



Linkage: Foreign Policy, National Interests and Prosperity

**CDFAI Submission to the Competition
Policy Review Panel**



**Canadian Defence
& Foreign Affairs
Institute**

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Every nation has national interests. Canada, however, sometimes acts as if its values are more important than its interests. This country's national interests are clear: to protect our territory, people, sovereignty, and unity; to advance the economic welfare of the nation; to share in the defence of North America; and to help the advance of democracy and freedom everywhere. Globally, Canada benefits greatly from a world of free flowing trade, investment, ideas, people and should help sustain such a world with realistic, interest-driven foreign policies.

Too often, we pretend to be what we are not and run away from what we are. At times, we seem to want to be an Atlantic nation, or a Pacific nation, or even an Arctic nation – anything but a North American nation. We get caught up with slogans like, “Bring more Canada to the World” – whatever that means. Canada needs to establish clear foreign policy priorities that focus on managing the critical relationship with the U.S., implementing a coherent policy towards the emerging Asian powers, developing a long-term relationship with the Americas and working with others to reform and restructure the institutions of global governance to meet the challenges of the 21st century.

A major component of Canadian interests is trade, and Canada has been and continues to be a trading nation. At no period in Canadian history was this more evident than in the years after the Second World War. Canada had produced huge armed forces and a major industrial, mineral, and agricultural economy in the successful campaign against dictatorships. The Gross Domestic Product doubled between 1939 and 1945 to \$11 billion, and the federal bureaucracy and domestic industry made careful plans for the postwar reconstruction. Canada, which adopted a foreign policy that served its interests, was one of the few nations to emerge from the war stronger than it had been in 1939.

But everything depended on re-establishing trade ties. To keep Canadian access to a war-weary and financially-strapped Britain, Canada offered a \$1.25 billion loan in 1946, a huge sum that was one-third that given to the U.K. by the United States. Additional Canadian loans of \$750 million that went to Western European states, and Europe, trying to re-build, used the funds up quickly.

The difficulty was that the ruination of Europe was so great, the dispiritedness so marked, that reconstruction progress was slow. The General Agreement on Tariffs and Trade, signed in 1947, lowered tariffs and gave Canadian goods access to more foreign markets. Everyone wanted Canadian products but no one could afford to pay for them. The Europeans had begun to run out of the scarcest commodity of all: the hard currency of U.S. dollars. So too did Canada, its trade deficit with the U.S. rising as its citizens purchased U.S. luxury goods and holidays in the sun at the same time as its overseas customers were unable to pay for Canadian exports with hard currency. By 1947, Europe was on its knees and the Americans stepped forward with the offer of the Marshall Plan that proposed to give Europe the dollars it needed to buy American products – American, not Canadian, products. U.S. generosity unintentionally threatened Canada – why would Britain or France pay to secure Canadian wheat, for example, if it could get Illinois grain for “free”?

The Canadian governmental response was multifaceted. The Finance minister imposed quotas and controls on U.S. imports. There was talk of a large loan from the United States, and Ottawa began discussions with Washington about a Canada-U.S. free trade agreement, negotiations that proceeded as far as a draft treaty before they were cancelled by a fearful Prime Minister Mackenzie King. The most successful Canadian effort, however, was to persuade Washington policymakers to allow “off-shore purchases,” in effect permitting European states to use Marshall Plan dollars to pay for their Canadian purchases. Then, as now, the key to Canadian prosperity lay south of the 49th parallel. This brilliant ploy of off-shore purchases effectively resolved Canada's U.S. dollar problem and kept trade flowing.

As this economic scenario played out, the Soviet Union and the eastern European nations it dominated refused Marshall Plan aid. The Soviets were pressing aggressively at nearby democracies, including Norway, and harassing the Great Powers' military contingents in Berlin. War seemed a real possibility, and talks began in 1948 for a Western defensive alliance. This led in 1949 to the North Atlantic Treaty, very much a Canadian goal.

Norman Robertson, the High Commissioner in London and the wisest man in the Canadian public service, had summed up the Canadian position in a telegram in April 1948: "A situation in which our special relationship with the United Kingdom can be identified with our special relationships with other countries in western Europe and in which the United States will be providing a firm basis, both economically and probably militarily, for the link across the North Atlantic, seems to me such a providential solution for so many of our problems that Canada should take every risk to achieve this result." As another diplomat later wrote, Robertson had seen "the usefulness of the Alliance as an instrument of Canadian economic foreign policy."

Precisely. Canada craved military security and achieved it through NATO which linked Canada's defence with the United States and Western Europe. But Canada also wanted the economic security that could only come if it capitalized on its competitive edge, and a military alliance that bound together its major trading partners was a step toward this ideal in Ottawa's assessment. It was not coincidental that the Treaty included Article 2, the so-called "Canadian article": "The Parties ... will seek to eliminate conflict in their international economic policies and will encourage economic collaboration between any or all of them."

The Canadian article did not, in the end, achieve its desired intent of a trans-Atlantic economic alliance, but the resolution of the global dollar shortage and the continuance of the great Canadian boom that had begun with the peace in 1945 produced unprecedented prosperity in Canada. To a substantial extent, this was attributable to the measures taken and the alliances forged in the 1947-1949 period.

Canadians understood then that interest-driven foreign and security policies had to mesh closely with their trade policies and, ipso facto, that domestic policies tied into them. Everything was interconnected. The result was economic growth and widespread prosperity.

This policy framework has proved to be a stunning success for more than half a century. But Canada is unique. Sentiment is in a constant struggle with interest. Success often breeds frustration and generates a quixotic search for something different. Both Progressive Conservative and Liberal prime ministers have tilted at the windmill of finding partners to replace the indispensable North American relationship. Diefenbaker in the 1950s attempted to diversify "15 percent of Canadian trade to the U.K."; Trudeau's "Third Option" in 1970s tried to create new relationships with Europe and Japan as a counterweight to the U.S. Former foreign minister Lloyd Axworthy is the latest denier of geographic imperatives claiming that Canada needs a "new map" of the world to shape a new direction in foreign policy. He would do better to recognize the geographic reality of Canada's existing place in North America. Wishing we were located in a different hemisphere offers little guide for practical assertions of policy – foreign or domestic. As Douglas Le Pan once observed, "if wishes were horses, Canadians would certainly ride off in all directions." Above all, our foreign, defence and trade policies need to be grounded in a rigorous analysis of Canadian interests and skilful diplomacy to advance these interests.

In the early 1980s, the Canadian private sector delivered an unequivocal message on trade policy to the government which rings as true today as it did 25 years ago: "Whatever you do, first and foremost, get things right with the United States." The National Energy Program and the Foreign Investment Review Agency had aroused concerns among existing and potential investors, notably those from the United States. Dilettantish manoeuvres by Prime

Minister Trudeau on the world stage, implying a moral equivalence between the U.S. and the Soviet Union, had soured relations with Washington more generally. The Canadian Forces were in decay at a time when the USSR was acting aggressively. The tone at the top between Ottawa and Washington was cool, if not prickly, more inclined to aggravate than contain or resolve disputes. There was an urgent need to reconnect policy initiatives – domestic and foreign – with tangible national interests.

“Getting things right with the U.S.” must be the major foreign policy priority for any Canadian government. It is not easy. Should sentiment or interests prevail? We seem to be in a constant struggle to reconcile the pragmatic pull of proximity against the desire to be seen as having a value-laden “independent” foreign policy, free of entanglements with our southern neighbour and free, as well, from grubby calculations of Canadian interests.

We do not need to agree with everything the U.S. does in the world but, when we disagree, we should do so in an adult fashion, not with juvenile preening. Tone matters. Rejecting policies and initiatives in areas important to the U.S., and particularly to American security, while seeking special treatment for Canada in others is a recipe for mutual incomprehension. There is ample scope for criticism of U.S. foreign, security, and economic policies but little cause for castigation, and certainly none for celebration. It is very much in Canada’s interest that the U.S. does not retreat into an isolationist shell. Little can be accomplished globally, from peace and security to economic development or remedying the environment, without American leadership. Canada benefits when the U.S. is constructively engaged in the major international institutions, seeking to ensure a more stable, more prosperous world.

Looking forward, Canada’s foreign policy should have clear priorities based on a realistic appraisal of our tangible interests and our capabilities. The key challenges are:

- a) Articulating, promoting and defending our security, commercial and environmental interests in Washington while, at the same time, responding to legitimate aspirations in Canada that we act, and be seen to act, as a distinct entity in North America. The two are not mutually exclusive. It seems to need repeating every generation that the Canadian relationship with the United States is a strength, not a weakness. It is, moreover, the most important constant in Canadian foreign and defence policy and the management of this relationship to Canadians’ benefit is our most important task. We will need to establish a constructive dialogue with the new U.S. Administration in order to address obstacles to efficient flows of people, goods and services across our shared border. NAFTA has achieved its objectives but cannot resolve the issues created by the rapid integration of the North American economy. While the threat of NAFTA’s re-negotiation should be a matter of concern for all Canadians, attention should shift to measures that would revitalize commercial relations and establish a better balance between legitimate security concerns and the mutual advantage of efficient flows of people, goods and services across the common border. There is certainly scope to harmonize or rationalize differences on standards and regulations which serve no legitimate purpose. We also need to develop a rational mix of energy and climate change policies to bolster continued prosperity while preserving our shared environment. New cross border institutions may be necessary and we should not shy away from them. Our defence relationship has been marginalized somewhat by Canadian equivocation over the issue of missile defence. A more substantive dialogue on this issue together with a principled review of North American defence command structures is very much in order. We have fundamental legal differences over the status of the Northwest passage in Canada’s Arctic but these should not prevent us from collaborating on practical guidelines for transit and security in this region.
- b) Adopting a selective, pragmatic policy response to the emerging powers of Asia, namely China and India, in a manner that serves specific Canadian interests, notably on trade

and investment, while bolstering existing relationships with Japan, Australia and Korea. Specifically with respect to China, there is a pervasive sense of drift if not disconnect in the relationship and little evidence that either Canada or China has a vision or a plan to chart a more constructive future. At times, the two countries seem to be talking past one another. The focus of Canada's China policy tends to concentrate almost exclusively on the bookends of trade and human rights with not much constructive dialogue on either and with a significant gap between the two. The focus of China's Canada policy seems to be access to Canadian resources and to the Canadian market combined with acute insensitivity to Canadian interests, notably human rights issues involving dual Canadian citizens, and a hair trigger proclivity to take offence over perceived insults by Canada. We need a clear-headed analysis of our economic and security interests vis-à-vis China and how they can best be defended and promoted.

- c) Sustaining a commitment to the Americas in our own backyard. We need to replace the episodic bursts of interest followed by indifference that has tended to characterize Canadian attention to the region with a coherent and long-term program of building deep and integrated relationships. The focus should be on Mexico, Brazil, Argentina, Chile and Colombia. The Prime Minister's visit to the region last summer should be reinforced by enhanced trade relationships, including free trade agreements, as well as cooperation in security, democratic development, human rights and the environment. CIDA programs should be rapidly redeployed to concentrate more heavily on the Americas.
- d) Working with key allies to adapt the global institutional architecture to reflect the dramatic shifts in economic power and to make commitments commensurate with our capability to meet the urgent security and development challenges of the 21st Century. The G-7 Summit conceived 33 years ago was a response to concerns about gaps in the international system of governance. The inadequacies are even more glaring today. The United Nations is in perennial need of profound structural reform. Ever-expanding numbers outweigh purpose and sap initiative. The IMF and World Bank no longer command the respect or the relevance they once possessed. The multilateral trade negotiations seem perennially stuck in the doldrums. The Summit began as a forum in which democratically-elected leaders with roughly similar values and challenges got together to search for common resolve. They became the pinnacle of global diplomacy, and the personal chemistry and candour among the leaders paid dividends. Today there are so many players in the room – from emerging powers, to regional neighbours of the host, to venerable rock stars – that there is a real risk to the informality and intimacy that characterized earlier Summits. For Canada, the Summit is now, more than ever, a forum of privilege. Recognizing that Canada's voice will always be commensurate with our relative weight means that we should attach a premium to our preparations and adopt a very selective approach to the Summit agenda. When urging collective action, we need to be ready to be part of the solution and match words with deeds. Through our commitments in Afghanistan – the most robust expression of Canadian foreign policy since Korea – we have a rare combination of credibility and weight for influence within NATO and in Washington. We should use it.

Focus, vigilance and relevance should be the watchwords guiding future foreign and economic policy decisions. Trying to be all things to all, or asserting values over interests, risks being of little value to anyone, and most notably to Canada's own interests. Of course, values are important. Human rights, democratic principles and tolerance are the hallmarks of Canada's evolution. They inform the choices we make, the alliances we forge, and the actions we take in global affairs. But they are not ends in themselves nor principles that override determination of what our interests are and how they can be best served.

Canada's weight or capacity for influence will never again be what it was at the end of World War II, but the lessons of history have relevance today. Our comparative advantage, and

our prosperity, will prevail if we are pro-active in global affairs, harness the benefits of proximity to the U.S., and selectively nurture other global prospects most amenable to our interests and our assets.

Canadian Defence & Foreign Affairs Institute

CDFAI is the only think tank focused on Canada's international engagement in all its forms - diplomacy, the military, aid and trade security. Established in 2001, CDFAI's vision is for Canada to have a respected, influential voice in the international arena based on a comprehensive foreign policy, which expresses our national interests, political and social values, military capabilities, economic strength and willingness to be engaged with action that is timely and credible.

CDFAI was created to address the ongoing discrepancy between what Canadians need to know about Canadian international activities and what they do know. Historically, Canadians tend to think of foreign policy – if they think of it at all – as a matter of trade and markets. They are unaware of the importance of Canada engaging diplomatically, militarily, and with international aid in the ongoing struggle to maintain a world that is friendly to the free flow of goods, services, people and ideas across borders and the spread of human rights. They are largely unaware of the connection between a prosperous and free Canada and a world of globalization and liberal internationalism.

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