Canada is America’s neighbour in a world where global power is shifting
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The Regional Dialogues are funded by:

• International Development Research Centre
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• The North Growth Foundation
• The Simons Foundation
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ACKNOWLEDGMENTS

Canada’s World is a project of the Simon Fraser University Centre for Dialogue in collaboration with dozens of other academic institutions, foundations and non-government organizations. We would like to extend warm thanks to all our generous funders: the International Development Research Centre, the Laidlaw Foundation, the North Growth Foundation, The Simons Foundation, the Walter and Duncan Gordon Foundation as well as all of the participating universities.

This discussion guide could not have been published without the efforts of Christopher LaRoche, a research fellow at the Asia Pacific Foundation. We would also like to thank Shauna Sylvester, Dr. Paul Evans, and Mary Pat MacKinnon, who reviewed and edited this discussion guide, and Elodie Jacquet, who provided the desktop publishing.

The views expressed in this publication are provided here to stimulate discussion and learning. They do not reflect the views of Canada’s World staff, reviewers, funders, collaborators or the SFU Centre for Dialogue.

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You’ve seen it in the news: India and China, the Elephant and the Dragon, are rising. And signs of their rise have never been clearer. Look in any closet across North America and you’re bound to find a “Made in China” tag. Call a customer service number and there’s a good chance you’ll speak with someone on the Indian subcontinent. In just a few short decades, rapid economic growth and industrialization have reshaped global manufacturing, trade, and investment in the world’s two most populated countries. Add the growing economic and political influence of Russia and Brazil — and an already-powerful European Union — to the Asian might, and what emerges is a challenge to America’s post-Cold War dominance over the world’s economic and political affairs.

What does this mean for Canada, given our close political, military, and social relationship with the US and our economic reliance on its market? Canada is directly affected by the growth in Asian economic influence. Chinese demand is spurring development in Canada’s energy and natural resource sectors, and Canadians have benefited from Asia’s consumer exports and investments. The flip side of this globalization for Canada, and others, is economic restructuring, “outsourcing” of production to India, China, and elsewhere, resulting in both the loss or weakening of industries and the emergence of new ones. This is the new reality of deep globalization: to remain competitive, national economies must integrate into an increasingly complex, globe-spanning production chain — with products designed in one place, manufactured in another, and sold yet somewhere else.

Canada’s close but complex (and sometimes contentious) relationship with the United States cannot escape the consequences of worsening or improving US-China relations over such issues as Taiwan, access to energy and other natural resources, and the growing US-China trade imbalance. Canada and the US share the world’s longest unprotected border, the largest bilateral (two party) trading partnership in the world, and the largest free trade agreement in the world, a closely-integrated manufacturing sector (e.g. the automotive industry), and a deep continental defence relationship. North-south trade has overtaken inter-provincial trade. More than three-quarters of Canada’s exports go to the US, and we are each other’s largest trading partner. As Premier Charest put it: “Through pipelines, data, and communications networks, shared
electrical networks, intra-firm trade, and just-in-time distribution systems, our two countries have a common infrastructure that is increasingly integrated. An attack on one would be devastating to the other.” These ties are also political, cultural and personal: colonial experience, democratic values, legal systems, language, and histories of immigration unite us.

Of course, this close relationship is not without its political disagreements and tensions. Refusal to participate in the Iraq invasion, rejection of the continental missile defence strategy, trade conflicts under the North American Free Trade Agreement (NAFTA), criticism of US sanctions against Cuba and other US foreign policy positions (e.g., International Criminal Court, the Land Mines Treaty), and more recently, disagreement on the environment, illustrate some deep-rooted differences. Another factor cannot be understated:

- Canada’s population of 31.6 million is about one-tenth of the US’s 303 million. The US economy, at almost US$14 trillion, is the world’s largest, and ours, at US$1.2 trillion, pales in comparison; and
- While the US-Canada trade relationship represents a huge portion of Canada’s overall trade — 69% in 2007 — Canadian trade with the US represents only 18% of the US’s total global trade.

Future changes in Canada-US relations, particularly those that affect our integrated economies, will likely have a larger impact on Canada than on the US.

Canada faces tough choices about how to best manage relations (on all levels) with its most important partner — the United States — in the face of mounting pressures and challenges to US economic and political dominance, coming in part from Asian competitors. Canada must also contend with China as a competitor. China has replaced Canada as the US’s number one source of imports and will overtake Canada as the US’s top trading partner if trends continue. Chinese diplomacy is increasingly sophisticated and both China and India now participate in every important multilateral institution apart from the G8. As rising powers take on larger roles in the international community, Canada’s own role will face new challenges. How can Canada best position itself in a decentralizing, globalizing world that is hungry for resources on one hand and fiercely competitive in knowledge-based industries on the other? The choices that Canada makes should be based on a careful reflection about Canadian values, interests, and assets.

This discussion guide provides information to set the stage for your discussions and to help you think about the values, interests, and assets that you think need to underlie the decisions and actions that Canada takes. It summarizes key elements of Canada’s economic and political relations with the US and the rising powers in Asia, focusing mostly on China, Canada’s
second-largest trading partner. Supplying a brief historical context, the discussion guide sketches the rise of Asian powers and positions Canada within the context of that rise. The last section includes some approaches to stimulate your thinking about the questions you think Canadians should be asking.
Background

The rise of Asia marks a significant shift in global political and economic power from West to East. From 1492 forward, Portugal, Spain, England, France, the Netherlands, and others built global empires, competing for dominance over the world’s territories and resources. With the rise of the United States in the 19th century, the world became dominated by a handful of countries on either side of the Atlantic Ocean. By 1900, Western Europe and the United States were the world’s most powerful sources of wealth, commerce, and military might. Although their dominance was challenged during the Cold War, when the Soviet Union collapsed in 1989 the US was the richest, most powerful country on earth.

Much has changed since the early 1990s to reduce the transatlantic community’s dominance. Beginning with Japan’s post-World War II economic boom and continuing in East Asian and Southeast Asian countries (e.g., South Korea, Hong Kong, Singapore, Taiwan, and China), this region experienced more growth in last quarter of the 20th century than any other. With the largest population in the world (about 1.3 billion45), China has seen its economy double and then quadruple in size in just a few decades, the fastest of any major nation6. This rapid change has raised the standard of living for many, but has also lead to social unrest, widespread environmental degradation, and unprecedented demand for world resources, consuming almost a third of global supplies of steel, coal, and iron7. Hundreds of millions of rural Chinese have moved to urban cores in the largest human migration ever recorded8. China’s economy (measured in Purchasing Power Parity) is now the second-largest in the world, with an annual Gross Domestic Product (GDP) of US$10.21 trillion. India, the world’s second most populous country (1.1 billion) and also experiencing rapid economic change, is not far behind China, at US$4.164 trillion9.
**GDPs & Population, World Bank, $US Exchange (not PPP)**

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<tr>
<th></th>
<th>US</th>
<th>China</th>
<th>India</th>
<th>EU</th>
<th>Canada</th>
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<tbody>
<tr>
<td>Pop / 2007</td>
<td>300 million</td>
<td><strong>1.3 billion</strong></td>
<td><strong>1.1 billion</strong></td>
<td>490 million</td>
<td>33 million</td>
</tr>
<tr>
<td>GDP / 2000</td>
<td>$9.8 trillion</td>
<td><strong>$1.2 trillion</strong></td>
<td><strong>$460 billion</strong></td>
<td>$6.2 trillion</td>
<td>$715 billion</td>
</tr>
<tr>
<td>GDP / 2006</td>
<td>$13.4 trillion</td>
<td><strong>$2.7 trillion</strong></td>
<td><strong>$906 billion</strong></td>
<td>$10.5 trillion</td>
<td>$1.3 trillion</td>
</tr>
<tr>
<td>% change</td>
<td>+36.7%</td>
<td><strong>+125%</strong></td>
<td><strong>+97%</strong></td>
<td>+69.3%</td>
<td><strong>+81.8%</strong></td>
</tr>
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As their economies grow, China and India have gained political leverage internationally. China, one of five permanent members of the United Nations Security Council and a nuclear power, participates actively in many regional and global institutions, including the Asia Pacific Economic Cooperation (APEC), the World Trade Organization (WTO), the Asian Development Bank (ADB), and the Association of Southeast Asian Nations Plus Three (ASEAN +3). India, also a nuclear power, holds membership in most of the same organizations. It also participates in the G20 and the South Asian Association for Regional Cooperation, which India helped establish in 1985 (China has observer status).

China’s increasing clout in global politics and finance has alarmed some analysts, politicians, and policymakers. While it has played by the rules in most of its multilateral memberships, China’s authoritarian leadership does not always reflect western norms and values — e.g., democracy, freedom of speech/press, and respect for the rule of law and human rights. China’s policy towards Taiwan and Tibet and its relations with North Korea, Burma and other countries known for human rights abuses are often criticized. There is also concern about China’s ever-growing military budget — increasing at about 18% a
year, adjusted for inflation\textsuperscript{10} — and its trade surplus with the US, whereby China accumulates more and more American currency as Americans continue to buy Chinese-made products:

- Chinese analysts report a 2007 China-US trade imbalance at a record $262 billion (up nearly 50\% from 2006)\textsuperscript{11};
- China’s foreign currency reserves are reported at US$1.43 trillion, the largest in the world\textsuperscript{12}; and
- Chinese state-owned enterprises and sovereign-wealth funds have also increased their investments abroad, particularly in areas “off-limits” to US companies such as the Sudan, Iran, and pre-invasion Iraq\textsuperscript{13}.

While still an economic powerhouse, the United States nonetheless confronts serious economic challenges at home, including:

- the continuing fallout from the 2007 subprime mortgage crisis\textsuperscript{14} (affecting housing and financial markets);
- the consequences of a declining dollar;
- record-high federal debt with ballooning military expenditures;
- loss of manufacturing jobs due to economic restructuring;
- growing income inequality; and
- a significant world trade imbalance.

The US also faces challenges on the political front, with some claiming that it is losing its moral leadership abroad. Reasons cited include:

- its unjustified war in Iraq involving thousands of civilian and military deaths;
- its security practices at home and abroad, including Guantanamo Bay and Iraq;
- its failure to participate in international bodies like the International Criminal Court and treaties like Kyoto; and
- its neglect of international institutions such as the UN, NATO, the G8 and WTO.

The US formed many of these institutions and has benefited from the trade liberalization, open capital markets, nuclear nonproliferation, and prosperity that they have helped establish throughout the globe. According to some, the United States must now work to incorporate rising powers such as China and India into these international frameworks if their future is to have any certainty\textsuperscript{15}. Others argue that an overextended US should focus on the security of its own borders, including the North American continent, forgoing a high-profile role in the international arena and downsizing its global military presence. Regardless of which direction the US takes, one thing is certain: the US’s position in the world is changing — and Canada has no choice but to adapt.

The \textbf{BALANCE OF TRADE} is the difference between the value of the goods and services that a country exports and the value of the goods and services that it imports. If a country’s exports exceed its imports, it has a trade surplus and the trade balance is said to be positive. If imports exceed exports, the country has a trade deficit and its trade balance is said to be negative.

Source:
Canada’s World www.canadasworld.ca

Canada, the United States and Rising Powers: How We Got Where We Are Today

Asia’s economic renaissance offers Canada new economic and political possibilities while also presenting it with challenges. To a large degree, Canadian foreign policy is still oriented toward the United States and Western Europe. Canada’s participation in peacekeeping operations and multilateral institutions has also seen a decline in the last few decades and Canada is well below its 0.7 GDP commitment to foreign assistance. The outward-looking, internationally-active Canada envisioned by Prime Minister Lester B. Pearson (and later Foreign Affairs Minister Lloyd Axworthy), some argue, has not been realized.

This orientation has shifted a bit in the past few decades. In 2006 China was Canada’s second-largest trading partner. Census figures show that immigration from Asian countries to Canada has reached a record high. The Conservative government has identified both India and China as “key priorities.” Provincial and federal governments have taken steps to deepen economic relations with Asian countries, most notably through the Asia Pacific Gateway & Corridor Initiative (http://www.gateway-corridor.com/), which focuses on increasing container trade between Canada and Asia. Some think Canada could use such a trade-based relationship as a launching point from which to increase its economic, cultural, and political influence in Asia.

Positioning Canada alongside rising powers, particularly China and India, is not as simple as shipping more containers across the Pacific or attracting new immigrants to Canada’s increasingly-cosmopolitan urban cores. Having an influence in Asia — and in a world in which Asian powers and others increasingly participate in international institutions — will require strategic political choices. The implications of the emergence of new economic powerhouses in Asia are difficult to underestimate. Canada’s responses to the opportunities and challenges posed will have to also take into account its existing economic and political interests and commitments, particularly those with the US.
Before further discussion of the current situation, it may be helpful to review Canada’s history among the world’s powers.

At the end of World War II in 1945, Canada possessed one of the world’s largest navies, had become industrialized, was endowed with natural resources, and was in good standing with the war’s other victors. Its wartime contributions, robust economy, and growing immigration positioned it well to pursue its interests abroad. Canada played an early and respected role in international institution building, including formative memberships in:

- the United Nations (UN) in 1945;
- the North Atlantic Treaty Organization (NATO) in 1949;
- the Treaty on the Non-proliferation of Nuclear Weapons (NPT) in 1968 and subsequent nonproliferation agreements; and
- the North American Aerospace Defence Command (NORAD), which expanded defence cooperation with the US in 1958.

Throughout the Cold War era, Canada pursued deeper economic and diplomatic relations with other western industrialized democracies — especially the United States. It showed strong commitment to multilateralism and came to be seen as a “Middle Power.” Under Prime Minister Lester B. Pearson, Canada took on a new role as a peacekeeping nation after it mediated the 1956 Suez Canal crisis.

Asia was not completely off the map for Canada during this period, and highlights of Canada’s involvement with and on the continent included:

- a peacekeeping mission in Kashmir (1950s), the disputed area located between India and Pakistan;
- significant troop commitments in the Korean War;
- participation in various small observer missions in Southeast Asia;
- growing commercial interactions with China — particularly wheat sales — in the early 1960s;
- official recognition of China in 1970, nine years before the US; and
- civilian nuclear assistance to, and the development of a meaningful diplomatic relationship with, India (the relationship would later cool when India tested a nuclear device in 1974).21

The United States’ strained relations with China in the 1970s did little to encourage greater Chinese-Canadian interactions, however. In addition,
China’s Cultural Revolution (late 1960s to early 1970s), which created tremendous economic and social dislocation, hindered western economic and political relations with Beijing.

In contrast, Japan had by then become a major economic power, and its foreign policies on nonproliferation, multilateral institutions, and global peace initiatives were well aligned with Canada’s. Bilateral relations grew throughout the 1980s. Canada played a formative role in the creation of new regional multilateral institutions in Asia, including the Asia Pacific Economic Cooperation (APEC), created in 1989. Prime Minister Mulroney called for Japan to be given a permanent seat on the United Nations Security Council, up until then only occupied by the US, Britain, China, Russia, and France. In contrast, China’s brutal 1989 crackdown on student protestors in the Tiananmen Square massacre further distanced the regime from western countries, particularly when a new era of liberal internationalism emerged with the collapse of the Soviet Union.

Despite Canada’s increasing trade with Japan, at the end of the Cold War its foreign relations still centred on the Atlantic countries. While Canada had 13 diplomatic posts in the US, eight in the United Nations, five in Germany, and three in Australia, it had only two each in India, China, and Japan. The allocation of personnel on these missions similarly emphasized the transatlantic community. Canada’s primary trading partner, by a significant margin, was the US, followed by other democratic countries: Japan, Western European nations, and Australia. In 1989, following an intense public debate and a fiercely-fought election, Canada signed the historic Canada-United States Free Trade Agreement (CUSTA), followed by the 1992 North American Free Trade Agreement (NAFTA) with the US and Mexico, the largest free trade agreement in the world to date.

Dating back to the 1960s and continuing on to the present, Canadian politicians, business leaders and the public have raised serious concerns about what was (and is) perceived to be an over-dependence on the US market and American control of Canadian assets. Several prime ministers (notably Prime Minister Trudeau and later Jean Chrétien) focused efforts on strengthening Canada’s relationship with the Asia-Pacific region and China in particular. In the early 1970s, Trudeau launched a strategy to attract more trade and investment from non-US countries, mostly in Europe, but with some focus on Asia. Though this ‘Third Option’ plan failed to reduce our trade dependency on the US, relations with Asia — especially China — improved.
TODAY’S SITUATION: CANADA, THE US AND ASIA

In 2008 Canada’s diplomatic relations with Asian countries still rank far below those with the US and Western Europe. Some analysts criticize the federal government for failing to formulate a clear, cohesive strategy toward China and the Asia Pacific region beyond strategic workings groups and mention in Canada’s now-outdated 2005 International Policy Statement.

Nonetheless, trade with China and to a lesser extent other Asian countries (India for instance) has increased steadily over the last decade. As noted, today China is Canada’s:

- second-largest source of imports (behind the US);
- fourth-largest export market (behind the US, the UK, and Japan); and
- second-largest trading partner overall, with net trade totaling a record C$42-billion.

While economic relations are flourishing, political interactions are not so positive. Several Canadian diplomatic snarls in the past two years, most related to human rights issues, have cooled the Canada-China relationship (for example, Beijing and Ottawa disputed the handling of Huseyin Celil, a Canadian and Chinese citizen who was extradited from Uzbekistan by Chinese authorities, accused of aiding Uyghur extremists, and jailed for life on charges of terrorism).

On the US-Canada front, disagreements over (and sometimes outright rejection of) US military policy, going back to Diefenbaker, and continuing on with Pearson, Trudeau, Mulroney, Chrétien, and Martin, have not eroded Canada’s economic relations with the US. As noted, the relationship involves much more than straight economics: social, cultural, political, and strategic linkages continue to be very important, and few contemporary alliances are as strong.

The Canada-US trade relationship reflects this deep partnership. The lion’s share of Canadian (2006) exports goes south of the border:

- C$359-billion, or just under 82% of all exports, go to the US;
- 55% of imports into Canada are American, amounting to just under C$218-billion — down, however, from a decade ago when they were 66% of imports;
- Canadian exports to China have steadily increased in the last decade while the US numbers have remained fairly constant — at about four-fifths of our exports.
### Canada’s Top Five Trading Partners in 2006 / Exports / $CDN

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<th>US</th>
<th>UK</th>
<th>Japan</th>
<th>China</th>
<th>Mexico</th>
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<tbody>
<tr>
<td>1996</td>
<td>$243.9 billion</td>
<td>$3.9 billion</td>
<td>$11 billion</td>
<td>$2.4 billion</td>
<td>$1.3 billion</td>
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<tr>
<td>2006</td>
<td>$359.8 billion</td>
<td>$10 billion</td>
<td>$9.4 billion</td>
<td>$7.7 billion</td>
<td>$4.3 billion</td>
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<tr>
<td>% ±</td>
<td>47.5%</td>
<td>159%</td>
<td>-14.5%</td>
<td><strong>220.8%</strong></td>
<td>230.7%</td>
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### Canada’s Top Five Trading Partners in 2006 / Imports / $CDN

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<th>US</th>
<th>China</th>
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<th>Japan</th>
<th>Germany</th>
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<tbody>
<tr>
<td>1996</td>
<td>$184.4 billion</td>
<td>$6.3 billion</td>
<td>$7 billion</td>
<td>$12.6 billion</td>
<td>$5.4 billion</td>
</tr>
<tr>
<td>2006</td>
<td>$217.6 billion</td>
<td>$34.5 billion</td>
<td>$16 billion</td>
<td>$15.3 billion</td>
<td>$11.1 billion</td>
</tr>
<tr>
<td>% ±</td>
<td>18%</td>
<td><strong>447.6%</strong></td>
<td>128.6%</td>
<td>21.4%</td>
<td>105.6%</td>
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Combining the imports and exports outlined above into trade totals further shows the dominance of the US-Canada relationship. Canada-US trade accounted for fully 69% (or more than two-thirds) of all of Canada’s trade in 2006 — or $1.6-billion in cross-border trade per day. China, Canada’s second largest trading partner, represented only 5% of total Canadian trade. Trade with Russia and India, the world’s other
rising powers, made up only 0.7% combined in 2006.

While the economic benefits of the US-Canada relationship are not in dispute, there are ongoing concerns about the less positive consequences of economic integration, the depth and breadth of American direct investment, size differentials, and our vulnerability to US economic cycles, especially as fears of a US recession mount. This anxiety became particularly evident in the weeks after 9/11, when the US tightened the border and Canada had to contend with significant trade delays. While the two countries are actively collaborating on cross-border trade and security issues, the fact remains that Canada is the more vulnerable party.

It is within the context of our US trade “dependency” that some Canadian analysts have welcomed the rise of China and India, and to a lesser extent Russia and Latin America, while pointing to the importance of the European Union market. Rich in economic assets that rising, industrializing powers need — energy and natural resources, particularly oil, and the major Pacific port infrastructure needed to deliver them — Canada is well-positioned to expand its trade with Asia and others. Chinese state-owned firms and sovereign-wealth funds have shown serious interest in investing in Canadian resource sectors, including Alberta’s oil sands. From a Chinese perspective, Canada can provide China with a safe, stable solution to its tremendous demand for resources.

Of course, Canadian energy and natural resource sectors are also very attractive to the US. American economic and political leaders are keen to solve resource-supply problems created by dwindling water reserves and a reliance on foreign oil. With predicted high global demand for resources, especially in Asia and the US, provincial and federal governments in Canada have serious choices to make about Canada’s resource and trade management. Decisions made need to take into account a range of international policies, including international law, environmental policy, and, of course, future relationships with the US, Asia, and other countries.

How should Canada best position itself within the changing global landscape? In a world with rising powers, some of whom are undemocratic, how can Canada balance its economic and political priorities in a way that supports Canadian interests, values, and assets? Should Canada look to deeper economic and political integration in North America? Should Canada refocus priorities to look to other continents, especially Asia, as better prospects for future growth and influence, and if so, how? And how can we remain economically competitive as the world around us integrates?
**Future Directions**

Deciding how best to proceed is not simply about finding the technically-correct solution. Decision-making in democracies is far more complex, involving beliefs, values, and assumptions.

This section presents three broad, value-based approaches to the Rising Powers issue as a starting point — food for thought. In addition to a brief overview of each approach, some arguments for and against the approaches are sketched out to help show different perspectives.

These approaches are not comprehensive, definitive, or mutually exclusive. They are meant to stimulate your thinking — they are window frames that reveal a few perspectives held by different elements of Canadian society. You are not being asked to pick one approach, nor should you limit your thinking to what’s on the page.
This approach would have Canada strengthen its existing economic and political relationship with the United States. Canada would work closely with the United States to enhance its North American integrated security alliance. Canada would consolidate its role as the most trusted ally of the US. Under this approach, Canada-US cooperation on trade issues, international policy, and the promotion of democracy takes a front seat. Relations with Asian countries would not be ignored, but would not take centre stage in our international policy agenda.

Key actions would include:

- **Addressing trade irritants under the North American Free Trade Agreement (NAFTA) so as to pursue deeper economic integration**
- **Renewing Canada’s commitment to military cooperation endeavours, such as anti-ballistic missile defence, a North American security perimeter, NORAD, and the US’s engagements abroad**
- **Increasing Canadian trade and diplomatic presence in key US urban centres**
- **Canadian economic and political relations with the rest of the world would be assessed in light of their impact on our relationship with the United States.**
ARGUMENTS IN FAVOR

✓ Canada’s relationship with the United States has deep roots. We understand each other and share relatively similar cultures and values, and increasingly our populations move back and forth for education and work. It is only natural that our neighbour, with whom we share an unprotected border and so much more, would also be our most important partner. Canada does not share as much with other rising powers, such as China, India, and Russia.

✓ Canada can employ its relationship with the United States to better leverage its assets in the international community, using our strong alliance with the world’s remaining superpower as a point of influence in multilateral and bilateral settings. At home on the North American continent, this relationship would also help protect Canadians against terrorist and other security threats.

✓ Emphasizing strengthened relations with the US is not just good politics, it is also good economics. To do otherwise might alienate our southern neighbour and possibly jeopardize our large, mutually-beneficial economic relationship. A North American economic bloc would help protect Canada against unfair imports from developing economies while leveraging its strengths internationally.

ARGUMENTS AGAINST

✗ Canada’s economy is too concentrated on the US. With over 80% of our exports going to the US, we are left too vulnerable to downturns in the American economy and unpredictable US trade policy. A potential US recession, more talk of protectionism in the US, and ongoing border restrictions pose serious threats to our economy.

✗ The Canada-US relationship is highly unequal — the US is in a much stronger political and economic position. Our stance on international and military issues is more aligned with like-minded countries in Western Europe. Without abandoning our economic interests with the US, we should separate our political interests and values from our economic needs. As a sovereign country, we need to protect our ability to chart our own course on international affairs.

✗ Canada may miss out on economic, cultural, and political opportunities with rising powers, particularly China, if it allies itself too closely with the US. Under such circumstances, the international community will likely not see Canada as impartial, and rising powers such as China and Russia may hesitate to cooperate with Canada on trade or security issues.

QUESTIONS

1. What role, if any, could Canada play in helping the United States to gain greater perspective on how to balance economic and political interests in a changing world?
2. What are some possible consequences (positive and negative) of closer alignment with the United States?
3. How can Canada best position itself in an integrating, globalizing world while remaining focused on North America (or can it)?
APPRAOCH 2

EMPHASIZE MULTILATERALISM WHILE MOVING CAREFULLY TO DIVERSIFY CANADA’S TRADE

Canada would focus on its work with multilateral institutions and partnerships to advance its political and economic interests. This approach emphasizes Canada’s position as a Middle Power that has moral authority. Canada would maximize its international “punch” by cooperating with states that share similar interests. By pursuing progressive domestic policies at home and leading and supporting international initiatives that emphasize sustainable development, human security, democratization, and economic and political liberalization abroad, Canada would set an example for the world. While maintaining cordial relations with the US, Canada would deepen and broaden relations with rising powers, and encourage them to follow international norms and cooperate on democratic development issues.

Key actions would include:

• Establishing stronger diplomatic links and economic relations with states or blocs of states such as the EU, India, Japan, South Korea, and Taiwan while taking care to not ignore or neglect its relations with the US
• Pursuing trade, investment, and political cooperation with countries such as China, North Korea, and Myanmar primarily through multilateral institutions with a view of promoting political liberalization in these countries.
• Canadian policy on foreign investment would prevent the sale and control of key Canadian assets to investors funded or controlled by interests that ignore democratic values and do not respect human rights and the rule of law.
ARGUMENTS IN FAVOR

✔ This approach does not focus exclusively on North America, and would mean that Canada would have greater freedom to act according to the expressed interests of Canadian citizens when the interests of the US and Canada are not the same.
✔ Canada’s good track record on international multilateral initiatives that promote democratic values (the Ottawa Treaty, peacekeeping operations, Responsibility to Protect, and NATO) positions it well. Canada can leverage its assets and expertise to diversify its trade and help spread democracy, the rule of law, and global markets.
✔ Without an abrupt change in policy, Canada can carefully diversify its trade and investments portfolio through increasing interactions with other democratic states and non-democratic states such as China. This course would reduce US backlash and fallout.

ARGUMENTS AGAINST

✘ Such an expansion of the scope of our international policy would be costly, and is unlikely to produce tangible benefits to Canadians. We tried it before under Trudeau and did not succeed.
✘ Canada may miss out on economic, cultural, and political opportunities with non-democratic states, such as Russia and China, because it has focused on democracies. This may in turn prevent otherwise mutually-beneficial relationships from developing and stunt Canada’s impact in non-democratic countries.
✘ Canada may find itself less able to play a lead role in a post-9/11 international community where the traditional avenues of multilateralism are changing or in need of reform.

QUESTIONS

1. Is Canada actually a Middle Power, and what does “Middle Power” mean in the 21st century? Is the concept of a Middle Power still relevant in the 21st century?
2. What does a values-based international policy mean — is it realistic? How will it protect Canadian economic interests?
3. Using Approach 2, how can Canada best position itself in a globalizing, decentralizing world, and remain economically competitive?
4. To what extent should Canada continue to support multilateral institutions such as the UN? Should Canada now be proposing alternatives or reforms?
5. What role (if any) should values like the democracy, human rights or the rule of law play in selecting Canada’s lead trading partners?
**APPROACH 3**

**EMPHASIZE STRONGER ECONOMIC AND POLITICAL RELATIONSHIPS WITH CHINA AND OTHER EMERGING POWERS**

This approach places the greatest emphasis on strengthening Canada’s economic security and political interests and reducing dependence on a single market. Canada would strategically manage its assets — through the private sector and/or government — so that future economic relationships best benefit Canadians and lessen Canada’s economic reliance on US markets. This approach means that Canada would not take the lead role in forging political partnerships with specific sets of countries but rather would emphasize international policies that maximize economic gain. This approach sees Canada playing a potential role as a resource “superpower” in a world badly in need of our assets.

Key actions would include:

- *Actively pursuing trade agreements with Asian countries, in particular China and India, and other rising powers (e.g. Brazil, Russia)*
- *Supporting their participation in international organizations and agreements without imposing difficult conditions; and increasing Canada’s diplomatic presence in Asian countries.*
- *Canada would work through backchannels, rather than through public arenas, to influence change on human rights transgressions.*
ARGUMENTS IN FAVOR

✅ The world is changing: US economic and political power is declining. Canada needs to protect itself and reduce its vulnerability. Realigning at least some of our assets and interests with the new rising powers only makes good economic sense. Even small slowdowns in Canadian goods processing at the US border — where some 80% of our exports go — could create major downturns in our economy.

✅ Canada is not a major player in international policy and its foreign policy stances have limited effect. Our greatest assets are economic, especially given the energy-hungry globe. Canada is best placed to play to this strength, and can use its economic influence to promote market liberalization abroad, take an indirect approach to democratic development, and also serve its own economic interests at home.

✅ Increasing economic and diplomatic relations with Asian countries like China and India is an effective way to encourage political liberalization and gradual democratization. Greater exposure to democratic societies and growing social and economic ties can do more to change the mindset of a people than does public criticism of human rights abuses. Greater trade with China and developing democracies will provide opportunities for Canadian businesses and individuals to influence change through non-political channels.

ARGUMENTS AGAINST

❌ Increasing economic ties with non-democratic states while ignoring their human rights records offers poor prospects for real change in those countries. The West has been ramping up economic relations with China for decades now and democracy is no closer.

❌ By pursuing a more economically-driven approach to international affairs and trade, Canada might alienate the US and lose trade. Moreover, we would be risking our relationship with our closest ally, with whom we share history, democratic values, geography, and an important defence relationship.

❌ How can Canada hope to play an effective role in determining international law and norms, developing international institutions, and proposing rule-based treaties that reflect respect for human rights while at the same time making economics our first priority? Canada could lose stature and credibility on the world stage and this would hurt our long-term interests.

QUESTIONS

1. In what ways is Canada’s relationship with the United States an asset? A vulnerability? Both?
2. What opportunity does Canada have to use its resource riches to strengthen its relationship with the United States?
3. Where does Canada’s responsibility for climate change fit into trade and investment policy?
4. What impact would Canada assuming the role of a “resource superpower” have on Canada’s soft-power or Middle Power international profile?
5. What are the potential costs of cooling relations with the US and what are the potential gains of warming relations with China?
2008 is a good time to reexamine Canada’s relations with the United States and rising powers. The results of the US presidential election may bring a major shift in US international policy, particularly towards Asia. And the Beijing Olympic Games will certainly put China — already in the spotlight — under even closer scrutiny. Continuing debate around Canada’s mission in southern Afghanistan, slated to end in 2009, will also give Canadians further reason to consider their future international obligations.

Canadians — that’s you. What do you think? The approaches provided above offer some different perspectives, but are by no means exhaustive. They’re a starting point — a point from which you can ask questions, consider options, and develop your own views. How should Canada position itself in a decentralizing world? How is it already?

This issue, like any international policy issue, is complex. The variables and considerations are numerous and continuously changing. And key issues bring up many questions: Should Canada focus much more on rising powers in Asia and elsewhere — expanding gateways and immigration, and adapting international institutions and agreements to make way for more influential Asian powers? Can Canada join a new Asian institutional architecture from its current position? Should we instead refocus on North America, protect continental industries, and promote our values abroad from a secure North America and strong Canada-US relationship, or should Canada look to Europe and perhaps a Euro-Indian alliance?

Navigating the best course for Canada, even with the tools we have, involves imperfect knowledge of the waters ahead. What citizens are being asked to think about in our discussion is the mix of values, interests, and assets that you think Canada and Canadians should use to help us chart the course ahead. As a thought experiment, imagine that you are the Prime Minister or the Minister of Foreign Affairs for the weekend. What ideas, insights, questions, and options would help guide your decision making?
YOUR NOTES

USE THIS PAGE TO COME UP WITH YOUR IDEAS

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END NOTES


3 For an updated projection of the US population, visit the US census bureau’s “population clock”: http://www.census.gov/population/www/popclockus.html

4 As of July 2007 (est.), China’s population is approximately 1.32 billion and India’s 1.13 billion. In comparison, the United States, the world’s largest national economy by any measure, has a population of 301 million. Canada has a population of 33 million. CIA World Factbook. Copyright 2008 Central Intelligence Agency, United States Government. Web: https://www.cia.gov/library/publications/the-world-factbook/


14 The Subprime mortgage crisis was a sharp rise in home foreclosures which started in the United States during the fall of 2006 and became a global financial crisis during 2007 and 2008.

The crisis began with the bursting of the housing bubble in the U.S.[2][3] and high default rates on "subprime", adjustable rate, "Alt-A", and other mortgage loans made to higher-risk borrowers with lower income or lesser credit history than "prime" borrowers. The share of subprime mortgages to total originations increased from 9% in 1996, to 20% in 2006. Further, loan incentives including "interest only" repayment terms and low initial teaser rates (which later reset to higher, floating rates) encouraged borrowers to assume mortgages believing they would be able to refinance at more favorable terms later. While U.S. housing prices continued to increase during the 1996-2006 period, refinancing was available. However, once housing prices started to drop moderately in 2006-2007 in many parts of the U.S., refinancing became more difficult. Defaults and foreclosure activity increased dramatically. By October 2007, 16% of subprime loans with adjustable rate mortgages (ARM) were 90 days delinquent or in foreclosure proceedings, roughly triple the rate of 2005. By January of 2008, this number increased to 21%. During 2007, nearly 1.3 million U.S. housing properties were subject to foreclosure activity, up 79% versus 2006. As of December 22, 2007, a leading business periodical estimated subprime defaults would reach a level between U.S. $200-300 billion. Source: Wikipedia : http://en.wikipedia.org/wiki/2007_subprime_mortgage_financial_crisis

20 Most of this section comes from John Kirton, Canadian Foreign Policy in a Changing World, Nelson, Thomson Canada Ltd., 2007. See specifically Part II (pp. 91-181) and Part IV, Chapter 20 (pp. 329-346).
21 For an overview of Canada’s relations with India, see Ryan Touhey, “Canada and India at 60: Moving Beyond History?” International Journal, Autumn 2007, pp. 733-752.
22 Kirton, p. 335.
23 Kirton, p. 332.