



# FOREIGN POLICY

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Canadians did not know—how could they have known?—that, at the very moment they debated, approved, and ratified a free trade agreement with the United States, the United States was at the apogee of its power, from which it has slowly slid, and will continue to slide in the decades ahead.

Remember the context in the years of negotiation, ratification, and entry into force of the free trade deal: 1988-1992. The United States was the only superpower, the Union of the Soviet Socialist Republic (USSR) having imploded. The United States was not only unchallenged militarily, it led an impressive coalition of nations to expel Iraq from Kuwait. The “peace dividend,” courtesy of the Cold War’s end, allowed some retrenchment in defence expenditures. Kuwait aside, there were few and mild military engagements that involved the United States, as in the Balkans and Haiti. The country, broadly defined, was at peace. Evidence of jihadi Islamic fundamentalism was beginning to emerge, but episodic attacks and internal intelligence briefings did not suggest a mortal threat, let alone the forthcoming “war on terror.”

China had begun its market liberalization policies a decade before, but it was too early to take the measure of those changes. And, anyway, the Tiananmen Square killings of 1989 made the Chinese regime look as unappealing as ever. What the killings and their aftermath seemed to have provoked internally was a re-dedication of the Chinese leadership to centralized political control and further market liberalization, although the Chinese political structure still controls large sectors of the economy and has decided not to allow its currency to float.

The 1990s, in retrospect, seemed in the United States like an updated version of the Roaring Twenties. The high technology boom lifted economic boats everywhere, from company productivity to Wall Street. Apple, Microsoft, Hewlett-Packard, Sun Microsystems, Silicon Valley: these were among the iconic names of the high-tech boom. Meanwhile, investors supported the establishment of tech companies that spread from California to Utah and Arizona, and even to such sleepy, unlikely places as Bozeman, Montana, and Boise, Idaho. Endowments soared for US universities, or at least the elite private and largest public ones.

Capital gains revenues and overall economic growth swelled government revenues such that, starting in the late 1990s, the US federal budget actually showed a surplus. Interest rates were low, growth was strong, the budget was balanced, debt was being paid off, the rich were getting even richer, while the number of people in the lowest-income groups



fell. Could it have gotten any better? The country was so affluent, confident, and secure that it could allow itself the fixation on a president's sexual dalliances, up to and including impeachment proceedings in the Congress. Countries with serious problems/challenges can scarcely afford to waste time on such trivialities; countries with little to worry about apparently can afford such diversions.

It was to the United States, at that marvellous time, that Canadians fixed more firmly than ever their economic star through the free trade agreement. Free trade was the right option, given the others on offer. The economic benefits were real; the potential escape from more threatening US protectionism worth taking. What the agreement did not accomplish, to the surprise of pro-free-trade economists, was to spur Canadian productivity that continues to lag behind that of the United States. Nonetheless, the economic case for the agreement, hotly debated in Canada at the time, now is contested only on the far and ineffectual left of the Canadian political spectrum. No political party calls for its re-negotiation, let alone abolition.

Twenty years after the free trade deal, the world and the US role in it, look different and sobering. The United States remains by far Canada's largest market, closest friend, and continental partner. The web of relations almost defies analysis. The ties of family remain immense. No matter how far one peers into the future, none of these elements of the Canadian-American relationship will change. We are going nowhere; nor are they. And before the thought arises that we are about to predict the collapse of the United States, it should be remembered that people outside the United States have often found its ways and habits sufficiently bizarre and self-centered as to lead eventually, if not sooner, to a loss of influence and power in the world, and to endless problems at home. Any reasonable reading of history mocks those predictions.

And yet, we are far from those days of two decades ago. The US share of the world economy has fallen to 20 percent from 25 percent in 1990, free trade's time. It remains by any standard the largest economy in the world, but the gap between it and China is narrowing. In 1990, the US trade deficit was small—\$30-40-billion—but by 2006 it had exploded to \$716 billion, roughly a quarter of which came from oil imports. The United States is now far more dependent on foreign oil than when President Jimmy Carter first drew attention to this dangerous dependence more than three decades ago.

Fiscal deficits have exploded, along with foreign borrowing to finance them. The Congressional Budget Office predicts that combining today's \$2 billion national debt with future deficits, the United States will accumulate a debt of \$9 trillion by 2019, unless of course the Congress either raises taxes or cuts spending, neither of which that body has demonstrated to this point a willingness or ability to undertake.

In other words, the world's leading country is living on borrowed money, and the borrowings are rising. The country has deficits on trade, current account, fiscal budget, oil, and social policy—health care and Social Security being the most obvious and costly. It has borrowed



beyond its means, imported more than it exported, spent more than it earned, and still contemplates additional military outreach in Afghanistan. President Barack Obama's decision to send an additional 30,000 troops to Afghanistan will cost about \$30 billion a year, funds that will have to be borrowed.

Anything beyond a time frame of, say, a decade, enters the realm of speculation. Nonetheless, should the United States fail within that period to take the most resolute action to restore some semblance of credibility to its debt and debt/GDP ratio, it is likely that interest rates must rise (along with inflation) to attract external money to finance deficits and debt, which would tend to push up the value of the dollar, thereby worsening the trade deficit. For example, the Peterson Institute has projected to 2030 that the US trade deficit could reach \$3 trillion, debt to \$50 trillion, and annual interest payments on the debt of \$2.5 trillion. The erosion of domestic living standards to send this kind of money overseas would be considerable.

As stated, we are in the realm of speculation. What can be said is that these US deficits on all fronts are potentially destabilizing for the country and the international economy. No country could escape the consequences of this destabilization and the consequent rearrangements of power relations in the world. Canada, its economy tied so tightly to that of the United States, could not help but be buffeted by the storms.

Already, the state of US domestic affairs has created huge imbalances in the world economy, with the Chinese taking the proceeds from trade and lending to the United States to invest throughout the world in long-term supplies of commodities, diplomatic relationships, and domestic wealth creation. It is fashionable, and correct, to say that China remains far behind the United States in purchasing power, per capita income, and all other economic measures. But remember where China was twenty years ago, and where, if similar broad trends were to continue both in China and the United States for another fifty years, the two countries would be relative to each other. Imagine, too, if Taiwan and China were joined by some sort of Hong Kong-style arrangements, and Hong Kong, its fifty-year grace period after Britain's departure having expired, were drawn completely into China. A China with a fully integrated Hong Kong and some sort of integration with Taiwan would be even more formidable.

It is also true that China has serious environmental challenges and that the long-term effects of the One Child policy will make for a much older, and perhaps less productive society, although the integration of Taiwan and Hong Kong would ease those difficulties. China's population will grow much less rapidly than that of the United States, but from a base four times larger. And it remains obviously uncertain whether authoritarian rule can remain compatible with a freer domestic market, the widening of the middle class, and the exposure of more Chinese to other ways of arranging a polity. Thus far, the Chinese authorities have managed the economic transition with no serious threats to domestic political order, but there



is no guarantee that the political status quo can last for, say, another fifty years in a country whose history has been marked by periodic internal combustions.

However China emerges, the world is moving slowly to a less US-centric place. Its soft power, English language, creative economy, best educational institutions, and many other attributes will continue to make the United States an example for many other countries and a magnet for people. It will remain an “indispensable” country in the sense that others will want its presence for stability in regions (Asia, the Middle East) or because it is a more trusted interlocutor than anyone else. It will obviously be able to project force far beyond the capabilities of any other country, yet, as we have seen, having military might to topple regimes does not necessarily mean the ability to control events thereafter. It is reasonable, or at least plausible, to postulate that the huge deficits referenced above will make the United States at least somewhat more cautious about engaging in overseas military missions that tend to run on and cost more than those who launched them ever contemplated.

There will, however, be countries whose economies in relative terms to that of the United States will increase and whose governments therefore will want a greater role for their countries in the world, both in class power terms and within multilateral institutions. This shift has already been felt in the change from a G8 to a G20 and new voting arrangements in the International Monetary Fund (IMF). Pressure for changes in the composition of the UN Security Council will remain, as will the complications for and opposition to reform. But an institution created to reflect the realities of 1949 will be unlikely to remain unchanged in 2049.

If the world evolves in these directions, then Canadians need to re-engage, or engage, as never before with countries and economies beyond the United States, without ever losing sight of the fact that our most important relationship will remain with our neighbours.

Canadian governments have fitfully been down this road before. Prime Minister Pierre Trudeau attempted an opening to Europe called a “contractual link” and briefly pursued a rather vaguely defined Third Option to diversify Canada’s trade and political links. Prime Minister Jean Chrétien led a series of Team Canada missions to China, India, and Latin America. Prime Minister Paul Martin repeatedly spoke of the growing importance of China and India. He can be credited with being among the handful of world leaders who encouraged the shift of the G8 group of countries into the G20, an idea he had trumpeted as Canada’s minister of finance. Belatedly, Prime Minister Stephen Harper visited China, where he was upbraided for being so tardy.

The emerging trends of the coming decades suggest that Canada must now make diversification or, to put it better, globalization of itself and its foreign relations an imperative objective, not in contra-distinction to its relationship with the United States but as an adjunct to it. The most important emerging trend is the relative decline of the United States and the drift of the world towards a more multi-polar set of arrangements. This shift does not necessarily mean a nineteenth century great power rivalry; indeed, today we enjoy a period



where struggles and wars for control of territory are not among the challenges of the era. But it does mean changes in trade patterns and political influence. It means, too, an enhanced importance for multilateral institutions, always an objective of Canadian foreign policy. This means that it is in Canada's interest, as a middle-sized power, to be engaged in as many international networks as possible—and to contribute actively to them financially and in the realm of ideas—and to encourage the major world powers to participate in these institutions.

The world, alas, will continue to be plagued by Islamic jihadism/militancy, an intellectual/religious movement that does not threaten the entire international system but parts of it. Although the principal target of this way of seeing the world through a certain astringent prism of Islam is the United States, terrorism and appeals to jihad exist in swaths of Africa, Europe, the Middle East, and areas of Southeast Asia (the Philippines, northern Thailand, Indonesia), China, and Russia. The infection of these views, propagated by the Internet, can even wash onto Canadian shores, as seen by the guilty pleas in the terrorism trial in Toronto, where the accused admitted to having planned, in a somewhat amateurish way, to blow up the CN Tower and other Toronto sites.

The jihadi/militant version of Islam can both reflect and contribute to weak states with poorly organized central governments (Somalia, Afghanistan) or justify autocracy (Egypt, Morocco, Tunisia, for example) on the grounds that anything less than firm central rule would lead to takeover by Islamist groups, an example being the insurrection in Algeria that was put down after considerable loss of life. Of all the many global patterns that will influence the future, the persistent failure of Arab states to advance economically and open politically is among the most significant, as a series of reports done by Arab intellectuals for the United Nations Human Development Program (UNHDP) keeps underlining. The resulting stagnation, coupled with a rapidly expanding population, means a series of existential frustrations about the economic weakness and technological lethargy of the Arab world (and Islam), and internal tensions in various Arab states that in turn lead to political repression. A particular danger involves the possibility that nuclear weapons could fall into the hands of such groups.

Despite foreign aid, it would appear that underdeveloped countries, especially in Africa, are falling even further behind in the globalized economy. HIV/AIDS is ravaging some of them, devastating their human capital. The continent remains plagued by ethnic conflicts within states, a few of them reflecting a Muslim/Christian divide (as in Nigeria), or leading to debilitating internal strife (Congo, Somalia, Ethiopia, Kenya). The economic difficulties of the continent lead countries to mortgage their future by selling resource development opportunities to Chinese and Western interests and, increasingly, their fisheries resources to Europeans and Japanese who, having decimated their own fisheries, sign deals with African countries to exploit theirs. In China's case, companies (often state-owned) bring in Chinese labour, meaning the local country is cut out of jobs. The continent's struggles have spawned a series of books and reviews of foreign aid, many of them critical, a few even calling for the elimination of aid on the grounds that it contributes to bad governance and corruption. The



rich/poor divide in the world will continue to be among the salient features of the coming decades, with Africa being at the centre of the issues related to that divide, at the very least summoning a moral imperative among the rich countries, such as Canada.

Africa risks being further impoverished by another major development that will shape the future: environmental degradation. Global warming, among other changes, will increase desertification in already dry areas, change rainfall patterns in other areas, and inevitably lead to further economic marginalization in those drier areas. The result, too, will be internal migrations and heightened pressure of emigration from those areas. The very long-term effects of human-induced climate change will be significant. They will be seen and felt in Canada, where already Arctic ice is melting rapidly, mountain glaciers are receding (affecting river levels that depend upon them), and insect infestations have struck forests.

How, then, should Canada react to these trends: the relative decline of the United States, the rise of new economic powers, the instability caused by Islamic jihadi militancy, failed states and rich/poor divides, and the global stresses on the environment?

The first response, albeit a very hard one, is for citizens to understand that although all politics is local, as the saying goes, most issues are global in one way or another. Everywhere one looks domestically, industries, unions, farmers, fishers, and individual citizens are influenced by what happens globally. The livelihood of the automobile worker in Ontario and the aerospace worker in Quebec depends upon their companies' ability to produce for the world market. The wheat farmer on the prairies and the fisher in Nova Scotia produce globally. Canadian banks and financial institutions operate internationally.

These and many other examples suggest a truism that is still not adequately understood by enough Canadians. Canada is a small country, economically speaking, of only 33 million people that is integrated with the global economy. The same global perspective shapes us every day, as immigrants and refugees arrive, the degradation of the global commons through climate change alters our geography, and the threat of terrorism at home and abroad challenges our defence and intelligence capabilities. Even our beloved social programs such as public health-care and education and equalization payments depend upon the capacity of the economy to produce taxable revenues to support them. Those revenues depend in turn on the country's ability to compete internationally.

Competing internationally requires asking of domestic policies: Do they help Canada compete internationally? Do they make us more global in our outlook? These are admittedly difficult questions for politicians of any stripe to ask, since they are elected locally, not globally. Asking these questions, and drawing logical conclusions from negative answers, can produce conflict with vested interests and established ways of proceeding that have often been built up to cushion people and communities from competition. Small countries that turn in on themselves, that waste decades as Canada did with constitutional and federal-provincial



debates, and that seek to protect themselves from the world rather than focusing internal efforts on competing within the world, are destined to long-term decline.

Therefore, the first objective of Canadian foreign policy must be, paradoxically, an internal one: that of leaders in all walks of life (including the media!) explaining global realities to the population so that support might be found for making Canada as connected a country as possible to the world.

Connection in economic terms means, among other things, trade. It would be manifestly in Canada's interest, as a country highly dependent on foreign trade, if the Doha Round of the World Trade Organization trade talks were to succeed. Alas, Canada is among the countries working to see that they do not succeed, at least in the key domain of agriculture where Canada lurks in the corner with South Korea, Japan, France, and a few other European Union countries determined to block or at least restrict liberalization. In Canada, this negotiating position is assumed in the name of protecting supply-management, a protectionist racket that imposes stratospheric tariffs on imported dairy products and poultry. There is regrettably no chance of this policy being altered any time soon, as it enjoys universal support among the political parties whose members are terrified of the political power of angry farmers.

In the absence of progress in the WTO Round, countries are rushing to negotiate bilateral trade agreements. Canada has negotiated, or is negotiating, such agreements with Peru, Colombia, the Caribbean states, Panama, the European Union, and South Korea. The Harper government should be applauded for these initiatives, and encouraged to take more. Free or liberalized trade is so clearly in Canada's interest that it should remain a driving force of a policy to make Canada more global. Whether Canadian business leaders will follow up such initiatives is an open question, since many of them still remain cocooned in North America.

Canada's universities produce a disproportionate number of tomorrow's leaders, so they need to ask themselves whether they are properly preparing their students for the global world of tomorrow. It would be an interesting initiative for universities to review their curriculums and make it obligatory for students in the social sciences and humanities to take a minimum number of courses dealing with international matters. The universities' nonchalant attitude towards requiring students to learn foreign languages remains a blight on their record.

Universities have developed links with other institutions, but mostly in the developed world or the emerging countries of China and India. Links with the Third World are sparse. It would be an interesting experiment for the government to take money from the bloated bureaucracy of the Canadian International Development Agency (CIDA), give it to an arms-length agency, and encourage Canadian universities to develop programs to twin themselves with universities in the Third World, so that aid might be delivered differently and in the form of human capital development in those countries. Universities that develop such plans would be invited to bid for the funding for five-year renewable periods, with the money allocated by an arms-length organization, as is done with grants and research chairs today. One could



Imagine a Canadian university involving many faculties in such an effort to deal in partner countries with everything from rule of law and governance, to public health and sanitation, to engineering projects and architectural training. Canadian universities would therefore be able to give their students and faculty an appreciation of Third World challenges and perspectives; joint research projects would assist both countries; and aid would be delivered in a novel way. As an added bonus, Canadian universities would become more global.

Part of being active in the world—of connecting or becoming more global—suggests intensifying and improving Canada's efforts to spread good governance and strengthen civil societies abroad. A multiplicity of Canadian institutions does this kind of work, but therein lies the problem. Each protects its own turf, conceding only a talking shop role for something that brings them together, the Democracy Council. The collective Canadian effort is therefore widely scattered, uncoordinated, and enjoys no profile with Canadian taxpayers. What is needed is not another institution such as the government's proposed agency for supporting political party development in other countries, but a large umbrella organization—call it "Democracy Canada"—that would coordinate the activities of the various agencies, raise the profile of this work in Canada, and bring greater coherence and profile to Canada's efforts. The money is there for such an agency in the CIDA budget; indeed, the agency should take responsibility from CIDA for this work, since within CIDA projects by definition get politicized, profile is grabbed by politicians, and an excessive bureaucracy stifles initiative.

Canada has the world's longest coastline, the second-largest land mass, and has among the world's most abundant supplies of fresh water. With such a piece of geography, environmental threats to land and water would seem to be self-evidently important as a preoccupation for foreign policy.

Many threats to our geography come from abroad. Climate change is the most evident threat: to the Arctic, prairie soils, Western Canadian timber, fish stocks, shorelines, urban smog. Canada is among the world's largest per capita emitters of greenhouse gases (GHGs) that cause global warming. Canada's record in fulfilling international emission reductions commitments is the worst of all countries that signed the Kyoto Protocol. Emissions grew faster in Canada since Kyoto than in the United States, governed for most of that period by President George W. Bush. The approach of the Harper government has followed the depressing Canadian pattern: setting targets that will not be met and following well behind other countries.

A country with such exposed geography should be in the front rank pressing for serious action, even if Canada is responsible for slightly less than two percent of the world's emissions. With such a terrible domestic record, Canada cannot credibly enjoin other countries to do more. As with agricultural trade, we are widely seen as a miscreant country in the climate change debate.



Ideally, Canadian foreign policy would take a leading role in international efforts to abate GHG emissions—and in all environmental dossiers. The health of the planet's oceans will be the next great global environmental challenge, since they are in a depressing state of decline, as fish stocks evaporate, coral reefs shrivel, vast oceans of plastic bobble on the surface, and acidification proceeds apace. The widening Arctic waters are especially vulnerable to the effects of sea degradation, and stand exposed to grave risks from environmental mishaps or disasters. The Arctic waters are now expected to be ice-free in summer in three decades, or sooner, according to the latest scientific evidence. It is therefore in Canada's interest as an Arctic country, with immense coasts east and west, and so many communities that depend on the oceans, to make the environmental protection of the oceans, as the atmosphere, a foreign policy imperative.

The literal opening of Arctic waters presents another foreign policy imperative for Canada, one with many dimensions. The Harper government, to its credit, has paid more attention and spent more money in the Arctic than any previous Canadian government. As climate change literally readjusts the contours of the Arctic, issues of sovereignty emerge, as countries attempt to delineate their territories. Canada has boundary disputes with the United States and Denmark, and might have more once countries submit their final claims to the Far North. Canada claims the Northwest Passage as domestic waters; no other country with a long-distance marine capacity accepts Canada's claim, including the United States. Therefore, Canadian foreign policy will have to give priority to all the dimensions of asserting sovereignty in the Arctic—and the Canadian military, in turn, will have to possess greater *in situ* capacities in the Arctic, both to buttress claims of sovereignty and to respond to search-and-rescue issues, plus any threats that might emerge. (Search-and-rescue is now located at Trenton, Ontario, three to three and-half hours of flying from the nearest Arctic locations.) This will mean equipping the military and coast guard for Arctic missions, in keeping with the military's primary duty which is to defend a country's sovereignty. Obviously, Canada does not expect military invasions or assaults from the Arctic, but there will be countries that wish to test our capacities to assert sovereignty.

A country's military has two abiding purposes: defence of the realm and aid to the civil power. Defence of the realm requires focusing on Arctic sovereignty, but in a global world of failed states and jihadi terror—the two often nesting together—threats can emerge to Canada and its allies far from Canada's shores. Canada's foreign policy must therefore have military capacities that can, with allies and the United Nations, intervene either as passive peacekeepers or as active keepers of the peace. If Canada is to play an active role in the world, it will need a properly equipped military—properly meaning a force with transit capacity and on-the-ground capabilities in multilateral counterinsurgency or stabilization efforts. These future roles suggest less or no need for fighter aircraft, tanks, long-range artillery, and other weapons of conventional military battles.



A final point, following from the observation that all politics is local but most issues are global: it is Canadians' hubris to believe, as the Chapters/Indigo slogan suggests, that "The World Needs More Canada." This attitude reflects a comfortable and corrosive moral superiority not grounded in reality. Anyone who has practiced, or observed, Canadian foreign policy understands that Canada is easily ignored or given little attention, unless it fights for that attention with resources, commitment, and ideas. The shift from a G8 to a G20 should suggest to Canadians just how the world is changing, and how consequentially less important in the global scheme of things we are. But since what happens internationally should be of ever-greater concern to us because of its influence on our domestic life, it becomes more imperative than ever for Canadians to spend the money on advancing our interests and values abroad through the three pillars of any foreign policy: diplomacy, military, and foreign aid. Foreign policy on the cheap might conceivably work for larger countries; it cannot for a small country such as Canada.