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Canada's International Policy Statement:

Now Pick Some Priorities

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Statement*

Good morning and thank you for the opportunity to share my views on the International Policy Statement (IPS). Given my own areas of research and time constraints, I will speak briefly about the development and trade dimensions of the statement.

Several sections of the policy paper talk about priorities and areas of focus. This is a helpful start. But in my view the policy statement fails to adequately set priorities. To most effectively meet Canadian interests, Ottawa should focus its limited resources on a narrower set of issues and countries than the paper envisions.

Starting with trade, the policy paper says Canada will “focus” on: the U.S., Mexico, Europe, Asia, Latin American and the Caribbean, Australia, New Zealand, Russia, the Middle East and North Africa. This is *not* priority setting. The statement says that Canada will complete free trade agreements with the European Free Trade Association, Central America, Singapore, and Korea; open up negotiations with the Caribbean community and possibly the Andean community and the Dominican Republic; and complete a more limited deal with the EU. The EU aside, these deals combined represent less than two percent of Canadian exports. Negotiating these agreements is very costly and diverts attention and resources from the WTO and Canada-U.S. affairs. Even with all the resources devoted to these deals, Canada has been unable to make progress largely because of its unwillingness to eliminate tariff protections in some sectors, and also because the U.S. has now offered deals to some of the same countries, lessening Canada’s relative attractiveness as a free-trade accord partner.

Further, the paper correctly acknowledges that Canada is, and will continue to be reliant on the U.S. as its major market for the foreseeable future. But it is misleading to trumpet India and China as key to Canada’s economic future, while failing to explain that Canadians are not currently engaged in a serious way with China and India, or to acknowledge the limitations of government in terms of changing this state of affairs. After all, businesses are the ones who trade and invest. Canada’s exports to China represented less than two percent of Canadian exports in 2004; our exports to India are only one-fifth of one percent. Two-way direct investment is also abysmal and inconsequential compared with that between Canada and the U.S. There are important opportunities in these rapidly growing economies but most Canadian businesses have simply not seized those opportunities. The policy statement does not acknowledge this or say how we get from here to serious involvement in these countries.

What it comes down to is that the majority of Canadian jobs, income, and investment, as well as the social goods that our prosperity provides, depend on secure, predictable access to the U.S. economy. So securing, maintaining and enhancing access to the U.S. market has to be *the* priority. It should be reflected in the way we allocate government resources. (One area of focus could be reducing uncertainty and costs at the border rather than reinforcing both the border and the North American perimeter, as appears to be happening at present.)

When it comes to the WTO, Canada has a major stake in global trade rules, which — rather than being irrelevant because of Canada’s dependence on the U.S. market — can be useful both in Canada’s dealings with the U.S. and with others. The policy statement argues for Canada “to aggressively pursue an ambitious and

balanced outcome” for the WTO Doha negotiations. But it is almost impossible for Canada to pursue an ambitious outcome, contribute constructively, or pursue its interests to open markets elsewhere when its negotiating position is severely hampered by, for example, a decision to defend 300 percent tariffs on dairy products under supply management. Canada is not invited to any decision-making meetings anymore and has not submitted a single agricultural proposal this round despite being the fourth-largest agricultural exporter.

Turning to development, the policy paper wisely argues for greater country and thematic focus. Again, this is a start. Canada’s history of widely dispersed aid and myriad objectives for aid policy has made aid much less effective than it could be. And it has not given us much presence abroad. Only one of our aid recipients receives 10 percent of its aid from Canada. All the others receive a much smaller share, even the rest of our top recipients. And Canada is an anomaly among small donors in terms of its lack of focus. Norway focuses its aid on seven main countries and 18 other minor partner countries. Australia and New Zealand concentrate on the Far East and Papua-New Guinea. Japan concentrates on Asia; Spain on Latin America. Belgium, Ireland and Italy focus on sub-Saharan Africa, while Austria and Greece focus on Central and Eastern Europe.

More concentrated aid means Canada can devote more resources to understanding particular countries and how to program effective aid in those countries, instead of supervising a host of projects on a superficial level. It means aid is less of an administrative burden on the recipient and donor. And, if we expect to influence host government behaviour in targeted countries through our aid, we probably have a better chance of doing so if we are among the relatively important donors in that country.

So the idea of more focused aid raised in the paper is a good one. But a closer look shows that the so-called more focused policy in the policy paper is really just business as usual. It says that at least two-thirds of Canada’s bilateral aid spending will be concentrated in 25 selected countries by 2010. The Canadian International Development Agency (CIDA) already gave almost two-thirds of its bilateral aid to its top 25 recipients in 2003-2004 and the newly selected group of 25 already received 42 percent of Canadian bilateral aid in 2003-2004. One-third of the aid will still go to other countries and so we have not moved to a much more focused policy.

On the thematic side, CIDA says it will focus more on priority sectors. Its list of *priority* sectors, however, is highly inclusive. So CIDA should pick a few countries or development issues that it is good at, and focus on them.

The development section has a number of other useful prescriptions that can improve our aid effectiveness, which I will reinforce. CIDA should enhance its field presence, ensure policy coherence across aid and non-aid policies, and better integrate best practices and policy research from the International Development Research Centre into CIDA programming. It should also untie its aid from the requirement to purchase Canadian goods and services. The evidence shows that untied aid is more effective. Almost all OECD countries have significantly reduced or eliminated tied aid; Canada lags international practice. The policy document

has a statement of intent on reducing tied aid but fails to set target shares and dates.

Here are a few other positive ideas for development.

- To restore its reputation on development issues — and Canada was once a leader in this area — CIDA must create a more vibrant, dynamic analytical and research capacity that feeds into policy, and encourage a culture of openness and debate.
- If Canadian bilateral aid cannot be made more focused and effective, Canada might send more aid through multilateral channels that are less subject to the whims of Canadian politics and more responsive to the evidence on what makes aid effective.

Going forward, on both trade and development, Canada should devote its limited resources to those countries and themes likely to yield the greatest rewards for Canadian interests. The policy paper raises a number of important issues and ideas but does not adequately set priorities. I certainly do not have all the answers about the specific countries and areas of focus for government, but what I do know is that it is incumbent on Ottawa to set out criteria and make those tough decisions about priorities. Thank you.
