joint management of other aspects of the partnership—the North American Air Defense Agreement (NORAD), for example—also contributed to this approach, according to a transaction-costs framework of analysis. Of course, the treaty was eventually rejected, reflecting contemporary political realities. Although a transaction-costs analysis does not explain this outcome, it may give insight into how previous experiences in the U.S.-Canadian partnership contribute to a “policy brew” from which diplomats draw in dealing with their counterparts.

These residual foreign policy tendencies—that is, the continuation of policy paradigms from past political eras—may arise from multiple sources. Perhaps the most tangible source of policy “lock-in” in the U.S.-Canadian partnership is the set of physical linkages that have been established between the two countries. This is especially true of the oil and gas pipeline systems that run from Canada to the United States. Pipelines from Canada transport over 1.8 million barrels of oil and 10.4 billion cubic feet of natural gas to markets in the United States every day, and pipelines originating from Canada operate in at least 21 U.S. states (Canadian Energy Pipelines Association, 2007). Such interconnectedness contributes to the intervulnerability that Doran listed as one of the characteristics of partnership: Canada is dependent on the United States to buy its petroleum products, just as the United States depends on Canada in order to meet its energy needs. Because pipelines require significant investment and because their installation typically requires several years of regulatory procedures and construction, this web of pipelines essentially locks the overall energy policies of each country into that of the other. So, whereas a structural realist understanding of the U.S.-Canadian relationship predicts that Canada will seek other markets (e.g., China, India) for its energy resources, the transaction costs of abandoning the network of pipelines laid in previous eras of the relationship ensure that the U.S. is the dominant consumer of Canadian energy resources today. Indeed, although there has been serious talk of diversifying Canadian export markets, at least since an energy cooperation pact was signed with China in 2005, Canada still does not send any oil to China, and the China National Petroleum Company has only a minority stake in a single oil sands project today. Although this may begin to change in the coming decades, the transaction costs of loosening U.S.-Canadian energy relations appear to have delayed such a shift—despite the predictions offered by a structural realist analysis.

In addition to the lock-in effect of physical linkages, transaction costs may also accrue in the context of partnership via long-lived governmental and private sector linkages. On the governmental side of the partnership, continuous contacts between officials are maintained through traditional diplomatic channels—including embassies and consulates—as well as through specialized bilateral organizations that manage relations in a particular realm. These institutions include federal-level commissions and organizations, such as NORAD, as well as subfederal institutions, such as the Western Climate Initiative (coordinating the efforts of four Canadian provinces and seven U.S. states in finding ways to reduce greenhouse gas emissions). Added to this is the multitude of private sector relationships that arise from the largest bilateral trading relationship in the world, including formalized partnerships between analogous industry associations on both sides of the border (e.g., the Canadian Association of Petroleum Producers and the American Petroleum Institute). This vast
network of contacts can be mobilized when either country attempts to shift policy to the (perceived) detriment of its partner.

This was clearly the case in the Buy American controversy, which damaged preexisting trading relationships between Canadian and U.S. companies in the sector, as already noted. After the legislation was passed, Canadian diplomats as well as private organizations—including the Canadian Manufacturers and Exporters, the Canadian Chamber of Commerce, and the Council of Chief Executives—engaged their American counterparts at every possible opportunity about the consequences of this action. In response, American private sector actors complained via their contacts that they were excluded from bidding on similar contracts issued by Canadian provinces. Although the issue was not resolved until February 2010, when most of the U.S. stimulus money had already been spent, the resulting agreement renewed momentum for a long-term subfederal procurement deal (Herman, 2010). Thus, the preexisting contacts built up through the evolution of the U.S.-Canadian partnership, as well as the transaction costs to U.S. and Canadian firms that the Buy American legislation represented, contributed to the issues’ resolution, albeit late in the stimulus-contracts game. The structural realist analysis of the partnership would have predicted the economic strain on the relationship from Buy American legislation—a consequence of rising American insecurity—but the governmental and private sectors that had been established in a previous era helped keep the partnership intact on this issue.

In addition to the physical, governmental, and private sector linkages that contribute to transaction costs, the historical psychological and cultural attachment between the United States and Canada also adds to the transaction costs of unwinding the partnership. Specifically, the policy corrections that might be predicted by a structural realist analysis may be restrained if they are incongruous with established public perceptions of how one’s country relates to its close allies. Especially in the case of a close partnership, these perceptions should remain relatively stable because many citizens from each country maintain close contacts with counterparts in the other country—ranging from veterans who fought World Wars side by side to family members who live on either side of the border. Indeed, 2010 polling data indicate this high degree of stability in the public perception of the U.S.-Canadian partnership. Fully 79% of Canadians and 89% of Americans consider their counterparts to be “friends” or “best friends” of their own country. When asked how the U.S.-Canadian relationship had changed in the past five years (i.e., improved, stayed about the same, or deteriorated), a majority of the public in both countries (53% in Canada and 78% in the United States) believed that relations have stayed about the same—despite the many challenges to the partnership identified earlier (Anderson & Stephenson, 2010, pp. 4–5). Here again, the history that has accumulated through the evolution of the U.S.-Canadian partnership appears to entrench close bilateral relations into the future.

The physical, organizational, and cultural linkages that have evolved over the course of the U.S.-Canadian partnership thus exert an influence over the current and future paths of the relationship. Analytically, these linkages can be envisioned as a sort of scaffolding that helps keep the partnership in place: Though current political realities certainly dictate the issues and policy actions of the two countries to a significant degree, these realities build upon the preexisting architecture of the relationship and therefore tend not to drastically alter its underlying structure. More concretely, the transaction costs of a sudden change in the partnership—whether the change involves changing the physical infrastructure, abandoning organizational ties, or acting against the cultural attachment that link the two countries—are often too great to endure, even if the proposed policy is perceived to be in one country’s best interests. Of course, this does not immunize the partnership against sudden shocks—the Buy American controversy is a recent example—but these shocks are often resolved in the long term precisely via the partnership’s underlying scaffolding. Another key caveat is that changes to the international system may indeed alter the scaffolding over time, but the very existence of this architecture can serve to smooth out any bumps along the way. The United States appears to be ending its practice of exempting Canadian interests from restrictive economic policies, but historical linkages have
allowed Canada to at least moderate the process as its businesses adapt to this emerging reality. In this fashion, the transaction costs that have accumulated over the course of the partnership contribute to the policy brew in which new initiatives are constantly in dialogue with the partnership’s history. Conceptually, this transaction-costs framework of analysis may be a useful addendum to structural realism in explaining state behavior in the context of a close partnership.

BUILDING THE SCAFFOLD: TRANSACTION COSTS AND DORAN’S CONCLUSIONS ON PARTNERSHIP

Doran’s Forgotten Partnership drew attention to a neglected relationship in the study of foreign policy. The very use of the word partnership indicated that this was a special kind of relationship—more intense than a typical bilateral relationship—that merited its own classification as a subject of analysis for scholars of international relations. Indeed, the preceding analysis indicates how the transaction costs that have accumulated over the life of the partnership contribute to its ability to withstand difficulties when they arise. This framework supports the conclusions that Doran reached about the U.S.-Canadian partnership as described in Forgotten Partnership as well as in his more recent scholarship.

Towards the end of his exegesis, Doran commented on ways the two countries could preserve this special type of relationship. Specifically, he offered three recommendations for actors in the relationship: (1) avoid politicization of foreign policy issues, (2) work through bilateral institutions (in moderation), and (3) use internal diplomacy to smooth over problems (Doran, 1984, p. 271). With domestic and international forces threatening to weaken the U.S.-Canadian partnership in an emerging multipolar world, this advice is helpful now more than ever. Doran’s set of guidelines serves as a mitigating factor during periods of policy disagreement by preserving the overarching structure of the relationship, allowing for the exploitation of future bilateral opportunities. Each of these recommendations can be analyzed through the lens of a transaction-costs framework of analysis.

Doran noted that the first recommendation, avoiding politicization of foreign policy issues, serves to avert the erosion of goodwill between the respective publics of both countries. In other words, it helps maintain the cultural linkages that bind the two countries such that public opinion is receptive to actions that further deepen the bilateral relationship; this can be seen through the high level of amity expressed by both Americans and Canadians for their partners, as noted earlier. Admittedly, however, following this particular recommendation often appears difficult for policy practitioners on both sides of the border making short-term political calculations. Should this practice become increasingly common, one might expect a deterioration in each public’s sense of goodwill toward the other, a circumstance that could help trigger the unwinding of the partnership.

The second of Doran’s guidelines, working through bilateral institutions in moderation, is effective in maintaining the partnership because it keeps relevant the organizational links that contribute to its scaffolding. Joint commissions and consultative agencies, even when created on an ad hoc basis, deepen the contact and interdependency across the U.S.-Canadian border—thereby increasing the transaction cost of one country’s sudden policy shift that affects the other partner. Doran’s warning of moderation, however, is an acknowledgment that current political and structural realities influence the course of partnership. Ultimately, if the two countries perceive that their strategic interests are best pursued in the absence of such a close bilateral relationship, the function of bilateral institutions must shift to aid in the transition to this new political reality. When the overarching trend of the relationship is toward disentanglement, institutions that continue to propose joint sovereignty initiatives risk losing authority—the experience of the International Convention for the Northwest Atlantic Fisheries is an example.

Doran’s final guideline, using internal diplomacy to smooth over problems, is essentially a call to employ the preexisting organizational links between the two countries. Doran’s intended audience for his recommendations comprised primarily government officials, but this last guideline is equally applicable to the private sector. As seen in the
Buy American episode, behind-the-scenes lobbying by several Canadian industry associations aided Canadian officials in gaining Washington's ear on this issue. Perhaps greater coordination between official and non-governmental contacts, where possible, can lead to more effective use of internal diplomacy on future issues. Additionally, coordination between the public and private sectors in each country may help diffuse Doran's concern that overuse of internal diplomacy may lead to significant political opposition among groups that feel excluded from the process.

In addition to contextualizing the recommendations that Doran offered at the conclusion of Forgotten Partnership, a transaction-costs approach also supports Doran's more recent work on the U.S.-Canadian foreign policy cooperation cycle (Doran, 2006). In this analysis, Doran suggested that cyclic patterns of policy convergence and divergence between the two countries are partially a result of domestic politics, particularly on the Canadian side of the border. Specifically, Canada and the United States will cooperate on a series of policies until the Canadian public inevitably begins to worry that Canada is losing its sovereignty to its partner. The acting Canadian government will then find an issue around which to create a policy divergence from the U.S. position in order to satisfy domestic political pressure. Once cooperation begins to fall off, Doran claimed, this cycle begins again as policy makers attempt to renew the relationship (Doran, 2006, pp. 394–398).

The cyclic nature of U.S.-Canadian relations that Doran examines could also be explained by the interaction between the structural forces of the international system, forces that appear to push the two countries apart, and the transaction costs implicit in a partnership, costs that tend to act as a feedback mechanism and bring the two countries back to a higher level of cooperation. Returning to the Buy American example, the initial policy discord appeared to be a function of economic insecurity provoked in part by a changing international system. However, the organizational and economic linkages that had been constructed through the course of the U.S.-Canadian partnership ultimately prompted policy makers to resolve the dispute and promise a new mechanism for cooperation. It is nearly inevitable that, on the one hand, more trade disputes will arise in the future as the overarching forces of an emerging multipolar world continue to push the two countries to seek new economic partners; on the other hand, the underlying scaffold of the U.S.-Canadian partnership will provide incentive for the countries to resolve these disputes rather than risk painful transaction costs to the firms, organizations, and people that link them. These forces could have an effect not unlike the cooperation cycle that Doran described. Alternatively, Doran's theory of a cooperation cycle could imply that the back-and-forth movement of U.S.-Canadian relations is simply a natural element of the two countries' political systems, rather than a reflection of the international system and transaction costs that accumulate through partnership. One possibility for distinguishing the two theories is this: If the structure of the system and the partnership's transaction costs are responsible for cycles of policy divergence and cooperation, one should expect more frequent cycles as the structure of a multipolar world continues to push the two countries to diversify their relationships.

**Conclusion**

Doran's Forgotten Partnership was a seminal examination of U.S.-Canadian relations and of bilateral relations generally. Of particular relevance to analysts and practitioners of international relations alike is his identification of partnership as a special kind of bilateral relationship that merits its own analytical category. Doran examined how partnership operated in the context of a bipolar world order near the end of the Cold War; his warning of potential fault lines in the relationship was a prescient call that echoes in the disputes that have sometimes flared in recent years. These disputes are at least partially explained by the nature of a new multipolar international system, in which rising insecurity on the part of the United States combines with opportunities for both countries to diversify their relationships. However, this chapter has demonstrated how the evolution of partnership builds a web of linkages between the United States and Canada that cannot be abandoned without incurring significant transaction costs. These linkages serve to hold the
two countries together, even when disputes such as the Buy American legislation threaten to push them apart. The transaction-costs framework thus builds on Doran's *Forgotten Partnership* by further explaining how the U.S.-Canadian partnership is special and implies that it will be difficult for the U.S. and Canada to abandon this partnership. This is significant, given the growing calls for the two countries to diversify their relationships in order to maximize economic opportunities in a multipolar world. Though this reexamination of foreign policy does not necessarily imply complete abandonment of the U.S.-Canadian partnership, policy makers on both sides of the border will have to carefully consider the transaction costs of shifting resources and privileges away from their historical partner.

**ENDNOTE**

1. The war in Iraq and the more recent controversy over the 2011 deadline for the withdrawal of Canadian combat troops in Afghanistan are major exceptions. Close cooperation on security issues may thus be more limited—to cross-border issues, for example.
REFERENCES


