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# Realities and Illusions of Canadian Foreign Policy

“The true realist is the person who sees things both as they are and as they can be.”

*Lester B. Pearson*

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## Takeaways: Realities & Illusions of Canadian Security

- **Line between peace & war increasingly an illusion:**
  - **Illusion:** Defence is primarily about defending Canada in physical terms from seabed to space, but **reality** is we're increasingly worried about what we can't see, eg. we're already in a cyber war. Need to procure systems that can evolve with new technologies, adapt to future warfare.
  - Every economic partnership will have a security impact and *vice versa*: some more than others (China, China, China), we need to do a better job of articulating the guardrails
  - No more distinct geographic theatres that can be managed separately: "don't underestimate contagion."
- **Security Threat 'Supply Chains' blurring the line between domestic & international threats/impacts:**
  - Need Whole-of-Canada response; Canadians need to see why increased defence spending delivers improved security for *them*
  - Balance between contributory defence abroad & 'homeland' defence of Canada is changing BUT because conflicts abroad have increasing impact on Canada's energy security, supply chains, economy, cannot just retreat to 'fortress North America'. Need to be able to 'Walk and Chew Gum' (at home and abroad) at the same time....
  - Actions to address domestic security concerns have international consequences (Huawei, Nijar)
- **Security Partnerships are not an end in themselves:**
  - Canada needs to define *what it wants* out of its partnerships, do a better job of articulating our national interest
  - We only get a seat at the table when we 'pay to play': What assets do we bring to the table? (Arctic, digital, food security, critical minerals, energy security)
- **Illusion: "We've got this!" Reality: Security machinery of government needs to adjust**
  - More coordination (but not necessarily more PCO)
  - Security Team Canada': Government needs to capitalize on expertise of former Ambassadors, private sector, academia, think tanks
  - Illusion: can bifurcate security & economics. Reality: need to integrate economic and security silos, domestic & international silos

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## Takeaways: Realities and Illusions of Canadian Prosperity

- **Illusion: Borders have disappeared. Reality: Geography still matters:** Canada-US relationship will change but Canada *will not* pivot away:
  - likely looking at more integration in some sectors, less in others; some sectors (energy) benefit US more than others, US can't afford to decouple
  - We're playing defence with the US and offence abroad, but US 'gravitational pull' will continue
- **Illusion: CETA alone can replace the US. Reality: Trade deals are not magic pieces of paper, "agreements create opportunities and open doors, they do not create outcomes."** Trade deals need energy and time to implement: eg. aligning customs requirements, inducing Canadian companies to enter foreign markets, attracting investment, ongoing support for SMEs etc etc (*editorial comment: GAC is core to this, why cut it?*)
  - **Gravitational Pull of the US is strong:** Easier for most Canadian companies especially SMEs to look to the US: government can provide more incentives, but companies will still choose path of least resistance. (*Editorial comment: See why PE Trudeau's Third Option in the 1970s failed...*) How do we make Canada's economy attractive to Canadian companies and foreign investors? **"To leave US gravitational pull, we will need big [economic] rockets."**
  - **Shared values do not eliminate trade frictions** – protectionism growing, competition increasing
  - **Diversifying has its limits.** In some markets (eg. Europe) the room for exponential growth is limited because we already have a strong trade & investment relationship; what can Canada offer to counterbalance US desire for fortress North America? How deep can our relationship with Europe go, given US skepticism about transatlantic relationship?
- **Reality:** From a purely economic perspective, Canada might be more prosperous as the 51<sup>st</sup> state. But also, reality: Canadians value our separate identity. We include in our definition of "prosperity" resilient democracy, healthcare, education system, inclusion and acceptance of diversity. We have to invest significant effort into reducing our dependence, building resilience and increasing leverage if we don't want this outcome. Big Question: *What is the Optimal Level of integration with the US?*

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## Takeaways: Digital Sovereignty

**Reality: Revolutionary Technologies are disrupting the building blocks of the established world order:**

- **Upending geopolitical power relationships** & the International Rules-Based Order by creating strategic advantage, new leverage & new foundations of geopolitical power.
- **Transition to the “Digital Economy”**: world has moved from economies centered on labour & physical capital to those centered on intangibles - data, algorithms, large language models. “Data is the most strategic asset of any organization today” (92% of wealth of S&P 500 is in intangible assets). But who owns whose data?
- **War is becoming digital**: speed of decision-making becomes crucial but disinformation delays attribution/decisions, information warfare is cheaper, scalable; decision-making & intelligence muddled by impoverishment of data (AI slop)
- **Role of the state is changing**: Distinction between public & private power is blurring. 2/3 world population is under 35 & majority are digital natives: technology increases agency of young populations & can be a great leveler between Global South & ‘the West’

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## Takeaways: Digital Sovereignty

- **Governance Gap: Middle powers (can) matter differently in the digital space, become rule-setters & not rule-takers.** Current trajectory is toward a rentier economy where middle powers pay most costs, bear most risks & accept rules that benefit others: 90% of AI & Quantum controlled by the U.S. and China. Opportunity for Middle Powers to curate & support knowledge economy: synthetic content (AI-generated, unverified data & disinformation) skews the models and middle powers could have a role in building smaller, well-regulated, trusted data sets; basis for new economic & security alliance to off-set digital geopolitical power imbalance, off-set industrialized disinformation.
- **“Canada is a digitally landlocked country”:** Canada 90% dependent on data centres, desktop tech & AI infrastructure located in the US; we own 2 fibre-optic cables that connect Canada to the rest of the world. How to build Digital Sovereignty/Autonomy? Build new norms for new technologies & digital alternatives at home (more sovereign compute capacity, home-grown digital infrastructure, revamp privacy laws, protect and build a strong media ecosystem). Canada has been slow to capitalize on its digital expertise (10% world’s AI talent is Canadian, quantum tech leaders, crypto leaders) to inform its foreign policy, slow to develop digital resilience to preserve knowledge economy (& defend against cognitive warfare)

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## Common Threads

- **Dividing Lines of International Order as we knew it have been upended:**
  - Illusion: Borders have disappeared for both security threats & globalized trade. Reality: Geography still matters. ( For Canada, yes diversify economic & security relationships, but U.S. gravitational pull is strong)
  - Reverse is true in digital space: reality is that digital borders have disappeared; distinction between public and private power blurred. Middle powers need to (re) build digital sovereignty by filling governance gaps
  - Illusion: Security and economy are separate; Reality: blurring of lines between peace and war, between security and economy, between international & domestic threats/impacts.
- **‘Pay to Play’:** *Illusion:* We used to be able to ‘pay less’ and get a seat at the table regardless, but new *reality:* the investment to return ratio has changed and we must invest (much) more and prioritize (much) more
- Illusion: international multilateral system we have relied on since the end of the world wars has been ruptured; Reality: Middle power Variable Geometry in multilateralism is not new, but it’s harder - see ‘pay to play’ above (**“Multilateralism is dead, Long Live Multilateralism”**)

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## Common Threads

- Middle Power capacity to set agendas rather than being rule takers is dependent on collaboration, especially to fill governance gaps in RBIO (build new norms for digital, cognitive warfare, rebuild guardrails in areas such as nuclear, trade)
- **Diversifying Partnerships is not an end in itself:**
  - Canada needs to define *what it wants* out of its partnerships: do a better job of articulating our national interest & focusing where we have a strategic edge (digital, critical minerals, Arctic, food security, energy security).
  - FOMO (“Fear of Missing Out”) cannot drive Canada’s choice of partnerships
- **“Strategic autonomy”** is limited: Canada has less freedom to choose whether or not to engage on international crises; our economy and our security will be affected regardless. (Eg. Economic impact of conflict in Taiwan Straits on global supply chains would be massive compared to Hormuz...)
- **Canada-US: Resist Fatalism!** Two illusions: we *used to* think we would be safe and prosperous in North America by integrating our defence & economy with the US; now we think we can decouple from the US. Reality? Both are true at the same time. We can and must diversify & grow domestic investment but we have to recognize that the US will always be our closest relationship.
  - History rhymes: Lester B. Pearson in 1951 “No country in the world has less chance of isolating itself from the effect of American policies and decisions than Canada” AND “The easy and automatic relations between Canada and the US are a thing of the past... and Canada is no longer willing to be ‘merely an echo of somebody else’s voice’.

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