



C.D. Howe Institute
Commentary

www.cdhowe.org

No. 180, March 2003

ISSN 8001-824

THE BORDER PAPERS

Canada and the Global Challenge:

Finding a Place to Stand

Bill Dymond and
Michael Hart

In this issue...

The current comprehensive foreign policy review was completed in 1995. The foreign policy dialogue launched in January is a tentative step toward recognizing the need for a fresh look at Canada in the world. Much more is needed, starting with consigning the tired bromides and invalid assumptions of the past to the dustbin, looking to basic interests and enduring principles and recognizing the central role of the United States in our future.

The Study in Brief

The short Twentieth Century ended in 1989 with the triumph of liberal democracy and market economics as the dominant context of modern governance. Over the succeeding dozen years, realignments in geopolitics and geo-economics point to the need for a serious reappraisal of the assumptions that have underpinned Canadian foreign and commercial policies since the end of the Second World War.

The challenge is to define a place for Canada in the new global order and exploit Canada's comparative advantage within it. The challenges arising from this new environment suggest that foreign policy should be fundamentally re-ordered and certainly should not be subject to strategic concepts based on outdated orthodoxies. The current comprehensive foreign policy review was completed in 1995. The foreign policy dialogue launched in January is a tentative step toward recognizing the need for a fresh look at Canada in the world. Much more is needed, starting with consigning the tired bromides and invalid assumptions of the past to the dustbin, looking to basic interests and enduring principles and recognizing the central role of the United States in our future.

The Authors of This Issue

Bill Dymond is Executive Director of the Centre for Trade Policy and Law at Carleton University and the University of Ottawa.

Michael Hart is Simon Reisman Professor of Trade Policy in the Norman Paterson School of International Affairs, a Distinguished Fellow of the Centre for Trade Policy and Law, and a Research Fellow of the C.D. Howe Institute.

Both are former Canadian officials with extensive experience in the negotiation of trade and investment agreements and as senior officials in the policy planning staff of the Department of Foreign Affairs and International Trade.

* * * * *

C.D. Howe Institute Commentary® is a periodic analysis of, and commentary on, current public policy issues. The manuscript was copy edited by Barry A. Norris and prepared for publication by Barry A. Norris and Marie Hubbs. As with all Institute publications, the views expressed here are those of the author, and do not necessarily reflect the opinions of the Institute's members or Board of Directors. Quotation with appropriate credit is permissible.

To order this publication, please contact: Renouf Publishing Co. Ltd., 5369 Canotek Rd., Unit 1, Ottawa K1J 9J3 (tel.: 613-745-2665; fax: 613-745-7660; e-mail: order.dept@renoufbooks.com), or the C.D. Howe Institute, 125 Adelaide St. E., Toronto M5C 1L7 (tel.: 416-865-1904; fax: 416-865-1866; e-mail: cdhowe@cdhowe.org).

\$12.00; ISBN 0-88806-594-9
ISSN 0824-8001 (print); ISSN 1703-0765 (online)

The short twentieth century ended in 1989 with the triumph of liberal democracy and market economics as the dominant paradigm of modern governance. Over the succeeding years, realignments in geopolitics and geo-economics have taken place with dimensions and implications for Canada that are only now coming into view. These realignments point to the need for a serious reappraisal of the assumptions that have underpinned Canadian foreign and commercial policies since the end of the Second World War. The challenge is to define a place for Canada in the new global order and exploit Canada's comparative advantage within it.

Three major characteristics define the new global order. First, there is the emergence of a unipolar world in which the United States, as the sole superpower, has no serious military or economic competitors. The events of September 11, 2001, have invested U.S. foreign policy with a single-mindedness in which bilateral and multilateral relationships, hitherto essential to the achievement of U.S. objectives, have become merely useful. Second, the rise of the global economy is eroding the role of the nation-state as the primary actor in economic governance. A central policy issue of modern governance is the yawning gulf between a global economy that has surpassed the boundaries of nation-states and a political order based on the premise that nation-states are and will remain the premier actors and decisionmakers. Third, the postwar order of multilateral rules and institutions is yielding to newer and more vigorous regional arrangements and informal, often temporary, coalitions of states. While multilateralism remains a useful tool for cooperative action, few of the original postwar multilateral institutions remain as indispensable forums of choice for Canada or many other countries in addressing the most pressing challenges of governance.

For some 60 years, Canada has been a pre-eminent leader in promoting, negotiating and accepting a multilateral, rules-based system for the conduct of international relations. Canada's commitment to rule making and multilateral institution building derives from its perception of itself as a country where most intimate relations are with powerful countries that, unrestrained, will take little account of Canadian interests. As a result, the government feels pressure to create counterweights to the proximity to and dependence on the United States and to reflect the desire of its citizens in its domestic values and preferences. The transformation of the global strategic and economic environment over the past dozen years seriously undermines the continued validity of the fundamental assumptions that have guided Canadian foreign policy in the past.

The push and pull of silent integration, encompassing virtually the whole range of interactions among states, are straining the managerial capacity of current Canadian foreign policy tools and preferences. But by far the most urgent foreign policy priority for Canada is to redefine its entire relationship with the United States. The time has come to achieve a seamless border with our neighbour, embraced within a new agreement implementing rules, procedures and institutions consonant with the reality of ever-deepening, mutually beneficial crossborder integration. The alternative — creating barriers to integration, establishing distance from the United States and seeking other partnerships to replace this vital relationship — is a certain route to a poor and isolated future.

In 2001, Henry Kissinger explored whether the United States *needs* a foreign policy (Kissinger 2001). Based on the record of the past few years, and particularly the past few months, the question might well be asked: does Canada even *have* a foreign policy? As war rages in the Middle East and the United States aggressively pursues its rediscovered muscle as the world's sole remaining arbiter of raw power, Canadian foreign policy seems increasingly detached from reality. A strong tendency has emerged favouring sentiment over interest and posture over position, informed by a lingering belief that Canada is, or should be, as important a nation today as it was in the immediate postwar period. This tendency is reinforced by the continuing pretence that Canada is a middle power with global interests, rather than a regional power with significant regional interests and modest global interests. The result is conflicting, even bizarre signals of where Canada stands on the most pressing issues of the day, a policy based on *ad hoc* reactions to unfolding events without any clear idea as to Canadian interests, priorities or capabilities.

This *Commentary* addresses changes in the global strategic and economic environment and sets out principles that should guide Canada in its search for a place to stand. In the first part, we set the scene by describing the radically different strategic context within which Canada finds itself, sharing a continent with the only remaining superpower and deeply, if haphazardly, integrated into its economy. In the second part, we examine the paradoxes that characterize the new context: paradoxes of globalization, of the state and of multilateralism, each of which point to the need for new attitudes and priorities in the deployment and pursuit of Canadian foreign policy assets and interests. The final part outlines the principles and interests that should guide the design of a new approach to Canada's trade and foreign policy in the coming years, focusing directly on the need to manage Canada's biggest asset and most unsettling challenge: to forge an all-encompassing new relationship with the United States.

The Strategic Context

Navigating in Uncharted Waters

The collapse of the Soviet Empire shattered the perceived strategic parity that had provided the essential reference point for much of Canadian foreign policy from the end of the Second World War. With the sudden disappearance of intense ideological competition between the West and the Soviets, many comfortable certainties accompanied communism into the dustbin of history. Three of these late certainties are particularly germane to this analysis.

The first is the centrality of Europe in the global security balance. In 1946, Winston Churchill famously declared that "from Stettin in the Baltic to Trieste in the Adriatic, an iron curtain [had] descended," cleaving Europe in two. The iron curtain led to the creation of the North Atlantic Treaty Organization (NATO), the building of the Berlin Wall, and the elevation of "mutual assured destruction" as strategic doctrine. The framework for the conduct of global foreign policy was based on the permanent division of Europe and on competition between two rival systems of values and governance. With the implosion of the Soviet Union and the shredding of the iron curtain, the military and geopolitical commitments that

bound North America and Europe closely together became mere shadows of their former presence. While conflicts continue on Europe's periphery, notably in the Balkans, no one now seriously believes that Europe will soon again become the crucible of global conflict.

A second disappearing certainty is the necessity and value of military alliances as central to the conduct of international relations. Throughout the early postwar years, membership in an alliance or the declaration of nonalignment was often the primary reference point for the definition of a country's foreign policy; today, the standing of a country as allied or nonallied is hardly germane to its foreign policy. In most of the world, terrorism, rogue states, social and economic breakdown and intrastate civil strife are the principal threats to national and human security. Even where alliances have political utility, as in the Afghan and Iraq wars, the United States so outstrips its potential allies in technological capacity and military clout that their military help is hardly required, and certainly not at the price of constraining strategic flexibility.

The third vanishing reality is the value of trade and economic agreements as strategic tools of foreign policy. Fundamental strategic interests motivated U.S. leadership of the postwar multilateral trade and payments system. Scarred by the experience of two world wars and a deep depression, the original six members of the European Common Market saw economic integration as the key pillar of a new system of European political and economic relationships. U.S. and Canadian readiness to accept the erection of discriminatory trade barriers against their exports, an inevitable consequence of the Common Market, indicated the geopolitical weight accorded to trade agreements. The geopolitics of trade and economic policy have virtually disappeared as important factors in global economic governance. While traces sometimes surface, the rhetoric and substance of crossborder and transatlantic trade relations suggest that attempts to deploy broad strategic considerations as tools for managing economic relations will fail. Protectionist U.S. trade actions in 2002 on European steel and Canadian softwood lumber, notwithstanding the war on terrorism and the war with Iraq, provide compelling recent examples.

The Canadian government's 1995 *Foreign Policy Review* (Canada 1995) pointed to the triumph of democracy and suggested that the international community was increasingly navigating in uncharted waters. It foresaw the emergence of new centres of influence in Europe, Asia, and Latin America that would replace the bipolar, superpower-centred world and provide the basis for the construction of a new order. The government was only partly right. Far from new centres arising to claim a place in the new order, there are no serious competitors to the United States as a world power on the near- or medium-term horizon.

The U.S. Hyperpower

In the 1980s, U.S. commentators such as Lester Thurow and politicians such as presidential candidate Pat Buchanan saw the United States in decline compared to the dynamic European Union (EU) and the powerful Japanese economy. The weak foundations on which these Cassandras based their gloomy predictions crumbled before the astonishing U.S. economic resurgence of the 1990s. Despite the recent

Far from new centres arising to claim a place in the new order, there are no serious contenders to the United States.

slowdown, the economic growth of the United States has outstripped all its rivals to the point that it is approaching the dominance it held 50 years ago as the engine of global economic growth. Over the past 20 years, for example, the U.S. economy has generated 20 million new jobs; over the same period, the 15 member states of the EU generated no net gain. Global economic performance has become dependent on U.S. economic growth. Growth in Europe and Japan can no longer compensate for a poor U.S. performance. The decisions and statements of the U.S. Federal Reserve now carry a weight surpassed only by that of the president and certainly have a far more significant impact on the global economy than those of any other country's leader, not to mention its finance minister or central banker.

Ironically, as the U.S. economy surged, U.S. foreign policy drifted. After its victory in the Gulf War in 1991, the United States became a diffident participant in global foreign policy. Although the United States provided much of the military muscle for the interventions in the Balkans, it did so reluctantly and subsequently withdrew from efforts to build a lasting settlement. For most of the 1990s, its president was mired in scandal, its military was wary of any commitments that risked casualties and its trade policy was handcuffed by the absence of fast-track negotiating authority.

The 2000 election yielded a president determined to focus on a domestic agenda and much less willing than his predecessors to involve the United States in the world's perpetual trouble spots — notably the Middle East where, in the new view, vital U.S. interests were not engaged. Similarly, the new administration was not given to what U.S. commentator George Will characterized as “the diplomacy of high-minded gestures” (Will 2001). In the early months of 2001, the new administration made it clear that it would not implement a series of multilateral agreements, including the convention setting up the world criminal court, the Kyoto Protocol on Climate Change, the Landmines Treaty or protocols to the 1972 Biological Weapons Convention. Even more tellingly, the prospect of Senate ratification of these treaties appeared remote. In sum, U.S. foreign policy under the new Bush administration projected a retreat into isolationism, reflecting a fundamental change in U.S. attitudes to foreign entanglements.

The September 11, 2001, terrorist attack proved a rude awakening to foreigners worried about U.S. isolationism and to Americans welcoming it. Far from reinforcing withdrawal from the world, the attacks spawned an aggressive, single-minded, America-first foreign policy, characterized by a determination not witnessed since the Reagan era. While the support of allies for U.S. foreign policy imperatives is welcomed, for example, in the war on terrorism and in the confrontation with Iraq, it is not essential. In particular, it is clear that the United States will not “pay” Canada or any other country for their contributions, nor deal with Iraq or other terrorist-supporting states only with the consent of its allies.

U.S. assertiveness is generating considerable anxiety among its traditional allies. As Britain's Prime Minister Tony Blair has observed, “If the U.S. acts alone, they are unilateralist, but if they want allies, people shuffle to the back” (Freeman and Koring 2003). The dilemma for Canada and other U.S. allies is that, while the impact of U.S. actions on their interests is enormous, their influence on U.S. policy, either its strategic direction or implementation, is marginal. The essential policy issue for Canada, the United Kingdom and others on issues such as Iraq is not

The terrorist attacks spawned an aggressive America-first foreign policy not seen since the Reagan era.

whether Iraq complies with UN resolutions, but the impact of their position on their relations with the United States. For Canada, the hard reality is that the United States is interested only in knowing whether Canada supports or opposes U.S. policy on Iraq and similar issues. Major consequences flow from either position.

Former French foreign minister Hubert Védérine was more hopeful than realistic when he suggested that France and a select few other European countries could, as middle powers, exercise global influence to counter the influence of the U.S. hyperpower. French experience in opposing the U.S. has been sobering. The United States is indeed a hyperpower, and one with an attitude likely to last for some considerable period. Its lack of interest in pursuing the agenda of United Nations conferences and high-minded gestures is more profound than a matter of isolationism or unilateralism; rather, it reflects a statement of different values, priorities and responsibilities. The United States is learning, in the words of Henry Kissinger, “to distinguish between what it must do, what it would like to do, and what is beyond its capacities” (Kissinger 2001, 284).

Players in the Minor Leagues

The European Union should head the list of potential competitors to the United States, but it punches well below its weight.

The European Union should, by any measure, head the list of potential competitors to the United States, but it punches well below its weight, notwithstanding its considerable assets. The 15 members of the EU boast a combined gross domestic product (GDP) exceeding that of the United States; their total population is 35 percent greater. The addition of ten new members in 2004 will add to its potential weight. However, EU efforts to compete with the United States are hobbled by debilitating debates between the advocates and opponents of ever-closer political union and by its generally anemic economic performance. The failure to establish a unified foreign policy backed by credible military strength leaves several voices within the EU speaking on global issues, often at cross purposes, as illustrated by the split on Iraq that divides the United Kingdom, Spain, Italy and others from France, Germany and Belgium. Europeans, out of sentiment and fond memory, talk a good game but their ability to influence events of importance to other countries, even its near neighbours, does not meet the test even for middle-power status.

Japan, another putative contender, hardly punches at all. A more than 30-year period of stellar economic performance, which created the world’s second-largest economy and a powerful position in the major industrial sectors, began to crumble in 1990 with the collapse of property and stock markets. Since 1990, the Japanese economy has stagnated. Japan’s leadership has run out of gas, its famous bureaucracy seems bereft of ideas and its best companies are concentrating their resources outside the country. As *The Economist* points out, “the charitable consider Japan an irrelevance, the less charitable see it as a liability” (“The Sadness of Japan,” *The Economist*, February 14, 2002). Although postwar Japan never sought to exercise geopolitical influence commensurate with its economic weight, it now lacks the means to do so. Unless and until Japan undergoes fundamental reforms, its influence will continue to wane.

Russia has disappeared as a serious participant in world affairs. The combined impact of the implosion of the Soviet economy and the breakup of the Soviet

Union into a welter of successor states reduced Russia's status to that of a minor state with nuclear weapons. It will take Russia years to establish the necessary institutions of democracy and capitalism that will enable it to realize its potential and undo the nightmare of generations of misgovernment. Like those of many other states, its leaders can be leaned on when necessary, but they are no longer central to any major decisions.

China is an enigma. Over the past two decades, rapid economic growth has been achieved principally by getting rid of rural communes and investing in low-end manufacturing. The next two decades will be harder. Two-thirds of China's 1.3 billion people continue to live on the land; large parts of the industrial sector remain dominated by inefficient, state-owned companies. All sectors of the economy face major adjustment as China's obligations under the World Trade Organization (WTO) take hold. Politically, power remains in the hands of a gerontocratic elite ready to suppress ruthlessly any signs of political dissent. As *The Economist* points out, "China's history is full of shimmering metaphors, parallels and examples that usually help to throw light on current events. But this time, history offers no guide to what happens next" ("China: now comes the hard part," *The Economist*, April 6, 2000).

Mexico made a valiant effort in the 1980s and 1990s to pull itself out of its self-imposed isolationism. By making skillful use of the North American free trade negotiations and multilateral negotiations in Geneva, Mexico gained a spot on the world radar screen commensurate with its burgeoning population and economic potential. Its government successfully sued for membership in the Organisation for Economic Co-operation and Development (OECD) and its industrialists learned to make the best of Mexico's location next door to the United States. Aggressive efforts to forge relations across the Pacific and Atlantic showed early promise. But the effects of more than a century of economic mismanagement and political torpor are not quickly undone. The early blooms in U.S.-Mexico and Canada-Mexico relations have quickly faded and Mexico's feeble response to the events of September 11, 2001, reminded decisionmakers in Ottawa and Washington alike that Mexico has a long way to go before it becomes a critical economic and strategic partner.

Brazil and India are the dominant countries in their respective regions but lack the capacity to project this power beyond their borders. Brazil is, in any case, a country to which the world beyond is of little interest. Its borders are secure, its population is quiescent in the face of massive social inequalities, its elites are comfortable with mediocre performance and its horizons are limited to a sporadic desire to play regional hegemon in South America. The election of a new president with a strong social reform agenda is unlikely to make a serious difference in Brazilian ambitions or in its power to realize them. India has pretensions to global influence but, as Bismarck once said of Italy, its appetite is bigger than its teeth. India remains far behind the majority of developing countries in unshackling its economy from the dead hand of state control. Its long-standing aspirations to lead a coalition of developing nations and compete with the United States and other industrialized countries have never enjoyed the broad support of its would-be members. Looming over Indian pretensions to global power status is the emerging power of China.

The fact that there are no serious contenders for the role of counterbalancing U.S. power is of particular importance to a country that shares a continent with the United States.

In sum, there are no serious contenders on the horizon for the role of counterbalancing U.S. power and influence, a fact that is of particular import to a country that shares a continent with the United States, is critically dependent on the United States as its principal trading partner and where both populations share many values and aspirations. In the apt phrase of Canada's former ambassador to the United States, Allan Gotlieb, "the United States is more than a country, it is a self-absorbed civilization" (2002a). We have the advantage of living next door to this civilization, with more means of access to it than any other country. Again, as Ambassador Gotlieb has pointed out, in the relationship with the United States lies the key to reversing Canada's reputation as a fading power (2002b).

Paradoxes of the Global Economy

Paradoxes of Globalization

As the intervention of the state has grown, its ability to affect change has declined. Power has passed to transnational corporations.

No term has been more misused than "globalization" in public debate on international economic issues. It provokes noisy public protest often characterized by violence, promises by governments to put a human face on it and, at the 2002 World Economic Forum in New York, solemn commitments to greater social consciousness proffered by many of the world's most prominent business executives. The positive side of this discussion is that it does not appear to be leading governments to move systematically to restrain the flows of global trade and investment; the negative is that it obscures some serious issues of global governance that, if left unresolved, may impose heavy economic costs. The issues — education, social safety nets, health, environmental quality, research and development — that societies need to address to prosper in the global economy become more urgent as the pace and density of economic integration accelerate. The path to solving those problems does not lead through thickets of confused debate about the symptoms of globalization.

The paradox lies in the fact that the debate is conducted almost entirely by the chattering classes in OECD countries. As Indian economist Surjit Bhalla sarcastically observes,

one does not witness any brown, or yellow, or black people in the vanguard of the antiglobalization debate, or in the attacks on the operations of international institutions. All the leaders and operators are white, come from rich countries, and are fighting the cause "in the name of [non-white] poor people." (Bhalla 2002, 190.)

The truth is that globalization has done more to lift the fortunes of the poor than any other process in history. Again in the words of Bhalla, "[n]o matter what statistic is used, the revealed truth is that we have just witnessed the 20 best years in world history — and doubly certainly the 20 best years in the history of poor people" (ibid., 202).

From the outset, the antiglobalization movement has suffered from three fatal weaknesses. First, notwithstanding the hopes of some and the fears of others that there is a growing tide of public protest against globalization, there is little

evidence that the protests are influencing the voting preferences of electorates, the policy choices of governments or the purchasing decisions of consumers. Second, the antiglobalizers have no credible alternative system of governance to offer. Much of their criticism is contradictory: for example, decrying the weakness of governments as a democratic deficit while arguing strenuously for the Kyoto Accord, which would consign much of economic and environmental policy to international regulation beyond democratic control. Third, the movement has provided a vehicle for violence. Politicians need to rethink the level of attention such groups are entitled to receive, and business executives, as economist David Henderson argues (*National Post* online, February 2, 2002), need to rethink their commitments to doctrines of corporate social responsibility and pay less attention to organizations that are politically accountable to no one and have nothing to offer but protest.

The Paradox of the State

Much as globalization presents a paradox, so does the role of the state in modern governance. Throughout the past century, the state has grown steadily more involved in the lives of its citizens. The share of government expenditure in national production, the provision of comprehensive social safety nets and the intrusiveness of micro-regulation in daily life all testify to the primacy of the state in governance. The paradox is that, as the intervention of the state has grown, its ability to affect change has declined. The change from production designed and sold in one market to production destined for several or even global markets has resulted in a shift in economic authority away from the state. Increasingly, power has passed to transnational corporations (TNCs), deriving from their role as central organizers of economic activity as employers, innovators, mobilizers of capital, consumers, producers and sellers of goods and services. The economic role of the state has been reduced to defining the investment and regulatory climate within which TNCs make their decisions about what to produce and where, and citizens exercise their choices about what to buy and from whom and where to invest their savings.

The consequence is a structural transformation in the authority of the state and the loyalty it can command from its citizens. States no longer have effective control over national economic performance; indeed, they have been eagerly stripping themselves of the blunt instruments of intervention. Notwithstanding a swing to the left in some Latin American countries, such as Brazil and Ecuador, there is no evidence to suggest that protectionism is on the rise or that fruitless efforts to create national champions or national technologies will return as hallmarks of economic policy. The conduct of international business through operations and establishment in multiple jurisdictions is a serious erosion of the state's capacity to exercise its monopoly on taxation. Owners of technology, capital and skills can now readily escape the confines of national borders and the strictures of national policies of economic development, resource allocation and income distribution. Even more troubling to the dwindling band of statisticians, while governments retain the constitutional power to reclaim these lost instruments, they have lost the democratic legitimacy to do so. Election campaigns continue to be liberally

The UN and many of its institutions are of declining relevance, though multilateralism, suumitry and regionalism are essential to global governance.

sprinkled with promises to deliver sustainable growth in production, employment, or incomes, but it is the global economy and the capacity of private firms to compete within it that now determine the economic welfare of citizens of nation-states. Governments know and accept this reality and have entered into international regimes to reinforce it.

As the British scholar Susan Strange (1996) argued before her death, the retreat of the state also alters relationships among groups within countries and changes long-established power relationships. Groups such as unions, disadvantaged regions, and protected economic sectors are all losing in varying degrees the power to influence policy, a direct consequence of their diminishing capacity to affect the lives of their constituents. Relationships among states are also changing, often as a function of their ability to retain authority. Members of deeply integrating economic agreements, such as the EU, have virtually no independent power of action. Smaller states, mostly developing countries, are poorly equipped, economically and politically, to carve out a distinct role. A kind of global disorder is emerging to replace the old order. In the view of Canada's trade minister, Pierre Pettigrew, this disorder involves a multicentric world consisting of an almost infinite number of participants that have a capacity for international action that is often independent of governments (Pettigrew 2002).

These profound changes have stimulated a lively debate on some of the most cherished canons of postwar foreign policy orthodoxy, including the primacy of multilateralism.

The UN system is hobbled by unworkable intergovernmental agreements that bear little relevance to current strategic problems indeed.

The Paradox of Multilateralism

There is now a surfeit of multilateral institutions and rules mandated to address issues of global governance, ranging from defence and security to the protection of endangered species. In the original conception of the system, the United Nations was to provide the overall coordination of a considerable variety of specialized agencies ranging from financial institutions such as the World Bank and the International Monetary Fund (IMF) to transportation agencies such as the International Civil Aviation Organization and the International Maritime Consultative Organization. Economic commissions for Europe, Africa, Asia and Latin America were established to provide mechanisms for regional coordination. There are currently more than 5,000 intergovernmental organizations devoted to one aspect or other of global governance. The paradox is that, while the UN itself and many of its institutions are of declining relevance, multilateralism, regionalism, summitry and other cooperative means of pursuing shared goals remain as essential instruments of global governance.

The postwar generation viewed multilateral rules and institutions as a better way of promoting cooperation to resolve transborder and global issues, ranging from peace and security to transportation, health, telecommunications and more. At one level, their hopes proved well founded. For technical matters, multilateralism has proven to be an effective means for progress on a broad spectrum of issues. At the strategic level, however, it has often proven to be inadequate to its assigned tasks. Almost from the outset, the system fell victim to ideological rivalry, in the first instance between the West and the Soviet empire and

latterly between the First and Third Worlds over issues of economic governance. The IMF lost its essential role as the monitor of monetary policy in 1971 following the collapse of the fixed exchange-rate regime and has evolved into the banker of last resort for nation-state bankruptcies. The World Bank has similarly developed into a soft-loan bank competing with many others in the disbursement of development aid. The multilateral trading system has proven to be the most resilient creation of the postwar institutional order, but the proliferation of regional trade arrangements, such as the North American Free Trade Agreement (NAFTA), is dramatically reducing the volume of world trade subject to its rules.

Since the implosion of the East-West stalemate, UN organizations have tried to recapture the original strategic design of the system and provide global governance on a wide range of issues. While much useful technical work continues to take place through the UN's myriad specialized agencies, that organization's approach to global governance remains tone deaf to the new strategic realities. The UN system remains hobbled by a surfeit of unworkable intergovernmental arrangements and agreements that bear little relevance to the problems thrown up by the change in strategic power balance and the emergence of the global economy.

The events leading to the war with Iraq demonstrate a desperate effort to restore a political role for the UN. The Security Council, with its five veto-holding members, was torn between a desire to prove its relevance as an arbiter of international security, and recognition that the United States, the United Kingdom and many others would ignore the Council. As President George W. Bush told the media following his September 2002 address to the General Assembly, it was not Iraq that was getting a second chance, but the UN: the United States would have welcomed UN endorsement of its goal to disarm Iraq by military force, but has not been deterred by the absence of UN agreement. Iraq provides a graphic demonstration of the UN's marginalization.

Similarly, the UN's social and economic institutions, from the Economic and Social Council to its regional economic commissions, have little influence on nation-state decisionmaking. Its fiction that all states are equal in power and influence leads to bizarre situations in which gross human rights violators, such as Libya, preside over the Human Rights Committee. Elaborate world summits on the environment, development, women, children and racism command but a fleeting moment of attention or result in unworkable agreements such as the Kyoto Accord on Climate Change, where developing countries have succeeded in excusing themselves from its obligations and the United States, on which the success of its objectives importantly depends, rejects it out of hand.

Following the collapse of the Bretton Woods monetary system in 1971, summits gained powerful attraction as forums of choice to address the challenges of global governance. A quarter-century of G-7/8 summitry, now including Russia, has spawned year-round activity. Since 1994, the 21 countries of the Pacific Rim have held an annual summit to promote Asia-Pacific economic cooperation. In the Americas, the 34 democratically elected heads of government meet every three years. In Europe, summitry has become the key tool for advancing the European vision. Each of these has an expanding agenda covering virtually the whole range of international public policy issues. The summit system of governance has the clear advantage of attracting political attention at the highest level. Summits also

For those who rely on traditional multilateralism and the UN to obtain internationally shared objectives, matters look very grim indeed.

provide a magnet of public and media focus on international policy and can serve to mobilize the allocation of political, financial and human resources to pressing problems, such as those of international development and poverty reduction. They are also seductive to leaders and ministers since they provide an opportunity for at least the appearance of global statesmanship on the basis of agendas of their choosing. Although summits have clear weaknesses — for example, restricted membership and lack of infrastructure to assure continuity and implementation — they are likely to continue to provide the forums of choice for global governance.

For those for whom traditional multilateralism and the UN are more than a means to attain internationally shared objectives, matters look increasingly grim. For those for whom the UN and multilateralism were never more than a means, the breakdown in its effectiveness is of little consequence. Other means have emerged, from summitry and regional arrangements to “coalitions of the willing.” In this more fluid situation, the role and influence of the world’s only superpower assume a new importance that other governments are only beginning to appreciate, let alone learning to accommodate.

The Paradox of Trade Agreements

Transnational corporations are now the principal agents of economic development; the major benefits of classic trade liberalization have largely been realized.

The world is awash in trade negotiations. From free trade in the Americas, free trade in the Asia-Pacific region, the launch in Doha, Qatar, of new multilateral negotiations, Canadian negotiations with Central America and Singapore, EU negotiations with Mercosur, Mexico, and the Andean countries and U.S. negotiations with Chile, Central America and Singapore, the number of intergovernmental trade agreements is poised to rise exponentially over the next decade. The paradox lies in the decreasing relevance of many of these agreements to the conduct of international trade and investment.

Trade agreements assume that trade occurs among unrelated companies that operate from within the boundaries of individual nation-states. However, international trade has undergone a fundamental transformation. The change is illustrated by the rising proportion of trade represented by intra-industry transactions, the increasing importance of trade in intermediate components, the rising role of trade in services, the increasing importance of foreign direct investment (FDI) and the growing share of global business taking place on an intrafirm, intranetwork, or other interrelated corporate basis. Moreover, FDI has displaced crossborder trade in goods as the dominant feature of international exchange and national firms have given way to transnational corporations as the principal actors. The United Nations reports that, in 2000, the world inward stock of FDI amounted to US\$6.3 trillion, global trade was US\$7.6 trillion, or 24 percent of global production, and worldwide sales by affiliates had reached US\$15.7 trillion, or 49 percent of world GDP (United Nations 2002).

The paradox lies in the juxtaposition of the repute — for good or ill — of trade agreements and their decreasing relevance as instruments to govern relationships between governments and TNCs, which are now the principal agents of economic development. Further, while trade liberalization continues to be cited as the object of trade agreements, the major benefits of classic trade liberalization have been largely realized. It is only in a few old-economy sectors — for example, agriculture

— that crossborder trade barriers susceptible to negotiation remain relevant to influencing the flows of trade and investment. Managing relationships between TNCs and home and host governments is clearly less about trade liberalization and more about the interface between the private economy and public regulation, the blurring lines between the domestic and global economies and the role that rules play in defining the relationship between states and the owners of technology, capital and technical skills. The result is a degree of flux and churning that is challenging old-paradigm trade agreements. Should Brazil and India be allowed to license the generic production of pharmaceuticals protected by patents held by giant multinational companies in order to provide affordable medicines to AIDS sufferers? Should Canada be allowed to set the price of natural resources, such as trees, that it makes available to private companies, rather than rely on freely determined market values? Should developing countries be required to adopt the labour and environmental standards of developed countries as a condition for benefiting from the trade rules? Should democratic governance be a condition for membership in any regional trade agreement? These kinds of issues testify to the extent to which trade and FDI can take seemingly domestic matters and turn them into transborder issues. All are examples of what economist Sylvia Ostry (1997) has called “system friction”: conflicts that arise out of the differing regulatory and value systems that have developed historically in various countries and to which trade agreements provide no easily accessible solution.

Canada seeks to create counterweights to the United States and the fact that such efforts often prove marginal or fruitless is not a deterrent.

Options for Canada

Global Ambitions and Illusions

Canadians often lament the deep isolationist instincts of the United States. Until the Second World War, however, Canadian foreign policy was characterized by a marked distaste for foreign entanglements. In John Holmes’ memorable phrase, Canadian foreign policy was “limited not so much by colonial status as by a lingering colonial mentality” (1970, 5). In part sheltering under the comfortable mantle of the Empire, yet wary of British ploys to draw Canada into foreign adventures and in part absorbed by nation building, Canadian governments were reluctant participants in international affairs. Even in the League of Nations, where it fought hard to gain an independent seat, Canada retreated into an isolationist shell when deliberation turned to commitment, as in the case of the abortive sanctions against Italy over the invasion of Ethiopia.

The Second World War banished Canada’s isolationist instincts. At war’s end, Canada emerged as the fourth-largest military power in the world, with a surging economy and an important role in designing the postwar architecture of global governance. The demands of reconstruction, the transition of government from Mackenzie King to Louis St. Laurent, the enormous national pride and confidence flowing from the war, the rise of the Soviet Empire as a new threat to world peace and deepening relations with the United States all contributed to the readiness of Canadians and their government to play an activist role in international affairs.

Three impulses drove, and continue to drive, Canadian internationalism. The first is Canada’s perception of itself as a country that has its most intimate relations

with powerful countries that, unrestrained, will take little account of, or even damage, Canadian interests. This perception explains the Canadian instinct to resolve problems through multilateral rules and regimes. During the golden age of Canadian diplomacy, Canada embraced multilateral rule making and institution building as the guiding principles of its foreign policy. Tinged with more than a hint of moral superiority, Canadians could be found everywhere promoting, negotiating and accepting rules and regimes for the conduct of international relations. In a sense, Canadians were the world's greatest Rotarians. It became and remains a strong article of faith among Canadian foreign policy elites that international law and multilateral institutions offer scope to build coalitions among small and middle powers to constrain the power of large countries, especially that of the United States. In the words of the 1995 *Foreign Policy Review*, "the international system must be ruled by law, not power" (Canada 1995, 36).

The second impulse flows from the effort to create counterweights to the United States and provide options for Canadian foreign policy initiatives. Canadian governments have expended enormous political energy to construct multifaceted bilateral relationships with the European Union and, to a lesser extent, Japan. The NAFTA gave rise to a serious undertaking to develop a bilateral relationship with Mexico. At times, Nordic countries, such as Sweden, and South Asian candidates, notably India, have entered the limelight as potential partners on which special efforts should be lavished. Canada's continuing commitment to organizations such as the Commonwealth and *La Francophonie* should also be seen in this light. The fact that these efforts often prove fruitless or marginal is not a deterrent, as is evident in the attempt to use the NAFTA as a vehicle to construct an intense bilateral relationship with Mexico.

The third impulse of Canadian foreign policy is the desire of Canadians to see a reflection of domestic values and preferences in their foreign policy. As the Dialogue Paper issued by Foreign Affairs Minister Bill Graham in January 2003 states somewhat smugly, a "better world might look like a better Canada, a place of shared security and prosperity, of tolerance and respect" (Canada 2003). No Canadian government can profess indifference to international events or situations that arouse Canadians' sense of justice and compassion. Canada's commitments to human rights, arms control, the environment, international development and humanitarian assistance resonate broadly among Canadians. Whether Canadian foreign policy contributes to obtaining desirable results — for example, the enhancement of human rights — is less important than that it is seen to articulate the image Canadians have of themselves and their country. Although, as the work of scholar Evan Potter (2002) has shown, the events of September 11, 2001, have generated increased attention to security issues and to relations with the United States, the values agenda remains strong.

Canada deploys considerable assets in pursuit of the objectives that flow from these impulses. A history of involvement in global affairs that is untainted by a colonial past or imperial ambition makes Canada a country that is not perceived to have a hidden agenda. Over the years, Canadian diplomats have proven to be highly skilled at rule making and regime building. Democracy, the rule of law, tolerance and an increasingly multicultural society fed by immigration from the four corners of the world give Canada an enviable international image. Proximity

Canadian foreign policy has inherent weaknesses, with the main one being the predominance of sentiment over interest.

to the United States allows Canadians to pose as Americans without the heavy baggage that trails the U.S. presence in the world. In a globalizing economy, in which the driver of prosperity is as much private capital as government policy, it is even more important that Canada maintain and strengthen a framework of domestic laws, regulations, policies and institutions that reward innovation and entrepreneurship and that address a wide range of other societal goals on a basis that is transparent and nondiscriminatory and that does not distort the efficient allocation of scarce resources.

Whatever these latent strengths, Canadian foreign policy has inherent weaknesses that have become increasingly apparent in the unipolar world. Chief among these is the predominance of sentiment over interest and a propensity for declaratory foreign policy without serious and sustained commitment. The Canadian position on the Iraq war provides a glaring example. Canadian politicians regularly trumpet unique Canadian values as Canada's special contribution to the world. The reality, in fact, is that such values are widely shared and practised, particularly in the United States, where they are presumed to be different and thus inferior. As Deputy Prime Minister John Manley commented during his brief sojourn as foreign minister, Canadians have the habit of taking strong stances on any number of international issues, but when it comes time to take action, Canadians take a washroom break. Indeed, on issues as diverse as civil war in Africa, nuclear weapons control and conflict in the Middle East, Canadians are quick to the mike and slow to the purse.

Among Canadians, there is a broad measure of comfort in arranging for prosperity and security within the North American framework, while managing the forces of silent integration.

A second weakness is the fading salience of club memberships as foreign policy attributes and assets. During the Cold War, Canada was a member of a small select club of functioning democracies. Membership in the General Agreement on Tariffs and Trade identified Canada as a market economy committed to trade liberalization and a rules-based multilateral trading system. Canadian membership in NATO defined Canada as a member of a 15-country military alliance organized to resist Soviet aggression. In the post-Cold War years, democratic politics and market economics have been adopted by most of the countries of the former Soviet Empire and the vast majority of developing countries. WTO membership now numbers 145 countries, with another two dozen in the accession queue. In NATO, the putative enemy has observer status and many of its former satellites are full members. These remarkable developments have created a more prosperous and safer world, but they have deprived members of hitherto exclusive clubs an important part of their identity. Membership in the global *directoire* of the G-7/8 continues to convey a benefit of exclusiveness, but Canada's ability to influence that club to serve Canadian interests is at best modest.

Canadian foreign policy is also weakened by a seriously underfunded and overstretched military. Canadians are justifiably proud of their heritage as both peacemakers and peacekeepers, claims based on large contributions during three major wars and pioneering efforts in defining the role of peacekeepers. Both roles required commitment to a well-equipped and well-staffed military. The core of the Canadian military remains a serious fighting force, as demonstrated in the war in Afghanistan. The equipment and support required to maintain such a force, however, are under serious stress and are inadequate to the demands being placed on them. In the words of historian Jack Granatstein, "whether Canadians realize it

or not, Canada is now all but undefended" (2002, 9). In a world in which the threat of mutually assured nuclear destruction has been replaced by a much more varied range of threats and multilateral security alliances have receded in importance, a well-equipped military assumes new importance. Maintaining such a military, however, involves serious funding, inspired leadership and a clear sense of mission.

There is abundant evidence that, if politicians and officials attach importance to the nation-building role of foreign policy, Canadians do not. Before the First World War, foreign policy was often used to assert independence from the United Kingdom; since the Second World War, it has been frequently invoked to define difference from the United States. The latter remains important among some Canadian politicians, particularly on the left, and among senior foreign policy officials. Among Canadians in general, however, there is a broad measure of comfort with arranging for the security and prosperity of the country within the North American framework and with seeking new arrangements with the United States to capture and manage the forces of silent integration. Concurrent with this comfort is a new confidence among Canadians in their identity and an absence of any pressures emanating from the public for initiatives to re-establish artificial distinctions and differences from the United States or from any other country.

Strong forces of silent integration are at work, driven by demography, geography, common values and security goals.

Within the welter of conflicting claims and changing circumstances, Canada's foreign policy establishment has found it difficult to define a role for Canada and stake out compelling priorities. There is a lingering belief that Canada is, or ought to be, as big a player today as it was in the immediate postwar period. This is combined with the pretense of being a middle power with global interests, rather than a regional power with significant regional interests and modest global interests. As a result, Canadian foreign policy suffers from a confusion of identities. At times, Canada has asserted that it is an Atlantic nation, a Pacific nation, even an Arctic nation, anything but an American nation. These factors create a pathological reluctance to make choices. The effort, ultimately vain and unrewarding, to wield influence beyond our capacities leads to a wasteful dispersion of resources. For example, Canada is grossly overrepresented in Europe, where Canadian interests and influence have steadily diminished over the past 40 years, ironically in inverse proportion to the intensity of diplomatic effort.

The 1995 *Foreign Policy Review* posited prosperity, security, and values — including culture — as the pillars of Canadian foreign policy. The *Review* set a pragmatic tone and came to reasonable conclusions, but its analysis was rooted in the traditional orthodoxies of sovereignty, the management of international relations through intergovernmental institutions and the assumption of primary loyalties owed by citizens to the state. Observes Allan Gotlieb, "Looking at the world through a rear view mirror may well be the leading cause of Canada's fading role" (2002b). The past no longer provides adequate guideposts for the future. Club memberships, distinctive values and strong bilateral relationships, other than with the United States, count for little in the world we have described. If Canada is to find its place in a unipolar world, there is a compelling need to recast the fundamentals of Canadian trade and foreign policy. Acceptance of this fundamental reality should lead to a clearer-headed assessment of which trade and

foreign policy priorities make the largest contribution to Canadian goals and interests.

Continental Realities and Aspirations

Overwhelmingly, Canada's leading trade and foreign policy partner is the United States, surpassing all other partnerships combined in the breadth, depth and intensity of the relationship. Crossborder trade and investment drive our economy. U.S. innovation and entrepreneurship provide both opportunities and competition. U.S. popular culture dominates, not because it is forced on Canadians but because Canadians choose it. The U.S. military provides a blanket of security. U.S. warm weather cossets millions of Canadians each winter. The U.S. presence pervades every aspect of Canadian life, including, as Foreign Minister Bill Graham recognizes, foreign policy. Virtually every aspect of Canada's political, economic, cultural and social life is measured by Canadians in terms of the U.S. yardstick.

Strong forces of silent integration are at work, driven not by foreign policy but by a number of fundamental realities: The first is the common perimeter defined by geography, demography, shared political and societal values, common security arrangements and challenges and joint economic arrangements and goals. Second, broad convergence exists across a wide range of public policy areas, including security and immigration. Third, deepening integration will continue between the two countries across every area where the two societies connect. Fourth, current bilateral arrangements for the management of common trade, security and immigration issues are inadequate to the demands being placed on them. Canada and the United States now require a new design for new circumstances. Canadians need to come to grips with the challenge of finding new and better ways to address deepening integration and ensure a Canadian voice in the governance of the North American polity. As scholar Wendy Dobson argues,

a nation that merely reacts to events is likely to see its sovereignty erode and its future determined by others. A nation that exercises its sovereignty anticipates change, prepares options that promote the key interests of its partner, but channels action in ways that best serve its own interests. (2002, 18.)

There are compelling economic and security reasons for Canada and the United States to achieve a seamless market governed by a single set of rules implemented and administered by the two governments to achieve their common interest in a well-functioning and secure North American economy. To get there, Canada needs to engage the United States in a three-track strategy:

- to strengthen institutional and other linkages that will facilitate full cooperation in addressing terrorist and other threats to the security and well-being of their citizens;
 - to review the full panoply of programs and policies administered at the border with a view to eliminating or reducing as many of them as possible, and finding more efficient and less intrusive ways to administer remaining programs and policies, and
-

- to examine the contours of a new agreement, implementing rules, procedures and institutions consonant with the reality of ever-deepening, mutually beneficial crossborder integration.

These three initiatives should be pursued initially on a bilateral Canada-U.S. basis. At the same time, it should be made clear to Mexico that any progress made in implementing a more open border is, in principle, a course also open to that country — one that both Canada and the United States would welcome. Implementing a more open border with Mexico, however, may need to be addressed at its own pace and within the different realities that condition the administration of that border.

There is, of course, an alternative. It consists of imposing significant barriers to the forces of silent integration and seeking to create distance between Canadian and U.S. economic, foreign policy, military, political and other interests. Pursuing such an alternative would mean a poorer Canada, since no other trading partner could provide anything approaching the United States as an attractive and dynamic market for Canadian goods and services. It would also mean a less secure Canada, because there is no stronger military power on the near or far horizon than the United States. Finally, it would mean a more isolated and less influential Canada, since influence given up with the United States cannot obviously be replaced by acquiring influence with the players in the minor leagues. The alternative of distance would rapidly lead to a decline in the rewards and challenges that sharing a continent with the United States brings.

Canada's relationship with other regions of the world are not without importance, however the long-term trend is clear: closer relations with the Americas.

Europe and Japan

In the bipolar world of the last half of the twentieth century, relations with the major countries in Europe and with Japan served a variety of goals, particularly security and trade, but also broader economic and social goals. In the unipolar world of the early twenty-first century, relations with Europe and Japan are almost exclusively matters of trade and investment, and even here the levels are modest.

In the 1960s and 1970s, Canada held out much hope that trade and investment relations with Europe and Japan would flourish and reduce the country's dependence on the United States. The results of the contractual link with the European Community and a framework agreement with Japan, as well as the expenditure of considerable resources to promote trade and investment with these partners, have been meagre at best. Relative trade levels with both reached their high point in the early 1970s and have trended down ever since. The structure of transatlantic and transpacific trade and development remains stuck in patterns established in the 1960s. Both the Europeans and Japanese view Canada as little more than an appendage of the U.S. market, and Canadian business sees its future tied to success in the U.S. market. Neither Europe nor Japan is destined to become anything other than an important secondary market and partner.

The time has come to reach a more realistic accommodation: both government and business need to come to grips with deploying resources in pursuit of those markets appropriate to the Canadian reality. There may be good retail trade and foreign policy reasons to retain significant resources in Europe and Japan, but such

resources are surely of a lesser order than those required to advance Canadian interests in the United States. More to the point, some of the resources now devoted to Europe, in particular, may be better deployed in pursuing more promising opportunities elsewhere, particularly in the Americas.

The Americas

In the 1980s and 1990s, Canada made a number of strategic choices that have drawn the country closer to the problems and preoccupations of the Americas. The first and most significant was the decision to negotiate a free trade agreement with the United States. The principal drivers of that decision were: a consensus that continued reliance on the multilateral trading system to achieve Canadian trade objectives would not be sufficient to meet the needs of the Canadian economy; the failure of the consultative arrangements with the Europeans and the Japanese to produce tangible economic benefits, and confidence that Canada could successfully avoid or limit the noneconomic pressures of integration. The evidence of more than a dozen years of experience with the Canada-U.S. Free Trade Agreement constitutes unambiguous proof that Canadians made a prudent choice.

The second choice was the decision to seek a North American Free Trade Agreement. When Mexico and the United States agreed to negotiate a free trade agreement, Canada was faced with a difficult choice: to stand aside and allow the United States to construct a hemispheric hub-and-spoke set of agreements with Canada as the northern spoke, or to join in the construction of the NAFTA. That agreement marked a further step away from the multilateral system as Canada's principal instrument of global trade relations and may lead eventually to a hemispheric network of preferential trade agreements. The subsequent launch of negotiations for a Free Trade Agreement of the Americas, the Canada-Chile and Canada-Costa Rica Free Trade Agreements, as well as the current negotiations for such accords with four other Central American countries are evidence of Canada's irreversible commitment to a hemispheric future.

The third choice was Canada's decision to join the Organization of American States (OAS) in 1989. Since the founding of the OAS in 1948, Canada had maintained observer status, giving it eyes and ears, but not a voice, in the affairs of the hemisphere. Once a member, Canada threw itself with a will into the task of carving out a distinct place. In a few short years, Canada has succeeded in defining an identity in hemispheric affairs that provides a new and expanding "space" for foreign and commercial policy.

While Canada's relations with other regions of the world are not without importance, the long-term trend is clear: Canadian geopolitical and economic priorities are in the Americas and Canada must pursue this reality by deploying appropriate resources in the hemisphere commensurate with this new reality. Within a few short years, Canadians have demonstrated a competence and interest in helping these countries overcome decades of economic malaise and political turmoil. Helping them to build capacity for democratic governance and market economics provides a realistic and sustainable match of their needs and Canadian interests and ability and should pay considerable longer-term dividends, both for them and for Canada.

International trade agreements act as powerful constraints on governments' capacity to act arbitrarily.

Developing Countries

Ever since Lester Pearson played a leading role in developing the Commonwealth's Colombo Plan, Canadians have made a large and sustained commitment to helping people in less fortunate circumstances. In the waning years of the twentieth century, however, as Canadians faced fiscal problems of their own, the amount of aid committed to both bilateral and multilateral programs steadily shrank. Canada's aid disbursements are now down to 0.25 percent of GDP which the federal government pledged to increase in its February budget. In spring 2002, at the UN pledging conference in Monterrey, Mexico, the prime minister indicated a commitment to increasing those funds by 8 percent per year.

Still, as the absolute value shrank, no efforts have been made to concentrate resources where they will make the largest strategic difference. Indeed, with the integration of aid to eastern Europe folded into the mandate of the Canadian International Development Agency (CIDA), the number of bilateral aid recipients has increased even further, while available funds have stagnated. Canada's international development spending is scattered around some 100 or more countries in the world. In hardly any of these is Canada the chief donor. The Nordics, on the other hand, have chosen to concentrate their efforts and, as a result, have a proportionately greater impact and influence than Canada with its "penny packet" policy. The decision by CIDA to increase aid to nine developing countries — Bangladesh, Bolivia, Ethiopia, Ghana, Honduras, Mali, Mozambique, Senegal and Tanzania — is a modest step in the right direction.

There is insufficient appreciation that trade and trade agreements make a major contribution to these goals. Such agreements are, first and foremost, matters of freedom. International trade agreements act as powerful constraints on governments' capacity to act arbitrarily and are thus an important guarantor of freedom in many countries, including our own. Trade makes people better off, particularly people in the poorest countries, and trade can improve the environment. As World Bank studies show, open trade policies are the handmaiden of rising incomes and of the creation of resources to address a broader range of societal priorities from education to health and the environment. It is becoming increasingly clear, however, that the means are more complex and interrelated than earlier approaches indicated. Neither trendy environmentalism nor buckets of new aid funds, for example, will make much difference. Instead, Canada must work with others, particularly the United States, and be prepared to make a harder-nosed assessment of what sustainable development entails and act accordingly.

Conclusions

Since the collapse of the Berlin Wall 13 years ago, inertia is propelling Canadian trade and foreign policy along paths defined during the Cold War. Since then, the realities that should define the contours of Canadian trade and foreign policy have radically changed. The economic and security challenges Canadians face today are fundamentally different from those faced by earlier generations.

The events of September 11, 2001, exposed the extent to which the assumptions underpinning the practice of Canadian diplomacy diverge from reality. It is now

The first and only priority for Canadian diplomacy over the next few years is to reach a new accommodation with the United States.

abundantly clear that the postwar world of strategic balance, mutually assured nuclear destruction, national economies and strong multilateral rules and regimes has largely vanished. We now live in a unipolar world dominated by the United States, a global economy in which transnational corporations have become major contributors to citizens' long-term prosperity, and a dangerous world in which security threats arise from the unpredictable behaviour of non-state actors and rogue states. The challenges arising from this new environment suggest that foreign policy should be fundamentally re-ordered and certainly should not be subject to strategic concepts based on outdated orthodoxies. The current comprehensive foreign policy review is eight years old. The foreign policy dialogue launched in January 2003 is a tentative step toward recognizing the need for a fresh look at Canada in the world.

The first and only priority for Canadian diplomacy over the next few years is to reach a new accommodation with the United States because it is only when that relationship is comprehensible, predictable and sound that the country can again assume a meaningful world role. Ottawa, not Washington, will have to initiate that process. Canada and the United States should take deliberate steps to bring the architecture of their relationship into line with the challenge and fact of deepening integration, as well as with the political and security realities ushered in by the events of September 11, 2001.

The challenge in finding a place for Canada and Canadians in the world beyond the United States lies less in finding a new strategic framework and more in crafting a set of policies that meets the needs and expectations of Canadians as traders and investors, humanitarians, travelers and residents outside Canada. In other words, Canada's foreign policy needs to move from being one of the central instruments of statecraft to one that is more closely tailored to the services that the federal government can provide to Canadians. There is no time for delay.

References

- Bhalla, Surjit. 2002. *Imagine There's No Country: Poverty, Inequality, and Growth in the Era of Globalization*. Washington, DC: Institute for International Economics.
- Canada. 1995. Department of Foreign Affairs and International Trade. *Canada in the World: Canadian Foreign Policy Review 1995*. Ottawa.
- . 2003. "A Dialogue on Foreign Policy." Accessed at Internet website: www.foreign-policy-dialogue.ca.
- Dobson, Wendy. 2002. "Shaping the Future of the North American Economic Space: A Framework for Action." *C.D. Howe Institute Commentary* 162. Toronto: C.D. Howe Institute. April.
- Freeman, Alan, and Paul Koring. 2003. "Backing U.S. policy in Britain's interest, Blair says." *Globe and Mail*, January 8.
- Gotlieb, Allan. 2002a. "Getting attention." *National Post*, May 17.
- . 2002b. "Why not a grand bargain with the U.S.?" *National Post*, September 11.
- Granatstein, J.L. 2002. "A Friendly Agreement in Advance: Canada-US Defense Relations Past, Present, and Future." *C.D. Howe Institute Commentary* 166. Toronto: C.D. Howe Institute. June.
- Holmes, John W. 1970. *The Better Part of Valour: Essays on Canadian Diplomacy*. Toronto: McClelland and Stewart.
- Kissinger, Henry. 2001. *Does America Need a Foreign Policy: Towards a Diplomacy for the 21st Century*. New York: Simon and Schuster.
- Ostry, Sylvia. 1997. *The Post-Cold War Trading System: Who's On First?* Chicago: University of Chicago Press.
- Pettigrew, Pierre. 2002. "The Undeniable Link between Economic Competitiveness and Social Cohesion." Speech by the Minister of International Trade to the Arthur Kroeger College of Public Affairs Leadership Forum, Carleton University, Ottawa, February 6.
- Potter, Evan H. 2002 "Le Canada et le monde: continuité et evolution de l'opinion publique au sujet de l'aide, de la securité et du commerce international, 1993-2002." *Études internationales* 33 (4): 697-722.
- Strange, Susan. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*. Cambridge: Cambridge University Press.
- United Nations. 2002. United Nations Conference on Trade and Development. *World Investment Report 2002: Transnational Corporations and Export Competitiveness*. Geneva: UNCTAD.
- Will, George. 2001. "The diplomacy of high minded gestures." *Washington Post*, August 5, p. B7.
-

The Border Papers

"The Border Papers" is a project on Canada's choices regarding North American integration. It is produced with financial support from the Donner Canadian Foundation and guidance from an advisory board composed of members from business, labour and research organizations.

Other Papers in this Series

- No. 162, April 2002 Dobson, Wendy. "Shaping the Future of the North American Economic Space: A Framework for Action." 32 pp.; \$12.00; ISBN 0-88806-551-5.
- No. 166, June 2002 Granatstein, J.L. "A Friendly Agreement in Advance: Canada-US Defense Relations Past, Present, and Future." 22 pp.; \$12.00; ISBN 0-88806-558-2.
- No. 167, July 2002 Robson, William B.P., and David Laidler. "No Small Change: The Awkward Economics and Politics of North American Monetary Integration." 29 pp.; \$12.00; ISBN 0-88806-559-0.
- No. 168, September 2002 Macrory, Patrick. "NAFTA Chapter 19: A Successful Experiment in International Dispute Resolution." 24 pp.; \$12.00; ISBN 0-88806-561-2.
- No. 171, November 2002 Rejai, Peter. "US and Canadian Immigration Policies: Marching Together to Different Tunes." 25 pp.; \$12.00. ISBN 0-88806-579-5.
- No. 172, November 2002 Ramírez de la O , Rogelio. "Mexico: NAFTA and the Prospects for North American Integration." 25 pp.; \$12.00; ISBN 0-88806-562-0.
- No. 177, March 2003 Goldfarb, Danielle and William B.P. Robson. "Risky Business: U.S. Border Security and the Threat to Canadian Exports." 36 pp.; \$12.00; ISBN 0-88806-585-X.
-

Recent C.D. Howe Institute Commentaries

- February 2003 "Towards A Consensus On Continuing Chaos," Claude E. Forget. 16 pp.; *Commentary* 179.
- December 2002 "Saving the Future: Restoring Fairness to the Taxation of Savings." Jack M. Mintz and Thomas A. Wilson. 16 pp.; *Commentary* 176.
- November 2002 "Tax Preferences for Education Saving: Are RESPs Effective?" Kevin Milligan. 18 pp.; *Commentary* 174.
- November 2002 "For the Good of the Patients: Financial Incentives to Improve Stability in the Canadian Health Care System." Grant L. Reuber and Finn Poschmann. 30 pp.; *Commentary* 173.
- November 2002 "Mexico: NAFTA and the Prospects for North American Integration." Rogelio Ramírez de la O. 25 pp.; *Commentary* 172.
- November 2002 "US and Canadian Immigration Policies: Marching Together to Different Tunes." Peter Reikai. 25 pp.; *Commentary* 171.
- October 2002 "Saving for Health: Pre-Funding Health Care for an Older Canada." William B.P. Robson. 20 pp.; *Commentary* 170.
- October 2002 "The Kyoto Protocol: Canada's Risky Rush to Judgment." Ross McKittrick and Randall M. Wigle. 36 pp.; *Commentary* 169.
- September 2002 "Dispute Resolution in the NAFTA: A Surprising Record of Success." Patrick Macrory. 24 pp.; *Commentary* 168.
- July 2002 "No Small Change: The Awkward Economics and Politics of North American Monetary Integration." William B.P. Robson and David Laidler. 29 pp.; *Commentary* 167.
- June 2002 "A Friendly Agreement in Advance: Canada-US Defense Relations Past, Present and Future." J.L. Granatstein. 22 pp.; *Commentary* 166.
- June 2002 "Measuring the Performance of Government Training Programs." William P. Warburton and Rebecca N. Warburton. 27 pp.; *Commentary* 165.
- May 2002 "The Charter and Health Care: Guaranteeing Timely Access to Health Care for Canadians." Stanley H. Hartt and Patrick J. Monahan. 28 pp.; *Commentary* 164.
- May 2002 "Funding Public Provision of Private Health: The Case for a Copayment Contribution through the Tax System." Shay Aba, Wolfe D. Goodman and Jack M. Mintz. 20 pp.; *Commentary* 163.

The C.D. Howe Institute

The C.D. Howe Institute is a national, nonpartisan, nonprofit organization that aims to improve Canadians' standard of living by fostering sound economic and social policy.

The Institute promotes the application of independent research and analysis to major economic and social issues affecting the quality of life of Canadians in all regions of the country. It takes a global perspective by considering the impact of international factors on Canada and bringing insights from other jurisdictions to the discussion of Canadian public policy. Policy recommendations in the Institute's publications are founded on quality research conducted by leading experts and subject to rigorous peer review. The Institute communicates clearly the analysis and recommendations arising from its work to the general public, the media, academia, experts, and policymakers.

The Institute was created in 1973 by a merger of the Private Planning Association of Canada (PPAC) and the C.D. Howe Memorial Foundation. The PPAC, formed in 1958 by business and labour leaders, undertook research and educational activities on economic policy issues. The Foundation was created in 1961 to memorialize the late Rt. Hon. Clarence Decatur Howe, who served Canada as Minister of Trade and Commerce, among other elected capacities, between 1935 and 1957. The Foundation became a separate entity in 1981.

The Institute encourages participation in and support of its activities from business, organized labour, associations, the professions, and interested individuals. For further information, please contact the Institute's Development Officer.

The Chairman of the Institute is Guy Savard; Jack M. Mintz is President and Chief Executive Officer.
