

# Open Canada:

A Global Positioning Strategy  
for a Networked Age



**CIC**

CANADIAN INTERNATIONAL COUNCIL  
CONSEIL INTERNATIONAL DU CANADA

## Dear Canadians

Our country has two of the greatest attributes a nation can hope for: an open economy and an open society. These are not trifling qualities. Openness lies at the heart of centuries' worth of struggles for freedom, peace and prosperity.

Canada will never be the most powerful nation on Earth. But we live in a digital age, where might is measured in knowledge rather than muscularity. If we keep building on our openness—attracting the best and the brightest citizens, generating and exchanging new ideas and new ways of doing things and welcoming investment in our economy—Canada can position itself at the centre of the networked world that is emerging in the 21st century.

It is in this spirit that we share *Open Canada: A Global Positioning Strategy for a Networked Age*. This report is not meant to be exhaustive and therefore exhausting. We have avoided overwhelming decision-makers with a paralyzing array of priorities or with prescriptions so interdependent they are impossible to implement. Our recommendations hit the high notes for how Canada can contribute to a better world through a focused pursuit of national interests. They are not intended to be adopted all at once; governments deal with matters of too much consequence and political sensitivity to operate that way.

The panel that helped me produce this report for the Canadian International Council has been bold and original in plotting a navigational guide for Canada. We are in a period of extraordinarily rapid change and global power shifts. Nobody can predict a future being written on the fly. But we can and must influence the direction it's headed and develop the strategies and policies needed to best position ourselves going forward.



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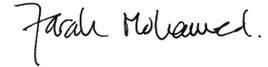
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## Foreword

Last fall, the Canadian International Council (CIC) decided that it was the right time to take a hard look at Canada's global role and priorities. The financial crisis was highlighting shifting geopolitical dynamics. Meanwhile, our country was poised to assume a highly visible international profile, hosting the Olympic Games in the winter and the G8 and G20 meetings in the spring. What better moment to help Canada chart a course for the future?

The CIC is uniquely suited to examine Canada's international goals and objectives and how they align with the interests and values of Canadians. As an independent, member-based council, it reflects the ideas, interests and opinions of a broad constituency of Canadians who understand that a country's foreign policy is not an esoteric concern of experts but directly affects the lives and prosperity of its citizens. There is no other organization in this country that connects good foreign policy with a good life for its citizens. CIC research makes the connection between good foreign policy and good national outcomes.

To this end, the CIC board of directors, led by Jim Balsillie, commissioned this report. We were fortunate that Edward Greenspon, the former editor-in-chief of Canada's national newspaper, *The Globe and Mail*, agreed to chair and convene a panel that would work with him to produce a global positioning strategy (GPS) for Canada. Mr. Greenspon's intellectual curiosity and leadership skilfully guided the panel; together, they enthusiastically undertook consultations across the country. They were generous with their time and considerable intellectual energy, and the input and insights of each panel member has contributed to the final report. Many CIC research fellows and associates participated in the expert consultations; views of the CIC's member base were brought into the process via an e-conference series; and various CIC branches contributed the work of their own study groups.

The panel and its chair had a tall order with a short deadline. The CIC is releasing this report prior to the G8 and G20 meetings, when international affairs are a vital part of the public conversation. We expect the report's agenda and recommendations to engage and inspire Canadians from all CIC constituencies: government, corporate, media, military, NGO and academic.

The work of this report does not finish with its launch. The CIC is planning a rigorous program of conferences, seminars, workshops and speaker events to promote and advance the dialogue and debate started here. *Open Canada: A Global Positioning Strategy for a Networked Age* is just the beginning of the CIC's program to explore its ideas and help Canada navigate its future, not be navigated by it.



**Jennifer Jeffs**  
President, CIC

Canadians need to decide where we want to be and how to get there. We cannot sit on the sidelines as the world moves on.





## Introduction

# A Call to Action

“In a shrinking, changing, dangerous world, our government must play a role in the world. And I believe that Canadians want a significant role—a clear, confident and influential role. As proud citizens, they don’t want a Canada that just goes along; they want a Canada that leads. They want a Canada that doesn’t just criticize, but one that can contribute. They want a Canada that reflects their values and interests, and that punches above its weight. Do we as Canadians have the desire and ability to achieve all this?”

Prime Minister Stephen Harper  
Calgary, October 5, 2006

**W**hat does it take for a country like Canada to play a significant and influential role in a changing world—to, in the words of the prime minister, punch above its weight? This month marks a significant moment for Canada. In hosting both the G8 and the G20, our country sits at the centre of the action. As chair, Canada can shape the agenda and the outcomes.

But then the leaders will go home. Will the summer of 2010 be remembered as a high-water mark of Canadian participation in international affairs? Or will we use our moment in the sun to build ongoing influence, the kind

Game Changer: The United States has entered a period of relative economic decline. This jeopardizes no country more than Canada.

Game Changer: China and India now are huge players in the world economy and will become more and more active in global governance.

Game Changer: Innovation determines national advantage in today's global economy.

of global capital that can be employed when Canada competes for a seat on the United Nations Security Council this fall?

Exercising influence beyond our borders begins with the ambition to make a difference and the credibility to make our partners stop and listen. And it all starts at home. Look at the international influence we wield managing the financial crisis. You cannot be strong out in the world without first being strong here in Canada.

All this matters more than ever. The world is on a roller-coaster ride of change. We bear witness to the creative destruction brought on by the ever-deepening integration of technology, information, trade, finance and culture that goes by the name of globalization. New realities—Asia is rising; wealth is shifting from

west to east; we all have legitimate interests in one another's sovereignty—are readily apparent. But history proceeds unevenly, coasting for long periods and then bursting forward with contradictory forces. The consequence of any upheaval takes time to reveal itself. Nations must adjust.

When the United States was emerging as a world power in the late 19th and early 20th centuries, few appreciated the radical reordering of international relations that was to come. It took 50 years before the clear winners and losers emerged—a period in which rickety empires collapsed, nations came and went, fascism rose and fell with unparalleled vengeance and the international community organized itself around the poles of American capitalism and Soviet communism.

The near-collapse of the financial system reminds us of two enduring truths: how dependent the citizens of the world are on one another's good governance and how countries that get their policies right will prosper and earn the respect of the others. The G8 and G20 occur at a 'Canadian moment' in global affairs: the rectitude of our fiscal policies and the strict regulation of our financial industry invest us with international credibility and a greater role in global policy-making. Strong at home, Canada can say no to an international bank tax and others will listen. This should serve as a jumping off point for a Canada that aspires to global leadership in other areas as well.

Canadians face serious issues related to global power shifts. They should concentrate our minds. The biggest is the extent to which we can continue to rely on the U.S. for economic growth and, given geography and history, the extent to which we can find alternatives. As well, we must wrestle with: our approach to the opening of the Arctic; the risks to the great wealth of the oil sands; what we need to do to catch up in Asia; our relationship to the rest of the hemisphere, particularly Mexico; the lessons to be drawn from Afghanistan and the impact of deficits on our renewed military; how we get more results from our development dollars; how we foster the innovation upon which our future prosperity depends; what it takes to make Canada a magnet for highly mobile classes of scientists and engineers; what it means when we speak of a global Canada. And, finally, how we put the national interest beyond the grip of narrow groups and partisan politics—or is that hopelessly naïve?

What is certain is that the brief interlude of a uni-polar, end-of-history world that emerged after the fall of the Berlin Wall has vanished, just as did the bifurcated world—capitalism versus communism—of the Cold War years. Now political and economic power are far more diffuse and less predictable than anything we've experienced in generations. History has shown that such multipolar periods must be managed carefully,

as Europe did after the Napoleonic wars, or they can turn violently unstable. For worst-case scenarios, think pre-First World War.

In such an environment, global leaders must face the future head-on and bend it to the benefit of their citizens. The issues are complex, but absence is not an option. In a fascinating exercise in scenario planning in 2008, the U.S. National Intelligence Council prepared a report looking out on the world in 2025. The group's chair, C. Thomas Fingar, underlined the importance of leadership. "If you like where events seem to be headed," he advised, "you may want to take timely action to preserve their positive trajectory. If you do not like where they appear to be going, you will have to develop and implement policies to change their trajectory."

As Canadians who are often hesitant to engage in hard debates that might upset our unity, we are at a moment that demands candid discussions, tough calls and political courage.

## THE GAME CHANGERS

- The U.S. has entered a period of relative economic decline. While it seems certain to remain the dominant world power for years to come, it will increasingly share the stage with other powers, particularly China, and have to rely on bargaining and persuasion in the place of power and wealth to get its way. The border, through which much of our prosperity flows, has hardened post 9/11—and, in the event of a terrorist attack, could slam shut at a moment's notice.
- China and India are now huge players in the world economy and will become more and more active in global governance. Canada remains curiously underdeveloped as a Pacific nation, especially given our rich human connections with China and India. China's economic success challenges the democratic model that Canada helped create.

Game Changer: A fierce competition for resources—energy, minerals, water and food—is taking shape on a global scale.

Game Changer: The border, through which much of our prosperity flows, has hardened post-9/11—and could slam shut at a moment's notice in the event of a terrorist attack.

- Sovereignty is a relative concept in a globalized world. We depend on one another too much—for our health, our security, our financial well-being, our environmental safety and more—to allow claims of sovereignty to trump all. The moment Greece's profligacy impacts the world's financial stability, it has surrendered sovereignty. We are in this together; we have license to mind one another's business.
- Innovation is the greatest generator of wealth in today's global economy. Ideas have replaced industry on the commanding heights of the post-industrial economy. Yet in a recent ranking of Canadian companies, the top dozen consisted of eight in the resource-extraction business, three banks and only one (Waterloo's Research In Motion) that could be described as a homegrown innovation success.
- Terrorism has radically altered the global security equation. The world is generally more peaceful, yet individuals are less secure; small groups of determined extremists can land devastating blows. These asymmetrical threats pose an entirely different set of challenges from classic defence. The greatest of these is the potential for terrorist networks to plug into the proliferation of nuclear weapons, as President Obama has pointed out.
- Climate change is the most difficult kind of threat to manage, with consequences situated in the future but demanding action today. It cries out for global cooperation beyond the capacity of the existing multilateral system. The effects of a warmer globe will fall most heavily on the poorest countries, those with the least capacity to adapt. This, in turn, will accelerate the politically sensitive stream of migrants to developed countries.

# Prosperity. Peace. Cohesion.

A nation engaged in the world has national interests to defend and pursue. Without understanding these, foreign policy loses its anchor and can, as Allan Gotlieb said, become “arbitrary, quixotic or even a personal indulgence of its leader.”

The GPS Panel has identified the following three overarching Canadian interests.

**Prosperity:** A successful country provides a high standard of living for its citizens and opportunity for its young people. Domestically, it does this through sound economic, tax and legal policies and a quality education system. Internationally, it attracts job-creating investment, sells its goods and services abroad, collaborates in the pursuit of knowledge and attracts the best and brightest to our land.

**Peace:** Security is a fundamental goal for all countries. We prefer the more positive and ambitious term, “peace,” since a peaceful world serves our interests and those of the other countries with whom we interact. In Canada’s case, a land as unthreatened by invasion as nearly any on Earth but at the same time highly globally engaged, this means turning attention from the security of our borders to the security of our citizens. We must work with our allies to make sure our economic and humanitarian interests are not undermined by breakdowns in peace elsewhere. We must raise up others.

**Cohesion:** National unity and threats to it have long figured in our international policies, from the Imperial impulses of the Boer War and the First World War to France’s periodic encouragement of Quebec separatists. In the decentralized federation that is Canada, it is imperative that we create the domestic consensus to speak with a single voice beyond our borders.

Canada’s cohesion is also challenged by the success of our immigration policies. Diversity is Canada’s great differentiator, but we must rally around a common identity and resist bending national interests to suit domestic constituencies with narrow international agendas. More nations fail from a lack of internal cohesion than probably any other cause. In a digital age where people easily remain connected to their country of origin, we must be vigilant in safeguarding Canada’s noble experiment.

Game Changer: China's extraordinary economic success challenges the liberal democratic model to which Canada subscribes.

Game Changer: The Arctic ice cap is melting, necessitating massive adaptation, opening huge storehouses of natural resources and making the Northwest Passage navigable in the near future.

Game Changer: Terrorism has radically altered the global security equation. The world is generally more peaceful, yet individuals are less secure.

- The Arctic ice cap is melting, and much more quickly than anticipated. Residents of Canada's North, not to mention people living as far away as the South Pacific, will be forced to adapt. But the melting will also open huge storehouses of natural resources and make the Northwest Passage navigable. The economic, diplomatic and security consequences for Canada are enormous.
- A fierce competition for resources—energy, minerals and food—is altering geopolitical and economic patterns and poses the gravest threat to world peace. Water shortages in particular threaten significant portions of the globe. As the only net exporter of energy among the G7 countries, a major agricultural exporter and a mining powerhouse, Canada enjoys significant global advantages, but our water and energy will put us in the geopolitical crosshairs.
- The multilateral system at which Canada excelled for six-plus decades is a sprawling swirl of competing interests and demands. Consensus-based organizations such as the United Nations and the World Trade Organization are being increasingly marginalized. New institutions such as the G20 and ASEAN are rising, as are fluid ad hoc groupings of non-state and state actors. Canada needs to adjust.
- Demographics challenge the developed and developing worlds. The latter has too much population growth and too few jobs, particularly for its restless youth. The former has too little population growth to provide sufficient labour to support aging societies. If not well managed, both face disruption and possible upheaval.

- For the first time in human history, information technology allows individuals to maintain instant and constant connections with one another over long distances. Information has been democratized, but national issues slop over one another's borders, a point germane to a country with as many diaspora communities as Canada.

Each one of these is a game changer on its own. Together, they radically alter the global environment. Now, more than ever, Canada's political process must stimulate rather than discourage a national conversation if we have any hope of creating a consensus for change. Canadians need to decide where we want to be and how to get there. We cannot sit on the sidelines as the world moves on.

## THE GPS PROJECT

The report you have in your hands is the culmination of a nine-month effort we called The GPS Project. It sets out a "global positioning strategy" for a Canada highly engaged, by necessity and inclination, with the world around us. The Canadian International Council convened a panel to travel the country meeting with experts and tapping into existing research. The CIC demanded just one thing: that we settle for no tepid Canadian compromises. Unencumbered, we have reached for fresh and creative answers and have spoken the truth, even the uncomfortable truth. Our aim has been to produce a bold and original document, but a realistic and actionable one as well.

Most Canadians by now are familiar with the marvel of global positioning systems, or GPS for short, a navigational technology that can tell you where you are located at any moment relative to a desired destination. We chose our metaphor with care. Our Global Positioning Strategy is meant to detail where we, as a country, are situated and determine how we can best reach our optimum destination. Let's be clear: If we know where we are going, there is no need for GPS navigation; if we aren't sure, there is. The same with our Global Positioning Strategy.

The GPS Panel that has advised me throughout this process was recruited to be as free as possible of old verities and debilitating mythologies. It is deliberately not the usual blue ribbon committee, although we have spoken to many who served in the policy-making trenches. Our panel members range in age from 28 to 52; each one of them informs this report. Most of them grew up during the digital era. They shape and are shaped by our hyper-connected times. They have no need to defend decisions taken 20 years ago, but they hold a personal stake in a Canada 20 years hence. As with any group, of course, not everyone agreed on every issue, but all felt comfortable signing off on this report.

The GPS analogy reflects our belief that the digital age is different from anything before in the way it creates new knowledge networks and alters traditional power relationships. Although the world is increasingly multipolar, it is also more interdependent than ever; information is accessible by individuals and groups without the filter of diplomats or journalists. A Gates Foundation or Clinton Initiative can match national development agencies for on-the-ground impact. Environmentalists can go toe-to-toe with corporations or governments. Even terrorism is a global enterprise.

A digital world is flexible, not fixed. It does not organize itself along Maginot lines but into rapid deployment units. Its borders are neither holes in fences nor rigid lines on maps; they are smart and situational. If it helps Canada to place U.S. officials inside our borders, as we do at our major airports, we don't shudder at the possible offence to our sovereignty—which can be shared, as the Europeans have shown, just as easily as defended. And it cuts both ways: the Arctic ice cap is everyone's business. As is Greece's debt.

Our panel was struck by the observation of foreign affairs expert Anne Marie Slaughter, now head of policy planning at the U.S. State Department, that power in the old world was organized into hierarchies while in the digital world it revolves around networks. The goal, she writes, used to be to get to the top of

Game Changer: The multilateral system Canada championed for six-plus decades is a sprawling swirl of competing interests and demands, prompting new institutions to rise up around it.

Game Changer: Climate change represents the most difficult of threats, one situated in the future but demanding action today.

the heap; increasingly, it is to get to the centre of the network. A mid-size country like Canada may lack the capacity to climb to the top rung, but it certainly can build the connections to position itself in the middle of the action.

There is no limit to the connections Canada can have; the broader our network, the greater our chance of being in the right place at the right time, whether with another country, a foundation, corporation, NGO or diaspora community.

Political and economic power are far more diffuse and less predictable than anything we've experienced in generations.

## **WE MUST NOT BE LEFT BEHIND**

Brazil is successfully marketing itself as a reformist nation and a global environmental model — “the lungs of the planet” and the home of the Rio Earth Summit. It is a leader in biofuels, is moving to protect the Amazon and plays a prominent role in climate change negotiations. Now it is taking its domestic work on social inequality and agricultural development into the world. The GPS panel heard many times how Australia plays bigger on the world stage by focusing its efforts where it can make a difference, how Switzerland benefits by positioning itself as a country beside Europe but not constrained by its rules and how Norway—an energy-producing nation dedicated to a green-energy future and the hard-headed pursuit of social justice and peace in the world at large—is the new Canada.

We think Canadians would like *Canada* to be the new Canada.

It will take ambition and seriousness of intent. But we start from a position of strength. We enjoy the most secure borders within the most secure neighbourhood on Earth. Having wood to hew and water to draw is a major plus. We have a vast untapped Arctic, enduring allies in Europe and newer friends in Asia. To the south lies the most powerful nation on the planet, with whom we enjoy extraordinarily close economic, social, cultural and security ties.

Our nation is as open as any to the movement of people, goods, services and capital, but we must keep pushing. Twenty per cent of Canadians were born outside Canada, and that number is growing. Our diversity is broad; that no single group dominates is an important component of the success of Canadian pluralism. Many nations are coping with dwindling numbers of workers to support the retiring post-war baby boom generation; in Canada, our attitude to immigration gives us a leg up. Our openness is also a plus in attracting top talent to drive the innovative economy of the future. Our population represents a microcosm of the world—a nation of diasporas, which challenge us from time to time but enrich us always. On top of all this, we benefit from high education levels, fiscal prudence and political stability. These assets are not to be squandered.

We are not without flaws. Canadians display an unusual reticence to think in terms of national interests. We often seem to prefer the gauzy candescence of “values discussions” to the hard reality of producing a more prosperous and secure future. Our interests and our values are not at odds. But we must not fall into the trap of confusing policies that merely allow us to feel good from those that actually do good. If we do not advance our interests aggressively, we will quickly lose our ability to promote our values.

At a hinge point like now, Canadians might ask why we aren’t a more important player. That we have not been sufficiently serious about advancing our national

interests is clear from the fact that we have employed 16 ministers of external or foreign affairs over the past three decades, including four in the past four years, for an average tenure of less than two years. That falls to 18 months, if you exclude long-serving Joe Clark and Lloyd Axworthy. Some consistency up top would surely help us strategically.

In his famous treatise *Democracy in America*, Alexis de Toqueville popularized the concept of enlightened self-interest, in which one finds alignment between his or her own interests and those of the group. For Canada, enlightened self-interest—or what the prime minister has called enlightened sovereignty—provides a fine framework for going forward.

We are at a moment that demands candid discussions, tough calls and political courage.

## PRINCIPLES OF ACTION

Before we get into specific recommendations in the coming chapters, we have set out 12 principles for a global positioning strategy:

1. Develop clear international strategies and policies. The world outside matters to us more than ever and is changing rapidly. We need to confront the future and shape it to our advantage. A plan helps.
2. Enhance Canada’s global economic position. The prime objective of our diplomacy must be the well-being of Canadians. Only through economic success will Canada have the resources to pay for policies to make the country and world a more just place.
3. External relations are no longer a distant cousin of domestic policy but a sibling. With 23 federal departments and agencies represented abroad—and provinces, too—the line between domestic and international has blurred to the point of being almost meaningless.

Game Changer: Demographics challenge the developed and developing worlds. The latter has too much population growth and too few jobs. The former has too little population growth to support aging societies.

Game Changer: Nations are far too intertwined in the globalized world for sovereignty to trump all. It has become a relative concept.

Game Changer: Information technology allows individuals to maintain instant and constant connections with one another over long distances.

4. United we stand, divided we fall. For better or worse, Canada is a decentralized federation with constitutionally empowered sub-national units. Before we go overseas, we must broker necessary domestic trade-offs. The provinces are generally the implementers of policy in Canada; you need to win their cooperation upstream if you hope to execute agreements downstream.

5. National interests do not wear partisan badges. Of course, politics will always factor into decision-making, but the national interest is not served by sudden shifts in policy when governments change or opposition parties want to score points. Majority or minority Parliaments don't matter. We are talking here of the Canadian national interest.

6. Be constructive in our diplomacy. We do not want to be known as a country that speaks loudly and carries a little stick. Condemnation is easy and satisfying, but moralism is not a policy. To serve as a mediator, a problem-solver and an influencer means a willingness to speak softly and carry credibility on both sides of a dispute.

7. Be prepared to lead. In a networked era, governments that fail to take leadership risk having followership thrust upon them. In a U.S. planning exercise in late 2008, the authors contemplated a scenario in which nation-states fail to address global warming, see their legitimacy erode as extreme weather events occur and end up losing control of the agenda to a coalition of environmental and religious groups and philanthropic foundations. Governments that don't lead risk losing relevance.

8. There is no shame in being joiners, but the point is to produce results. We often mock ourselves for being members of so many clubs of nations. In a networked world all connections count, although some count more than others.

9. Stick with the plan. Canada has a distressing tendency toward stop-go policies. We are hot on China, then cold, then hot again. The same with Latin America. And development. As a mid-sized country, Canada must apply its resources carefully and give ample time to generate results and build influence. Patience is a virtue.

10. Live up to our commitments, which starts with being serious about the commitments we make. There is nothing more corrosive to our international credibility and confusing at home than the gaps between what we say about development-assistance goals or greenhouse gas-emission targets or peacekeeping and what we actually do.

11. National interests and values are not competing concepts. It would be nonsensical to imagine that our interests can be served by projecting values antithetical to Canadian sensibilities. Getting others to adopt our values serves our interests.

12. Knowledge is a tradable good. In an age in which brainpower has overtaken horsepower, Canada needs to hitch its future at home and in the world firmly to knowledge. Let's make Canada the centre of as many knowledge networks as possible.

## THE CANADA BRAND

It is up to Canadians to define their brand, the image we want people to visualize when they think about Canada. We are the makers of our own good name. And a good name matters. In a world of extraordinary mobility, it matters when competing for top talent and investments. It matters when we seek to trade or share knowledge with other countries. It matters when Canadians travel abroad. We want the world to see beyond moose and Mounties and think of Canada's dynamism.

Many of the visitors to our panel were frustrated by the lack of definition and passion around the Canada brand. The Vancouver Olympics provided a welcome exception and a good start in projecting the image of a contemporary, connected, competitive Canada. It is something to build on.

## We do not want to be known as a country that speaks loudly and carries a little stick.

We need to make a strong, credible and consistent case for the Canada we strive to be; otherwise, we will allow others to define us—at best, as that nice country of little consequence, or at worst, as the dirty oil country or the little brother of the U.S. or that nation that clubs innocent baby seals. That is brand noise a country can do without.

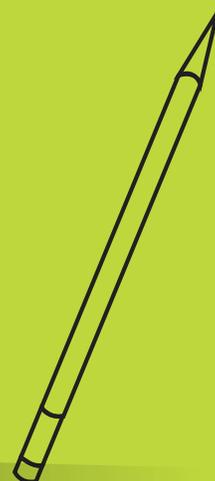
If we want to be known as an energy superpower—better yet, a clean-energy superpower—or the most diverse and welcoming land in the world or an international peacemaker and problem-solver or an Arctic power or the innovation nation, we need to work hard at being those things.

Throughout the pages of this report, we call on Canada to become the most open country in the world: open to ideas; open to one another; open to newcomers; open to investment, trade and technology; open to international partnerships; open, like our Olympians, to the benefits of competition and the uncompromising pursuit of excellence.

This is our Open Canada. It speaks to our aspirations—to our geography, our economy and our diversity. Simply put, we want the world to see Canada as the most global and networked country anywhere, because that is what we will be.

Canada is rightly alarmed  
that the border is too thick.  
Get out that eraser!

CANADA



UNITED STATES



## Chapter 1

# United States: The Burning Platform

In the middle of the 1988 national election campaign, the federal Liberal Party under John Turner scored big points with an ad that showed an American free trade negotiator taking an eraser to the Canada–U.S. border. Two decades on, Canada is rightly alarmed that the border is too thick. Get out that eraser!

The starting point for any serious analysis of Canada’s position in the world begins with the relationship that matters most, that with the only country we border by land. Geography and economics mean Canadian prosperity and security are inextricably linked to those of the United States. In 1988, with the re-election of the Mulroney government, Canada took the historic step of entering into a free trade agreement with the U.S., which was expanded to include Mexico in 1994. While imperfect, it delivered the promised prosperity without the feared loss of social programs.

But free trade is generating diminishing returns. The macro-economic ills of the U.S., particularly high public and household debt and trade and balance of payments deficits, gravely concern The GPS Panel. As does the sometimes infantile partisanship into which U.S. politics can descend at a time when they are so consequential. American voters are angry and suspicious. They have watched their economic prospects atrophy as manufacturing jobs move offshore and economic benefits flow toward an elite few. The social contract at the heart of free-enterprise America—some will benefit more than others, but all will benefit in some way—is broken. Any resulting loss of faith in the liberal international order is a matter of great concern for Canadians.

Some are losing heart. We are struck by a passage written by Allan Gotlieb, Canada’s former ambassador to Washington and under-secretary of external affairs, in a book that appeared this spring. One of Canada’s foremost advocates of continental solutions, Gotlieb said Washington’s “unreformed entitlements and undisciplined borrowing are hobbling America’s power to be a world leader” and warned about “Canada’s prospects if we are so closely tied to an America with major economic problems.”

Of course, we are closely tied to our neighbours, and Mr. Gotlieb is hardly writing off the relationship. But we have to consider the risk factors. About 25 per cent of Canadian GDP derives from exports to the U.S. Some commentators argue that the U.S. is also reliant on the Canadian market and so shares our level of interest in a smooth-flowing border. Unfortunately, this fails to take into account the paramountcy of national security in the American psyche and the fact that just 2.2 per cent of U.S. economic activity is directly tied to Canadian markets. The numbers are wildly asymmetrical.

### 9/11 AND THE HARD BORDER

The troubles for the free trade era began in earnest on September 11, 2001. Signs that economic integration was producing diminishing returns were showing up even before then. But Canada was working toward a less intrusive border and had made some progress with a 1999 agreement called the Canada–U.S. Security Partnership. Then came the attacks on the Twin Towers and Pentagon, and the gates slammed shut. Since they have re-opened, an increasing number of obstacles have impeded and frustrated commercial shipments and travelers.

With the attacks, two sides of globalization—the economic benefits of international supply chains and the dangers of international terrorist networks—collided. The creation of the Department of Homeland Security within two weeks of 9/11 gave security the upper hand. We have borne witness to the economic impacts.

In the first 12 years of free trade (1988 to 2000), exports of goods to the U.S. multiplied 3.5 times from roughly \$100 billion to \$360 billion. The high-water mark of Canadian exports consumed by Americans was 87 per cent, reached in the 2000–2002 period.

From that point forward, our exports stalled in total dollar terms. Between 2002 and 2008, merchandise exports (excluding energy) dropped from \$300 billion to \$250 billion, almost a 20 per cent decline. All told, the proportion of exports going to the U.S. has lost 12 percentage points—to about 75 per cent—since

9/11, retreating toward pre-free trade levels. Only rapid growth in energy sales, which are transported through pipelines and over electricity grids and so are not subject to the same security pressures, has kept the total volume of exports on a relatively even keel.

The road to influence does not run in a straight line from Ottawa to Washington; it wends its way around the world. Mattering around the globe is what will make us matter more in its seat of power.

Nobody can measure precisely how much of this erosion can be attributed to a strengthening Canadian dollar. Canada's poor productivity has also harmed our competitive position. But the border, with its endless paperwork and inspections—and now Predator drones—has definitely hurt. One of the most sobering observations made to our panel was that “the longest undefended border in the world” may now be one of the most fortified borders between democratic states. The German–French frontier, crossed by menacing battalions three times between 1870 and 1940, today is a paragon of openness compared with our frontier—no passport control, no biometric scans, no Predator drones. While Europe and even Asia march toward greater economic integration, North America moves in the opposite direction. One study placed the cost to Canada of border delays at \$1 million an hour.

Nothing The GPS Panel has considered imperils Canada's vital national interests more than obstacles to a free-flowing Canada–U.S. border. If the border were to grow even thicker or close for a period altogether (likely in response to a terrorist attack with a real or perceived Canadian connection), the Canadian economy would be thrown into crisis. The nearly 20 per cent of our economic activity that crosses land borders could be shut in. Twenty per cent is a big, big number! A border closure of any length would cost Canadians tens if not hundreds of thousands of jobs and conceivably bring



# Canada's deteriorating trade position

As a trading nation, Canada has been losing ground since 2000.

## GOODS AND SERVICES (Million Dollars)

	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008
Exports to the world	162.8	174.4	188.6	260.9	320.0	377.4	489.1	477.5	494.4	522.6	560.3
Exports to the U.S.	116.9	124.1	137.5	199.9	244.8	298.6	395.6	384.4	388.0	398.2	407.7

## TRADE AS A SHARE OF GDP (Million Dollars)

	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008
Exports to the world	26.6	25.7	26.9	33.8	38.2	41.2	45.4	41.4	38.3	36.1	35.0
Exports to the U.S.	19.1	18.3	19.6	25.9	29.3	32.6	36.7	33.3	30.1	27.5	25.5

Source: Statistics Canada CANSIM database

on a recession. It would undermine Canada's entire inward investment strategy, predicated as it is on ease of entry to the North American Free Trade Agreement (NAFTA) zone.

Next to Afghanistan and Pakistan, Canada and Mexico could become the countries most damaged by the fallout from 9/11. This is not science fiction; it is a pessimistic but reasonable scenario that demands a plan of action.

Canadians need to understand we enjoy no *right* of access to the United States. It is *their* border too, and they can harden it as they like. With every actual or attempted attack on the U.S.—the failed bombing of a Detroit-bound plane last Christmas Day is a recent example—Homeland Security has battered down the

hatches. It may seem a disproportionate reaction, but it must be reckoned with.

The question for Canadians is how far they would be willing to go to calm U.S. security concerns. Nearly 225,000 Canadians and 90,000 Americans, for example, are enrolled in the Nexus pre-clearance program through which they gain expedited border access in exchange for personal information, including an iris scan. Are more Canadians willing to provide U.S. authorities with personal data for the right to enter the U.S.? Is it worse to provide data in advance rather than at the border? Would Canadians feel better if this data was collected by their own government and shared on a reciprocal basis? Or would we rather stay home and pay a price?

Between 2005 and 2007, Canada and the U.S. tried to negotiate an agreement to build a joint border station that would have resituated American border officials from Buffalo to a larger, more efficient site on the Canadian side of the Peace Bridge. Traffic congestion would have cleared up considerably, facilitating commerce, but the talks broke down over Canadian disapproval of U.S. practices, such as keeping fingerprints from persons of interest who suddenly withdrew their request to enter the U.S. Canada said that under its law, a U.S. border agent could search and question such a person but not fingerprint them. With this and several other sticking points, the U.S. customs officials withdrew to their side of the bridge. An opportunity to “thin” the border was lost.

Canadians need to ask themselves how bothered they would be—and whether the charter would have truly been violated—if those fingerprints had been kept on file? Would we begrudge truckers who volunteer to give their fingerprints in exchange for speedier passage? Where do we draw the line between economic good and liberties bad?

At one point, the negotiators considered a small land swap that would give the U.S. control of the several acres on which their post would have been located in exchange for Canadian ownership of land at another post inside the U.S. Could we live with that?

Much is at stake. The GPS Panel believes these are the kinds of conversations our elected officials need to lead.

Canada must manage uncertain prospects with the United States. We must *deepen* our U.S. connections while we *broaden* our economic portfolio away from heavy reliance on a single market. A single approach won't work. Broadening markets is difficult at the best of times and is aggravated by Canada's dearth of commercial connections anywhere but to the south. With the U.S. we enjoy a large trade surplus. In the rest of the world, unlike with the U.S., we have failed to create mutually beneficial supply chains. We sell

less than we buy and fall into deficit. The sad fact is that there is no other market in the world where we currently make a serious dent.

Deepening our relationship with the U.S. will also be tough but can't be escaped. A weariness has set in among Canadian policy-makers repeatedly stymied in attempts to take continental cooperation to the next level. But too much is at stake for Canada to give up.

To stay in the game, Canada must start by rebuilding influence in Washington. Canadians have benefitted in past from exemptions to measures that restricted the access of other countries to the U.S. market. These free passes, usually assisted by personal and political relations built over time, are becoming increasingly difficult to obtain as our relevance with the administration declines, Congress turns ever inward and Homeland Security fortifies the border with more and more red tape.

To insulate ourselves from U.S. political capriciousness or border hardening, we need to become America's indispensable ally. That may sound subservient to some Canadians, but it falls within the best traditions of independent Canadian internationalism. The relative decline of American influence means it has to reach out to trusted allies. Canada does not need to play little brother to the U.S. to stay in the family—just the opposite. Still, progress will require mature bipartisan leadership. Any attempt to exploit this for political gain will scupper a deepening of Canada's national interest.

The longest undefended border in the world may now be one of the most fortified borders between democratic states. The German–French frontier today is a paragon of openness compared with our frontier.

The road to influence does not run in a straight line from Ottawa to Washington; rather, it wends its way around the world. Bilateral discussions that cast Canada as a chronic *demandeur* on the *issue du jour* will not win respect in the imperial capital; mattering around the globe is what will make us matter more in its seat of power. When Prime Minister Brian Mulroney could stop in and give President George H. Bush insights from his latest meeting with Gorbachev or Thatcher, Canada earned currency in Washington. Stepping up in Afghanistan and Haiti made Canada more relevant in the world and, by extension, in Washington. Hard power or soft power, it makes no difference. What does is putting our money where our mouth is as an international problem-solver, building networks and making connections. That's how we gain—and trade—influence.

The GPS Panel believes that only after establishing ourselves as serious and useful global players, with our own assets and insights to bring to bear, will we be embraced as an ally worthy of serious treatment rather than a friend subject to benign neglect. Since NAFTA, the notion of deepening relations with the U.S. has revolved around the idea of whether some sort of Grand Bargain could be struck—a customs union, common market or security perimeter, say—that would complete the architecture of the free trade agreement. The great stumbling block for Grand Bargain advocates was political: For many Canadians, the default judgment on deal-making with the U.S. was that it amounted to a surrender of sovereignty. Now the problem is just as much the rigidities and obsessions of U.S. politics. The Department of Homeland Security is not about to outsource its security to facilitate greater Canadian economic access; Congress will not allow a dispute-settlement process to frustrate its political rights of obstruction. The Grand Bargain adherents may have the right vision, but it is the wrong time.

If a Big Bang is out, the best policy approach is a series of little bangs, a steady drumbeat of small gains that build confidence and momentum toward a more

ambitious plan at a more propitious date. Canada's diplomatic strategy must be to find vehicles (or deepen existing ones) through which the two countries can better pool their assets to mutual advantage. The U.S., by virtue of its size, will hold more sway in any bargaining, but Canada almost always benefits disproportionately from a formal agreement—whether from an auto pact, a free trade deal, an acid rain agreement or an aerospace defence accord.

## START WITH SMARTER BORDERS

Smart Borders was a Canadian initiative in the wake of 9/11 that made things better, for a while. Today our borders are once again exhibiting substandard intelligence. Trucks travel half-filled or sit idling near border posts because of inefficient processing procedures. The economic advantage goes to our competitors. A German-made automobile needs to cross the border into Canada just once. A North American-made car will shuttle across the 49th parallel in its various stages of completion an average of seven times. In the spirit of the auto pact and the free trade agreement, we constructed a border-blind industrial auto cluster in the heart of North America, but we hobble it with stupid border tricks.

These problems cannot be solved overnight. In the interim, **The GPS Panel recommends:**

**Build common border postings.** A rational border system should reflect the economic integration and friendship between the two countries. Start with the construction of joint border postings featuring the most modern facilities and technologies. If land swaps are necessary as a way to replace narrow chokepoints with more open spaces, they will do much good and little harm. Working side by side, the two border services can build the kind of trust and connections that will deliver returns down the road. We can start with the dozens of rural posts that need to be rebuilt or consolidated. The next step should be co-management and European-

style mutual recognition of each other's inspections, as already exists in some seaports. Some have called for a Permanent Joint Border Commission or a "NORAD" of border control. Any arrangement that lets us remind the Americans that North America is a single economic space can only serve Canada's interests.

**Rebuild border infrastructure.** Start with the interminably discussed Detroit–Windsor bridge. Trade volumes should bounce back some after their sharp recession-induced drop. We have breathing space before the congestion builds again to get on with fixing long-term problems.

**Organize a grassroots network.** Mobilize border communities, local businesses and others in a grassroots process similar to the Canada–U.S. Partnership of the late 1990s, with the goal of creating a border to the mutual benefit of the citizens of both countries. The border dialogue should not belong to national governments and cannot, for Canada's sake, be allowed to be monopolized by law-enforcement agencies. Other interests and networks (such as regional groupings of governors and premiers) are already plugging into an ongoing improvement of border practices. Selling the idea of a joint border must come from the bottom up.

**Promote labour mobility.** Build momentum toward the ultimate goal of free movement of people by granting the spouses of permitted workers employment status within Canada and the U.S. Expand the number of professions that qualify for non-immigrant NAFTA work visas.

**Adopt common regulations.** Neither country is served by different standards of cheese content in cheese popcorn or safety requirements for trucks. This spring, the two countries jointly announced common fuel-efficiency standards. Build on that. These are non-tariff barriers to trade. As countries with similar values, we should trust one another on regulations, as the Europeans do. As one of our

presenters asked rhetorically, is it better to be better or is it better to be the same?

We also need to start working together on common problems (as we did in Afghanistan), such as energy and environment issues, Arctic safety and security and the internal challenges of our common NAFTA partner, Mexico. When bad things happen, we will require the goodwill of personal connections, not just prime ministers and presidents but at all levels of influence. The more common pursuits, the better.

The U.S. casts a giant shadow over Canada; everybody and nobody is responsible for the relationship. Canadians assume they understand their neighbours yet they are continuously surprised by the actions of the administration, Congress and state governments. And we understand almost nothing about Mexico.

We recommend the creation of a richly endowed Centre for North America charged with furthering the interests of a smoothly functioning continent. This is a relationship we cannot afford to get wrong.

Our little bangs are not meant to be the end of the story. Canada's long-term goal should remain a big bang, such as customs unions that facilitate commerce between both countries without surrendering sovereignty in areas that matter to Canadians. This is not simply the trading relationship of old; as several of our presenters said, we do not trade with each other so much as we make things together.

## **DON'T COUNT THEM OUT**

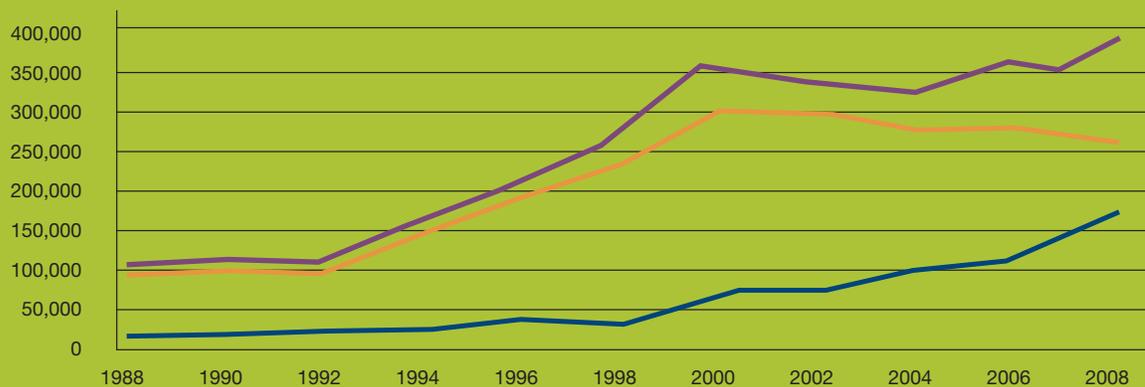
It may be the current conventional wisdom that the U.S. is in decline, but Canadians would be wise not to write off a country that has successfully created and recreated itself over the past century. As we obsess about the rise of China, we should remember that the conventional wisdom in the 1980s was that Japan would have eclipsed the U.S. by now. The capacity of others to stumble and the capacity of the U.S. to soar anew should never be discounted.

## Canadian merchandise exports to the U.S.

Total Exports to U.S.

Total Non-Energy Exports to U.S.

Total Energy Exports to U.S.



Source: Statistics Canada. "Canadian International Merchandise Trade" (Customs basis)

In her rallying cry for America published last year, Anne Marie Slaughter, director of policy planning for the U.S. State Department, argued eloquently against all those who say that America is in decline. She noted that in 2003, the University of California alone had more patents than either India or China, which she ascribed to a culture of constructive conflict and innovation that "requires saying what you think, rather than what you believe your boss wants to hear"—a culture for which, she said, the U.S. is ideally suited and China, with its intolerance of dissent, is poorly suited. Despite its fiscal woes, California, a state about the size of Canada, has been ground zero to successive waves of innovation—in electronics, computers, networking, biotechnology—since Hewlett and Packard launched Silicon Valley from their garage. And it looks likely to do it again with extraordinary advances in clean energy.

A prudent investor would view this record of constant reinvention and be cautious about giving up too quickly on the U.S.

Even in decline, it will remain the richest country and greatest power in the world for some time to come. The ultimate narrative of the new multipolar era will not be written for decades. Will the U.S. decline in the way of the British Empire? Will China's rise burn out in the way of Japan? Will they stand above the rest in a functional dual-superpower system? We simply don't know, which is why Canada needs to hedge its bet on the U.S. and make new friends elsewhere, while deepening our relationship with our best friend.

There is no good  
multilateralism and bad  
multilateralism. There is no  
prestige in merely being at  
a table.





## Chapter 2

# Multilateralism: The Revolution

Canada has opted for a double-clutch approach to foreign affairs since the Second World War: Either we pressed on the continental pedal or we pressed on the multilateral pedal. We fretted about taking our orders from the United States, then we moaned about surrendering our decision-making to the United Nations. More often than not, multilateralism was treated as a counterbalance to continentalism.

Everything has changed in the multipolar world, the multilateral game with it. The old one-member, one-vote clubs of nations are losing altitude. The UN and World Trade Organization, with their huge memberships (the UN has 192 member-states) and consensus-style decision-making, are too unwieldy to deliver timely results. Exclusive clubs such as the G8, meanwhile, aren't representative of the new global power structures.

The economic crisis and last year's climate change talks in Copenhagen shone a cruel light on the aging multilateral system. In the first case, the G8's exclusion of some of the largest economic players was unsustainable, breathing life into the G20. In the second case, too many players, too many agendas and too little cohesion among the big countries proved a recipe for chaos, inaction and recrimination.

The increasing interdependence of the global order means multilateralism must be re-invented. It should re-emerge looking less like a private club and more like a social network, with different players—not all of them necessarily governments—online at different times on different issues.

Canada, a gifted hand at the old multilateralism, must master the new game or surrender influence. The group of nations that serve as unofficial steering committees on global issues, such as the G8 and perhaps in future the G20, give Canada a voice in the most important international discussions. They also confer on us a responsibility, unlike some middle powers, to be fully engaged globally.

Canada cannot be seen to be ambivalent about the G20. We cannot be seen to prefer that the G8 remain the main clubhouse. This might be fine for a while, but the G8 is not sustainable as a global executive committee in a world in which China, India and Brazil are increasingly engaged beyond their regions. The biggest mistake we can make is to not properly respect “the rise of the rest”, even if many of the emerging G20 nations are ambivalent themselves about global leadership. Canada’s long-term interest lies in an expanded club. If the G8 survives, it could do so in a form that may not have room for Canada. Remember, we were only admitted to the G7 in the first place at the insistence of the U.S.

It was precisely our tenuous grip on the G8 that prompted Canada to manoeuvre for a G20. It was an idea for the times, and we could be reasonably sure of securing a seat at the table, especially if we were there to assemble it. But the G20 still must prove its staying power. Can it be more than a talking shop once it loses its economic-stabilization focus? Can it keep itself from growing to an unmanageable number as happened at the Pittsburgh summit last year, when the 20 oddly became 34?

Canada can help solidify the G20. Creating the much-talked-about secretariat seems unlikely now. But Canada already possesses a great deal of expertise in global governance. One might need permission to become the secretariat for the G20. But none would be required for the government to put together an unofficial and influential G20 think-tank upon which other member countries could draw, one that could eventually evolve into a full-fledged secretariat.

One way or another, the architecture of global governance is going to reflect new power relations. Whether we end up with a G2 or G3 alongside a G20 or whether they morph, as France has suggested, into a G13 or G14, it is too early to know. But if Canada wants to be inside the right club, we better find ways to be useful and design strategies to make it so. Hosting the G8 and G20 this summer is a fine moment in time, but it hardly constitutes a strategy.

Similar issues are playing out on a regional basis, including within our hemisphere and in Asia. Canada turned a cold shoulder to the Trans Pacific Partnership, an eclectic free trade grouping that now looks attractive to us. Too late. We are also absent from the scene as Asia mulls over new regional governance arrangements for a continent whose economies are being drawn more tightly together. If Canada, as a North American country, thinks it lies outside those discussions, it will have more regrets in future. Australia, a main competitor in Asia, is intimately involved in various deliberations. And under President Obama, the U.S. is positioning itself increasingly as a Pacific nation and engaging in regional discussions. It is better to have more connections than fewer. The trick is to be disciplined about the relative importance of them. Asia is high on anybody’s list.

## **HOW CANADA SHOULD POSITION ITSELF**

Multilateralism is a means to an end—that’s the first point to understand. Our diplomatic corps sometimes treats the multilateral system—the UN, in particular—in quasi-religious terms, where fealty and process matter more than results. There is no good multilateralism and bad multilateralism. There is no prestige in merely being at a table. All that matters is results.

The second point is to stop viewing our multilateral involvement as a counterweight to the U.S. That is old-school thinking. Multilateralism engages us with the world on common issues, from Millennium Development Goals and climate change to nuclear proliferation and the threat of terrorism. The U.S. is interested in all of those problems, too, and was an important partner this spring with our co-ordinated contributions to a new agricultural development initiative managed by the World Bank.

Mattering more multilaterally will also help us matter more in Washington, and vice versa. This is especially so given that the U.S. recognizes the high economic and political cost it has paid for its rampant unilateralism of recent times. Right now it needs friends more than ever. Who better to work with the

U.S. at the multilateral game than the grizzled veteran Canada? We operated effectively together after the earthquake in Haiti, thanks partly to the trust between our militaries and a shared approach to security and development imported from Afghanistan. We have much more we can do together. We control nuclear materials and also apply scientific solutions to global problems in health care and agricultural production, to give two examples.

### LESS PEACEKEEPING

Until 1990, Canada participated in every single United Nations peacekeeping mission. Today Canada ranks just 56th among contributing nations with 170 peacekeepers spread over 13 missions.

### THE GOLDEN AGE

If Canada wants to rebuild diplomatic influence in the world, we should start by learning from past successes—minus the myths and misconceptions that distort our understanding of the so-called golden age of diplomacy. Canada was instrumental in the post-war years in building multilateral institutions and shaping them to our interests, including the GATT and NATO. The Suez Crisis marks one of our finest hours, giving the world Canada's gift of peacekeeping and earning External Affairs Minister Lester Pearson the only Nobel Peace Prize ever awarded to a Canadian.

But let's not forget that Pearson, the golden boy of the golden age, was neither an idealist nor a romantic but a hard-headed foreign-policy realist steeped in the ways of the world and skilled at the arts of diplomatic

persuasion. Suez for him was largely an attempt to tidy an ugly diplomatic mess that had ensnared our three most important partners—the U.S., Britain and France—and threatened the unity of the North Atlantic alliance at the height of the Cold War.

Pearson understood, as should we, that Canada was not a free agent operating outside the Great Power rivalry of the day but rather a nimble and able-bodied member of an alliance. He and other top diplomats of the era were respected at home and abroad for their knowledge of the nuances of world affairs and their high ambition for Canada to contribute to and benefit from a more secure and prosperous world. As an energetic global player with lots to say, Canada had a voice in Washington as well as in most other world capitals.

The precise conditions under which Canada operated then will not be replicated. Canada had the advantage of being one of the last men standing in a world in which Europe and much of Asia were shattered by the war, China was further wracked by civil conflict and revolution and India and much of Africa were shaking off colonialism. Still, we saw our market openings and acted—just as other talented practitioners of foreign affairs, such as Brian Mulroney and Lloyd Axworthy, would do in different contexts.

Canada has a more challenging road today. Its economy has fallen in relative weight to 10th or 11th in the world. Emerging or in some cases re-emerging powers such as China, India, Brazil and Russia—the BRIC countries—have pushed ahead of us. PricewaterhouseCoopers predicts that a so-called E7, the BRIC countries plus Mexico, Indonesia and Turkey, will surpass the overall size of G7 economies in the coming years and that each of these E7 nations plus several others will outgun the Canadian economy before mid-century.

This means Canada will have to work that much harder to find spots where we can exercise leadership, such as the Arctic Council, yet another Canadian creation,

and global financial regulation. Today, our international finance officials stand out the same way our foreign service officers once did.

The financial crisis has presented us with a mini-Suez moment. We have our own interests at stake and helping our friends and allies find a way out of the jam serves those interests alongside the greater good. We can show them what we learned digging ourselves out from 20-plus years of deficits and how we did it without igniting riots in the streets. We can show them how prudent financial regulation and market principles can co-exist. We can apply our knowledge and credibility to the development of some kind of ‘peacekeepers of the financial order. It is a time to play big.

In that spirit, the GPS Panel proposes two other multilateral strategies designed to contribute to a better world and enhance Canada’s brand and influence.

## KNOWLEDGE DIPLOMACY

The GPS Panel recommends that our governments, universities, foundations and private sector invest in creating world-leading knowledge centres of international excellence in Canada that will act as magnets for talent and make Canada a solutions provider on global challenges.

For relatively small investments and potentially large payoffs, Canada can lead on a number of important international files where we already have significant expertise and comparative advantage, reinforcing our brand as an innovative nation open to the best ideas. For instance:

- As part of an oil sands strategy, we should set up a **Centre for the Clean Recovery of Non-conventional Hydrocarbon Resources** and impart the knowledge we apply in northern Alberta to those facing their own unconventional hydrocarbon challenges.

- As a pioneer in the significant global experiment of managing a spectacularly diverse society, we should set up a **Centre of Diversity and Cohesion** that can disseminate lessons learned in developing Open Canada, ones other countries will need to grapple with.

- Water will become a geopolitical issue in the coming decades. Canada could be vulnerable to pressures to share our resources. A **Centre for Water Resources** can put us ahead on this vital global issue and allow us to trade in knowledge about water rather than trading water itself, should we determine that appearances are deceiving and most of our water is neither accessible nor renewable.

- Canada is one of the most enduring federated democracies in the world. We should make a concerted contribution to the spread of democratic values, as called for in the 2008 Throne Speech, by consolidating a variety of smaller players into a **Canadian Centre for Democratic Development**, perhaps as an arm of Parliament, the ultimate expression of Canadian democracy.

We understand peacekeeping and have honed our skills at the rougher stuff of peacemaking in Afghanistan.

All of these centres should be public-private partnerships, subject to peer review and free of political influence.

Canada also needs to move forward aggressively in international education, a great bridge builder. As the Association of Universities and Colleges of Canada says: “By attracting international students to study in Canada, universities play a central role in providing Canadians with connections to highly qualified people and ideas around the world.”

The GPS Panel recommends a three-pronged knowledge diplomacy approach:

1. A marquee international scholarship program that will build lifelong connections with future leaders in developing countries.
2. Significantly increased federal support for global studies and language programs at Canadian universities, including stipends for placements abroad.
3. The creation of Canadian Overseas university and polytechnic campuses in strategic locations. We recommend, for a start, partnerships in three countries—China, India and Mexico—with students drawn from both Canada and the host country. This would go well beyond the ad hoc partnerships between Canadian and foreign institutions.

The GPS Panel was struck by an observation made in a different context by political scientists Janice Gross-Stein, director of the Munk Centre for International Studies at the University of Toronto, and Steven Weber of the University of California at Berkeley. Speaking of the U.S., they remarked how its allies would welcome its repositioning “as a post-ideological, technocratic problem-solver providing basic human needs like clean water and vaccinations in a world that is tiring of ideological battles.”

Canada should not only look favourably on such an approach, it should be at the forefront of it.

## **A POST-AFGHANISTAN FAILING STATES STRATEGY**

Canada will come out of Afghanistan next summer a different country, one with greatly enhanced hard power assets and a rediscovered tolerance for sacrifice. Given the mission’s relatively high casualties and uncertain outcomes, Canadians can be expected to ask, what comes next? Some will prefer further “coalitions of the willing” operating in hostile situations, others a return to what they consider “traditional peacekeeping.” Either way, it is difficult to imagine returning our renewed military machine to the barracks.

More importantly, such a debate misses the point. The GPS Panel heard over and over that future interventions will represent some kind of messy synthesis of war and peace. Like it or not, the world has moved on from the polite green lines of the 1950s and 1960s, and almost all interventions will come with a need to blend security and defence with development and democracy building.

We feel it would be a shame to allow the human losses and incredible learning from Afghanistan to go to waste. If post-2011 we withdraw into passivity or isolationism, it will be another of those stop-go demonstrations that hinder our influence in the world. Some 40,000 Canadian soldiers will have rotated through Afghanistan, most of them now practiced in the hard and soft arts of counterinsurgency work. We have gained skills; let’s put them to use to improve the lot of humankind and make our mark in the world.

Post-Afghanistan, Canada can help weak states from falling over the abyss and help post-conflict states rebuild. Failing and failed states present some of the gravest security threats and greatest development challenges in the world today. From Haiti to Somalia, from Afghanistan to Zimbabwe—and, one hopes, not Pakistan—we can see how they become breeding grounds for regional instability and violence. In the Cold War era, there were fewer failed states because one of the two competing superpowers, the U.S. or the Soviet Union, almost invariably moved in to wield influence. Today it is just as often criminal gangs and terrorists who fill the void. The horror scenario would be the juxtaposition of failed states and nuclear weapons. Ignore this at our peril.

A stabilization specialty can be one of Canada’s main contributions to global order. We carry no colonial baggage, as a former colony ourselves. We are good at nation building, understanding accommodation in our bones, including the genius of federalism. We are skilled at policing and constitution-making, free press and the rule of law. We know how to collect taxes and conduct fair elections. We understand peacekeeping and have honed our skills at the

rougher stuff of peacemaking in Afghanistan. With new military capacity, particularly heavy-lift transport planes, Canada can fill the rapid deployment void and put military, diplomatic and civilian personnel in place in the first critical weeks of a crisis or after a ceasefire. We have come a long way on the learning curve in uniting the culturally distinct worlds of physical security, diplomacy, development and democracy-building.

As a G8 and NATO nation, we want where possible to work with our allies, or widen the net to engage other countries such as India, Mexico and Brazil. We may want to specialize in our hemisphere, as with Haiti, and in preventative diplomacy to ward off democratic breakdowns. But wherever and with whomever we may go in future, we have to be prepared, once committed, to stick it out.

The GPS Panel recommends that Canada carve out a post-Afghanistan specialty to help stabilize weak states and rebuild their capacities to govern their territories effectively. This would involve military, diplomatic and development efforts under the coordinating leadership of the Stabilization and Reconstruction Task Force (START) in the Department of Foreign Affairs and International Trade.

No doctrine can fully anticipate individual circumstances, but we suggest Canadian policy-makers ask themselves four questions before responding to a request for intervention:

1. Do we have the kind of political, economic, linguistic, cultural or diaspora connections that will help us understand the forces at play and the capacities the failing states require?
2. Can the intervention rally sufficient and sustained public support in Canada, particularly in light of the inevitable instances of illiberal, undemocratic and corrupt behaviour by the parties we are assisting?
3. How important—for security, humanitarian, development or diplomatic reasons—is the fragile state to Canada and our allies?

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## G20 members

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### EUROPE

European Union  
France  
Germany  
Italy  
Russia  
Turkey  
United Kingdom

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### NORTH AMERICA

Canada  
Mexico  
United States

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### SOUTH AMERICA

Argentina  
Brazil

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### ASIA

Australia  
China  
India  
Indonesia  
Japan  
South Korea

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### MIDDLE EAST

Saudi Arabia

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### AFRICA

South Africa

4. Finally, can we define success in the short, medium and long term, and can we be reasonably confident about achieving it?

Not all of these questions necessarily require affirmative responses, but foreign expeditions are ultra-serious undertakings. All of these points should be fully ventilated before we go outside our borders.

We should consider also whether to accompany a weak states strategy with a re-assessment of our virtual withdrawal from UN peacekeeping over the past decade and a half. The tragedy of Rwanda and the travesty of under-armed and unduly restricted peacekeeping missions in the former Yugoslavia forced the UN to address the shortcomings that resulted in countries such as Canada—already feeling budget pressures—to reduce their involvement. We should examine whether these reforms have gone far enough to satisfy us.

While it is unlikely at this point that Canada will place our soldiers beyond our own command, we should consider accepting the command of a UN mission ourselves, as the British did in Sierra Leone. Although Canada's military is not large, it operates at the highest levels. It possesses both the capacity to lead missions and to train and mentor the many less skilled national militaries that are serving on UN missions today.

Of course, a failing states strategy must involve more than the military and might sometimes not involve the military at all. We have learned a great deal in

Afghanistan, often by trial and error, about so-called “whole of government” approaches. We are not yet where we need to be. The coordinating role of START is just that—a start. More work must be done to break down silos and suspicions and join up functions even beyond government.

Canada's assistance needs to be consistent with our own expectations of good government, basic freedoms and the rule of law. While the Canadian government and others currently sponsor civilian experts to work in many countries, **The GPS Panel recommends a more concerted and organized effort to recruit a rapid deployment force of civilian specialists in such fields as policing, law, media, engineering, health care, education and public administration. This civilian reserve should be trained to work in conflict zones and be prepared to be seconded from their regular jobs and activated for a two- to six-month deployment on short notice. A whole-of-government approach is a step forward, but we are thinking of a broader *whole-of-society* approach.**

Canada helped rebuild legal, media, policing and other institutions in post-apartheid South Africa, which served our national interest by creating closer ties to an influential state. We can make a significant contribution to world order with a failing states strategy, serving our consciences in providing a hand up to the weak and serving our interests at the same time. The two objectives are compatible with Canadian traditions.

Young Canadians would just as soon move to San Jose or Shanghai than settle for being third-rate physicists or animators in second-rate institutions. We need to make sure that they can be first rate right here at home.





## Chapter 3

# Prosperity: A Gold Medal Nation

Would Canadians rather be known as a nation of seal hunters or of medical isotope makers? Canada keeps trying to convince our trading partners of the moral rectitude of seal meat. Government ministers give photo-ops eating seal; MPs recently had seal added to the menu of the Parliamentary restaurant; seals figured prominently at a G7 finance ministers meeting in Iqaluit. We are spending too much time on an industry that generated \$13 million a year in revenues in 2008, about 12 minutes' worth of Canada's yearly exports of goods and services and just three hours' worth of oil sands production.

Meanwhile, not one minister went to Chalk River to reassure our allies that the medical isotopes they need for the health of their populations are being safeguarded. Canada is a uranium and nuclear medicine superpower that supplies about half of the medical isotopes in the world. It is an industry worth fighting for.

What's wrong with this picture? What does Canada wants to be when it grows up—the land of the fur trade or an innovation nation whose prosperity flows from its brainpower? These are not mutually exclusive choices, but they call for different priorities and strategies.

Canada is falling behind on investment and innovation, and even that old stalwart, trade. In a world of unrelenting competition, those who adapt and adapt again—and then again—inheriting the Earth. Unfortunately, Canada ranks below the OECD average on research and development, a leading indicator of the economy of tomorrow.

Our resource riches give us a significant leg up in the world, but they aren't enough to ensure a prosperous future. We need to innovate and plug into the dynamism of the emerging economies. We should not view them as competitors threatening our well-being. As one of our presenters observed, economics, unlike politics, is not a zero sum game. An expanding economic pie feeds everyone.

Young Canadians have grown up in a digitally connected age; they swim in a global pool. They would just as soon move to San Jose or Shanghai than settle for being third-rate physicists or animators in second-rate institutions. We need to make sure that they can be first rate right here in Canada.

Let's return to the example of our Olympians for a moment. Intense domestic competition teaches us to be faster and stronger—and better prepared to compete internationally. We need to back winners with economic policies that provide state-of-the-art equipment and training. It is tempting to stick with the tried and true, but just as we don't support athletes past their prime, a country focused on prosperity promotes the industries of the future rather than protecting those of the past. Canada can be a gold-medal nation and provide the opportunity our young people expect—not once every four years but day in and day out.

## INNOVATION NATION

All nations prosper from the spread of innovation (think electricity or computers), but the first movers benefit disproportionately. Unfortunately, Canada is too often a late adopter.

The OECD numbers are supported by the Conference Board of Canada's research, which ranks Canada's innovation 14th out of 17 countries and next to last in the G7. "Overall, countries that are more innovative are passing Canada on measures such as income per capita, productivity and the quality of social programs," the Conference Board concluded in a recent study.

International research and development spending doubled in the last decade. Canada picked up its game through a number of public-spending initiatives but not nearly fast enough, especially in the private sector. R&D spending in Canada in 2007 was 1.9 per cent of GDP, below the OECD average and even further below the G7 average. In relation to the size of our economy, total R&D fell between 2004 and 2008, with the private sector lagging and particularly

shallow. Just ten firms have accounted for one third of all of our business R&D for the past 20 years. New measures are priming the pump, but Canadian businesses would have to increase their spending to \$26 billion from \$16 billion to catch up with the OECD average, according to Kevin Lynch, former deputy minister of industry and finance and clerk of the Privy Council. And rules around government incentives can be perverse—paying out to banks updating software, for example, but not necessarily to new biotech research firms.

## VOTING RIGHTS

Canadians who live out of the country for more than five years lose their right to vote. Some countries, such as Italy, France and Greece, allot special legislative representation to expatriates. We would not go that far, but The GPS Panel believes that voting rights should be extended indefinitely to Canadians who have been schooled in Canada or who have passed citizenship examinations. A global population is an advantage, not a reason to strip away rights.

The world's top R&D spender at nearly 5 per cent is Israel, a giant in patents, high-tech start-ups and venture capital financing. The OECD average is closer to 2 per cent. **The GPS Panel recommends that Canada set a national research and development target of 3 per cent of GDP through increases in spending and tax incentives.** This will put us almost in line with Sweden, Finland, Korea and Japan and catch us up with where the United States is heading.

Each of these countries has mutually reinforcing policies. Canada is not good at matching its science discovery to firms that can exploit it for commercial advantage. At home, we need to bridge public and private, inventors and investors, industry and university. Out in the world, we need many more science and technology collaborations like the ones we have with Israel and California and more places where we lead, as with stem cell research. Canada is top notch, particularly in medical sciences. But we are not leveraging this knowledge for national advantage.

### IT'S ABOUT PEOPLE

Microsoft Corporation's satellite campus outside Vancouver is a glowing testament to Canada's open immigration policies. For years, the software powerhouse was stymied in recruiting top talent to its suburban Seattle headquarters by a shortsighted American allotment of just 65,000 visas for highly skilled workers each year, plus 20,000 for foreign graduate students. The annual quota is exhausted within hours or days as the most innovative companies grab global talent. Then entry points slam shut for another 12 months.

After arguing over and over again before Congress that the system is harming the competitive position of the U.S., Microsoft set up a software-development centre three years ago in Richmond, B.C., as a nearby haven for talent recruited from overseas. At the time, Microsoft called Vancouver a "global gateway with a diverse population" and lauded its "globally envied quality of life." It worked on the target market of highly mobile talent. Today the centre employs people from 45 countries who speak 15 languages.

America's loss, Canada's gain.

Canada is competing in a giant global talent bazaar. We need to focus on three goals to win:

1. Create conditions that allow Canadians to compete at the highest levels at home.

2. Make ourselves the most attractive destination for the top-tier researchers roaming the world.

3. Plug into the talents and connections of the Canadians diaspora.

On the first point, initiatives from the Canada Foundation for Innovation, the Canada Research Chairs and the Vanier Scholarships have boosted university research in Canada, but we still fare poorly by such measures as doctoral graduates. Since they are the main drivers of innovation—young, talented people equal new ideas—we have to figure out why we lag comparable nations, and we have to place our best universities high in international rankings. If we want to attract and retain top researchers, we need top universities.

On the second point, our reputation for diversity is a major advantage in attracting talent, as is our sound economy and high quality of life. We need to heavily promote the Open Canada brand to enhance our image as a contemporary, cosmopolitan nation, particularly among those working in research and knowledge industries.

Canada also needs to spot and act on market opportunities. When George W. Bush restricted stem cell research in the U.S., it hurt science but helped Canada. Many researchers simply moved their labs here at a time when governments were making new money available to snag them. If anti-immigration or security issues continue to deter the U.S. from welcoming talent to their shores, then Canada should be aggressive in counterprogramming (while recognizing that leveraging the mistakes of others is no substitute for strategy).

On the third point, Canadians understandably regard "brain drain" as bad and "brain gain" as good. But global mobility has ushered in an era of "brain chain," in which Canada needs to treat its up to 2.7 million expatriate citizens as national assets and understand that people will move around the world and come back and forth to Canada. Our public policies should

continued on page 38

# Too little innovation in the nation

Innovation is the ability to turn knowledge into new and improved goods and services. The Conference Board places Canada 14th out of 17 countries. The indicators used measure each country's capacity to innovate, based on data that reflect the stages of knowledge production, the transformation of knowledge and market shares of knowledge-based industries.

Countries with the highest overall scores have developed national strategies. Ireland has attracted a high share of leading innovative companies. The U.S. fosters a combination of top science and engineering faculties, broad and deep capital markets, and an entrepreneurial culture. Japan is renowned for its efficient manufacturing and new product development. Switzerland is a leader in the knowledge-based pharmaceutical industry.

Canada has good universities, engineering schools, teaching hospitals, and technical institutes and produces top-notch science. But, with some exceptions, it fails to take the steps to commercialize science to the benefit of innovative companies operating in global markets. Canadian companies are rarely at the leading edge.

Knowledge and innovation determine economic advantage in the modern world.

## Conference Board of Canada's Innovation Report Card

1. Switzerland (A)
2. Ireland (B)
3. U.S. (B)
4. Japan (B)
5. Sweden (C)
6. Germany (C)
7. U.K. (C)
8. Netherlands (C)
9. Finland (C)
10. France (C)
11. Denmark (C)
12. Belgium (D)
13. Austria (D)
- 14. Canada (D)**
15. Australia (D)
16. Italy (D)
17. Norway (D)

Source: Conference Board of Canada, "Innovation," February 2010,  
<http://www.conferenceboard.ca/HCP/Details/Innovation.aspx#Indicators>

## OECD's 2007 Research and Development as a percentage of GDP

	% of GDP
1. Sweden	3.60
2. Finland	3.47
2. Korea	3.47
3. Japan	3.44
4. Switzerland	2.90
5. Iceland	2.75
6. United States	2.68
7. Austria	2.56
8. Denmark	2.55
9. Germany	2.54
<b>OECD average</b>	<b>2.29</b>
10. France	2.08
11. Australia	2.01
<b>12. Canada</b>	<b>1.88</b>
13. Belgium	1.87
14. UK	1.79
15. Netherlands	1.70
16. Norway	1.64
17. Luxembourg	1.63

Source: OECD, OECD in Figures 2009  
<http://browse.oecdbookshop.org/oecd/pdfs/browseit/0109061E.PDF>

simplify re-entry when Canadians decide to return home and plug into their knowledge and networks abroad if they don't. One program already being used in other countries is to connect leading researchers to Canadian colleagues through short-term fellowships at our universities. Build from their relationships.

## INVEST-IN CANADA

Canadians have a long-standing love-hate relationship with foreign investment. In the 1960s, Walter Gordon and Mitchell Sharp fought over U.S. domination of the Canadian economy and what, if anything, to do about it. Donald Macdonald, whose 1985 Royal Commission report recommended that Canada negotiate a free trade agreement with the U.S., started out as a Walter Gordon protégé before switching horses.

In 1973 Canada introduced a Foreign Investment Review Act that approved only investments that produced a significant benefit to Canada. FIRA discouraged investment by sending a message that Canada was unreceptive. As Canadian economic growth slowed in the second half of the 1970s and a deep recession took hold in the early 1980s, controls on foreign investment eased up. In 1985 the newly elected Conservative government replaced FIRA with the more welcoming Investment Canada, but even under the new rules the onus remained on foreign buyers to establish their investment would be of “net benefit” to Canada.

Today Canada's relationship with foreign investment is more nuanced. The holdings of Canadians overseas surpassed those of foreigners in Canada years ago, and we have not looked back. We are now a net foreign-investing nation. As a result, in today's integrated global economy, sales of goods and services by foreign subsidiaries of Canadian companies are comparable to the value of total exports from Canada, according to the Conference Board of Canada. The trade of Canadian firms within Europe, where our investment is relatively high, is greater than that from Canada to Europe. This generates benefits back home in terms of higher-paying head office jobs,

enhanced support services and more international opportunities for Canadians. In addition, it connects Canadian companies to global business networks. What we are seeing in Europe must be duplicated in Asia and Latin America and should be a major priority of our international economic efforts.

As for foreign investment into Canada, the case needs to be constantly reasserted—both abroad and at home. Evidence shows that foreign-owned companies invest more in research and development, import advanced technologies, have higher productivity rates and create better-paying jobs than domestic ones. What should worry Canadians is not too much foreign ownership—which is at about the same proportion as pre-FIRA—but the fact that Canada's share of global investment has fallen since the mid-1980s, even allowing for the effects of emerging markets. We are not as attractive as we once were, and that costs us.

Microsoft Corporation's satellite campus outside Vancouver is a glowing testament to Canada's groundbreaking immigration policies. The centre employs people from 45 countries who speak 15 languages. America's loss, Canada's gain.

Certainly, no one likes to lose control of iconic Canadian companies such as Inco, MacBlo, Alcan or Stelco and, with them, their international head offices—especially when acquisitions result from substandard Canadian competitiveness, an uneven regulatory field or poor public policy decisions. But it's vital that Canadians weigh these losses against the overall benefits of open investment. The global economy is not just a phrase. Production of goods, services and knowledge are now organized into global supply chains in which a never-ending search for value often puts different parts of the business in different

locales. To maintain its prosperity, Canada needs to compete on the high end of these supply chains. There is more prosperity in researching, developing, designing and marketing a product than assembling it. To be in the game starts with investment. It is the holy grail of global economics.

The GPS Panel recommends that Investment Canada re-invent itself as an investment promotion agency under the name Invest-In Canada, which already exists as a branch of the Department of Foreign Affairs and International Trade. Rather than serving as an adjudicator of investments, a function that can be carried out by a small staff within Industry Canada, Invest-In Canada will do what it takes to attract foreign investment and skilled individuals.

Unlike in the 1960s, the debate is not whether foreign investment is good or bad but how to attract more of it. We need a global agency dedicated to telling the story of Canada's advantages: our internationally mobile workforce; our economic and regulatory prudence; our global cities with their financial, energy, pharmaceutical, aerospace and technology clusters; our proximity to U.S. and Asian markets; our relatively plentiful resources at a time when companies worry about shortages of energy and water.

Canada should speak with one voice internationally; Invest-in-Canada works best as a joint initiative of the federal and provincial governments.

We also endorse the recommendation of the 2008 Competition Policy Review Panel, better known as the Wilson Report, to further open the Canadian market by relaxing restrictions on airlines, broadcasting, uranium mining and, especially, telecommunications. Existing constraints on financial services and cultural industry foreign ownership should remain in place.

Canada is almost always best served when governments create the conditions for open markets to thrive—through sound tax and fiscal policies, a strong education system and support for science and research—then stay out of the way. *Almost* always. When the exceptions inevitably arise, mature

countries act strategically. Canada did exactly that with favourable tax treatment that jump-started oil sands investment, and again with patent changes that generated additional pharmaceutical research. Once in a while, it will mean saying no to a particular foreign investment or ensuring that a key asset, such as the Nortel patents, remains in Canadian hands. But governments have to be sure they are promoting the future and not protecting losers. These interventions must clearly be the exceptions to the rule.

## A TRADE POLICY DIVIDED

Canadians think of themselves as one of the great exporting nations, shipping wheat, lumber, minerals and BlackBerry technology across oceans. But the numbers tell another story: Other than with the U.S., Canada is a trade deficit nation. In 2008 we had a \$75-billion surplus with the U.S. in goods and services but a \$50-billion deficit with other countries.

We have lost our place as one of the early initiators of free trade agreements, and we have lost our influence as a policy-maker. In the 1980s and 1990s, we were members of an exclusive trade policy club called The Quad, composed of three giants—the U.S., Europe and Japan—and Canada. No more.

Canada needs to re-establish itself as a trade leader, particularly given our challenge regaining momentum in the U.S. Prosperity tracks trade just as trade tracks investment, and trade matters to Canada, with our high economic expectations and small domestic market. But we suffer on the policy front from a credibility gap. We talk the game of a trading nation—we want to liberalize markets for grains and oilseeds, for example—and then we support an agricultural system that imposes old-fashioned quotas to protect dairy and poultry farmers. We have backed out of trade negotiations because of our unwillingness to put this supply-management system on the table. At the Canadian International Council annual dinner in Toronto in 2009, World Trade Organization director-general Pascal Lamy poked fun at Canada's simultaneous support of an open and closed system.

Canada still maintains a variety of tariffs, including against developing nations on footwear, textiles, apparel and headgear in addition to agricultural products. In the recession, the Canadian government unilaterally removed productivity-inhibiting tariffs on machinery imports. In this spirit and to help regain leadership on trade, The GPS Panel calls on the government to create a working group to study all remaining tariff and non-tariff barriers and recommend a sweeping trade-liberalization plan, including the unilateral removal of tariffs.

Supply management will be on the table. We recognize the political sensitivity and the desire of Canadian governments to “give up” the system only as a trade-off in a larger trade deal. But one way or another we need to get out in front of this issue, which distorts our ability to deal with other countries, and leave behind the vestiges of old, protected Canada.

Given the stalled state of the Doha round, to which we contribute through our unwillingness to put marketing boards on the table, Canada needs to open markets one by one. Where we once led, we now trail; we have failed to complete a single agreement in Asia, striking out with both Singapore and Korea and rebuffing the Trans Pacific Partnership.

According to the World Trade Organization, 462 free trade agreements existed as of February of 2010, with just six involving Canada (others are pending). That puts us on par with Panama and slightly behind Chile, which already has an FTA with China and India.

The GPS Panel recommends that Canada aggressively pursue a series of bilateral “economic bridge agreements” with countries around the world. We need to steal a march on other countries by going beyond classic FTAs in favour of agreements that cover investment, services, science, technology and human mobility. Asia, where we have failed to complete a single deal, is a good place to start.

In 2008 we had a \$75-billion surplus with the United States in goods and services and a \$50-billion deficit with other countries.

### **MAKING CANADA SMALLER**

For two decades, Canadian provinces stubbornly refused to sign a WTO annex that would open government procurement to one another. Earlier this year, they suddenly reversed themselves in order to win exclusion from the Buy America program. Nearly 150 years after Confederation, Canada’s economic union remains less open than the 27-nation European Union.

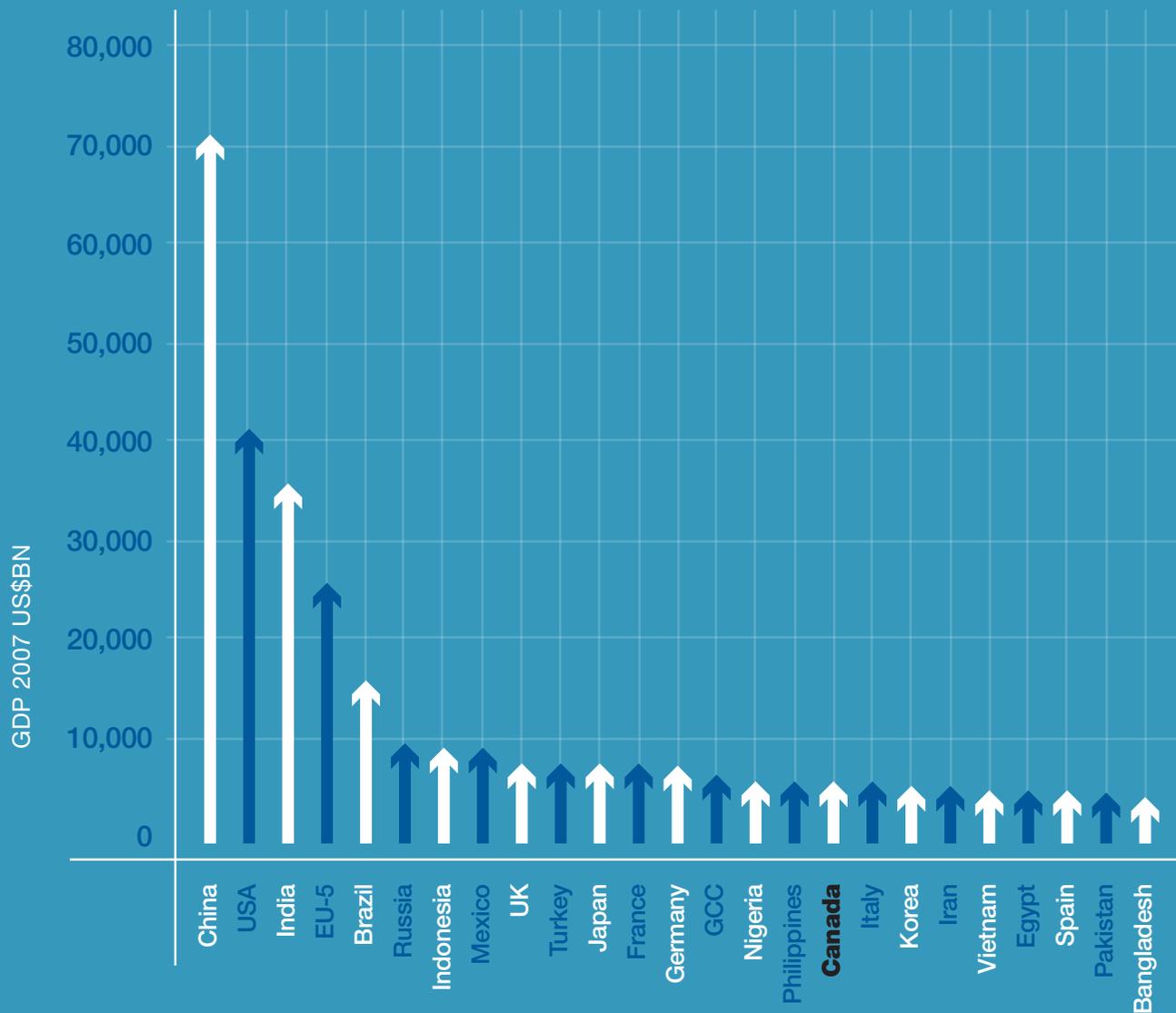
To compete globally, we need to create a common market at home. The decades-long saga of a national securities regulator looks ridiculous in the context of a global economy. The same with the barriers to recognizing credentials from one province to another. The list goes on.

The federal government needs to account for the legitimate interests the provinces hold in international affairs, as we have said. Likewise, the time is well past for the provinces to embrace a single economic union within this country called Canada—or for Ottawa to force the issue.

One of our presenters attended a meeting in Paris in which a senior OECD official observed that Canada is a small country that makes itself smaller through its domestic protectionism. Imagine Canada’s chances of winning gold in hockey if each province iced its own team. Let’s build Team Canada.

# 2050: The largest economies

Canada's economy will continue to be surpassed by emerging nations, although we will remain high in per capita income



Source: Goldman Sachs, May 2009

With 40 per cent of its population of ethnic Asian origin, Vancouver can stake a claim as the most Asian major city outside the continent.





## Chapter 4

# Asia: The Human Bridge

Canada has an 11th province, some say. In the 2006 census, the country's population included 1.3 million Chinese–Canadians and more than one million Indo–Canadians, roughly the size of Manitoba and Saskatchewan put together or all of Atlantic Canada. In total there were 3.7 million Canadians of Asian origin, a second Alberta.

China and India run first and second in providing immigrants to Canada and are the two fastest-growing sources of Canadian tourism. China leads in numbers of international students attending Canadian universities and colleges.

At the same time as Canada becomes more Asian, India and China have regained their status as world powers. They are the twin engines of global economic growth, accounting for half of all global expansion in recent years. If Canada wants to hedge against an uncertain United States, it must turn east.

Canadians have been down this road before, only to return to their backyard. In the two decades after Pierre Trudeau proposed a “third option” aimed at Europe and Japan, our trade dependence on the U.S. grew from 60-odd per cent to the high 80s, the result of tens of thousands of individual decisions by Canadian businesses.

But times have changed. Back then about one billion people lived in countries with market economies. Today that number is four or five times larger. Most of the growth comes from Asia.

Fortunately, Canada is a Pacific nation. We have long ties to the region. Yet our relationship with China and India has been anything but sustained or strategic. “Canada comes and Canada goes, but it never stays,” comments University of Toronto professor Wendy Dobson. “That’s what has to change.”

## Canadian views of Asia

Agree with Statement	Canada
I consider Canada to be part of the Asia Pacific region	29%
Asian economies are vital to the well-being of Canada	62%
The Government of Canada should aim to diversify its trade to be less dependent on the United States	76%
The growing importance of China as an economic power is more of an opportunity than a threat	48%
Looking 10 years into the future, the influence of China in the world will surpass that of the United States.	60%

Source: Asia Pacific Foundation of Canada, "2010 National Opinion Poll: Canadian Views of Asia," March 28, 2010  
[http://www.asiapacific.ca/sites/default/files/filefield/National\\_Opinion\\_Poll\\_2010.pdf](http://www.asiapacific.ca/sites/default/files/filefield/National_Opinion_Poll_2010.pdf)

Our lack of staying power may explain our under-performance in the fastest-growing market in the world. We're in the slow lane of the traffic back and forth. Less than 1 per cent of imports into Asia originate in Canada. Australian trade with China is more than twice that of Canada, and it is in the midst of negotiating a free trade agreement with the Chinese—this, even though Vancouver is closer than Sydney to Beijing. Alarms should have gone off when China signed a carbon sequestration research agreement with the U.S. last year. Canada, arguably the leader in the field, has a similar agreement with the U.S. So why not with China?

### The Canada–India relationship is “under-articulated, under-valued and under-developed.”

Our trade with India is even less developed. India is a democracy and member of the Commonwealth nearly two decades into economic liberalization, yet Canada trades as much with China in a month as with India in a year. Opportunities are being lost in education,

energy and infrastructure. Diplomatically, too; Canada and India used to cooperate in peacekeeping, and we have shared common interests in Afghanistan in the last decade. But we have never made much common cause. University of British Columbia Asian specialist Paul Evans called the Canada–India relationship “under-articulated, under-valued and under-developed.” The GPS Panel would like to see Canada articulate, value and develop it more.

We suffer from an attitude problem. A recent survey for the Asia Pacific Foundation found that only 29 per cent of Canadians consider Canada to be part of the Asia–Pacific region, down 10 points in four years—the years when Asia burst back onto the scene. We have failed to complete a single free trade agreement anywhere in Asia, and our business leaders have been slow to make Asia a priority. Canada, a country rich in highly coveted resources and with plenty to offer in technology, infrastructure and services, must be consistent and unrelenting in our attention to Asia.

Our greatest competitive advantage is our human connection. Canada is said to have the highest per capita movement of people with China of any OECD country. People have been going back and forth for

more than 100 years. Chinese labourers built the continental railway and, despite official attempts to frustrate family unification, Western Canada remains filled with old-stock Canadians of Chinese origin. In the 1980s, Canada welcomed a huge influx of Chinese from Hong Kong; since 1998, between 30,000 and 40,000 immigrants a year arrive from the mainland. Chinese–Canadians are the largest ethnic group in Canada after the French and British; Indians occupy the next spot.

Our connection with India is more complex. The first settlers were Sikh veterans of the British army. Sikhs comprise nearly 40 per cent of the Canadian diaspora, while representing just 2 per cent of India’s population. For many years, radical elements in the community used Canada as a base for a violent separatist movement and still glorify “the martyrs” of the 1985 Air India bombing. At times, too, Canada acted shamefully toward its Indo–Canadians and official relations with India have suffered over nuclear disagreements.

We have failed to complete a single free trade agreement anywhere in Asia, and our business leaders have been slow to make Asia a priority.

But now, investment and technology are beginning to flow in both directions. Toronto will become the first North American city to host the four-day International Indian Film Academy Weekend and Awards extravaganza in June of 2011. This was largely made possible by the Indo–Canadian network and the serious treatment the Toronto International Film Festival has always accorded Indian films, just one example of our pluralism in action.

In addition to the more than two-million-strong ethnic Indians and Chinese in Canada, more than half a million Canadians live and work in Asia. This two-

way diaspora, which has gained momentum in the past ten years, should be harnessed by public policy. Our connections give us an opportunity to leapfrog over free trade agreements to negotiate partnerships that promote trade, investment and the movement of knowledge and people—a human bridge.

### **CHINA: THE ECONOMIC BRIDGE AGREEMENT**

Some of the best and brightest Chinese–Canadians have returned to China or maintained a foot in each country. Canadian students have gone to China to study and travel, eager to participate in China’s economic miracle and experience its rich culture.

The Chinese have a very different understanding of citizenship than Canada, as several consular cases have shown. But as the country becomes more global, China is quietly discussing the meaning of citizenship. The GPS Panel has been told this issue will take on greater urgency as China becomes more outward looking.

The GPS Panel recommends that Canada negotiate a comprehensive Economic Bridge Agreement with China with a major human connections component. The objective is to smooth movements between the two countries by making it easier to maintain a foot in each. The goal would be for Canada to become the first country in the world with a dual-citizenship arrangement with China.

Such an agreement would be in keeping with our history of breaking new ground with China—from wheat sales in the darkest days of the Communist revolution to our early diplomatic recognition in 1970. It would put Canada at the forefront of managing people movement. As we were pioneers in the free trade of goods in the 1980s, so we could be pioneers in the flow of people now.

Both countries would benefit. Pension portability would be one way to remove barriers, as would giving Canadians an option, while non-residents, to

pay into health and social security plans. As things stand Canada sends mixed signals, encouraging global Canada on the one hand while removing social benefits and voting rights on the other.

This kind of agreement can include tradespeople as well as knowledge workers. Western Canada has been gripped by labour shortages in recent years, most notably in the northern Alberta oil sands region. These have led to inflationary pressures and could compromise the quality of work. China, which has begun investing heavily in the oil sands, would like to be able to send some of its surplus workers temporarily to Canada, perhaps for projects such as a port expansion or pipeline. (There is a jarring historical echo here; China is essentially saying “our surplus labour will build a new railway for you and then return home—voluntarily.”)

A human relations accord with China could also address the touchy and distracting issues of illegal migrants, criminals and fugitives. There have already been cases that have undermined strategic headway between the two countries. Dealing with these on an ad hoc basis, at their most politically sensitive point, is not the best way to manage a relationship. An agreement that laid out protocols under which Canada or China would extradite a wanted person, provide assurances around sentencing or guarantee consular support would help both countries get in front of issues rather than react to highly political individual cases.

The same logic would apply to investment rules between the two countries.

China is also one of our three proposed destinations for a Canadian university abroad. In keeping with Open Canada, we should be a pioneer in hosting a Chinese overseas campus. China is developing its own world-class universities. The more interchange with the Chinese, the more acquisition of language skills and networks, the better for Canada.

In the coming years, China will face growing pressures from its middle classes for effective social security and health care systems. The weakness of consumer demand in China and the international tensions that result stem from the propensity of Chinese workers to save rather than consume. With little in the way of social services, saving is the rational decision. But the rising middle classes are going to insist on more social programs, and the fallout from the one-child policy will create even more demand for health and social services by an aging population with few offspring. The GPS Panel recommends that Canada work closely with China to develop social services. With our national pension plan, employment insurance and public health care system, we have experience to share.

Our connections give us an opportunity to leapfrog over free trade agreements to promote the movement of knowledge and people—a human bridge.

## **INDIA: THE EDUCATION EDGE**

The traffic on the bridge to India is largely knowledge-based. India is highly advanced in science, technology and engineering but, apart from a few elite schools, its higher-education system is woefully underdeveloped. If it is to stave off disappointment and social and political unrest among its large, young and undereducated population, it will have to create opportunity and solve social inequality. A much more robust education system is required.

Canada has a well-respected public university and college system, a good fit with India’s need for higher-education services, but connections between the two countries are underdeveloped. India is on the verge of liberalizing its education so select foreign institutions can set up shop. Canada needs to make sure we are on the approved list.

# The human rights conversation

Canada cannot turn a blind eye to human rights violations by any country, even one as big as China. As one of our presenters noted: Trudeau gave Canada recognition of China, but he also gave us a Charter of Rights and Freedoms.

Canadians, with our Western allies, will turn China into an overnight democratic success story. The goal should be steady progress. In the principles at the beginning of this report, we warned about lecturing from on high, arguing that speaking softly often produces better results. The Chinese are proud to have restored their historic standing among the international pantheon of great powers. While their style of governing frequently offends the West, they have also engineered the world's most successful development program, lifting hundreds of millions of people out of poverty.

Canadians should not be overawed by the Chinese. Even though Canada does not make it into the top tier of Chinese interests, we are a country of substance and of proven success in areas that challenge them, from national unity to diversity and social programs. Our standard of living is about six times theirs. We have a rich history together. The Chinese value relations with a respectable country such as Canada. It is not something they can get from a Sudan or a Venezuela.

We need to keep talking to China about human rights, but as a concerned friend, which means face-to-face dialogue and not condemnations over a megaphone. We want results, not embarrassment for China and its leadership.

The GPS Panel recommends that Canada negotiate an Economic Bridge Agreement with India, featuring knowledge and education as its two mainstays. It would include scholarships to study in Canada, two-way exchanges, the provision of Canadian educational services within India and the promotion of Canada as a destination for international students and scientific and technological collaboration.

Again, this would form part of a broader human connections strategy to facilitate mobility between the two countries.

Of course, before one can qualify for higher education, students must enjoy good schooling at lower levels. This is not available throughout India. Canada is blessed with a good supply of schoolteachers, administrators and curriculum specialists, many of whom retire relatively young thanks to public pension schemes. Canada can facilitate teachers and curriculum experts on post-retirement placements in India.

India benefits from an unusually strong commitment to scientific research dating back to independence. It is highly advanced in technology; Canadian and Indian scientists have much to offer one another through research collaboration. The two countries should build on the excessively modest 2005 International Science and Technology Partnerships Program.

Canada has something India badly wants: uranium for its reactors. Until relations broke down after India's first nuclear test in 1974, Canada served as India's mentor on nuclear energy. Outside Canada, India has the most Canadian-style reactors in the world, with two CANDUs and 153 CANDU derivatives built after Canada cut off nuclear cooperation.

After 36 years, we believe it appropriate, if controversial, that the two countries have agreed to work again on nuclear-power development. Competition for the next generation of plants will be extremely intense. Canada has three cards to play:

1. Many of India's nuclear scientists were educated or trained in Canada before connections were severed. Most remain attached to Canada. The Canadian government should resurrect these connections by sponsoring visits by India's nuclear engineers and scientists and, through them, build connections with their successors.

2. Canada knows CANDUs and has been painfully gaining experience domestically in refurbishing aging plants, knowledge that should be put to use in India.

3. Canada is a uranium superpower. We should use our resource responsibly as well as strategically.

Canada has a well-respected public university and college system, a good fit with India's need for higher-education services.

## **VANCOUVER: THE ASIAN CAPITAL OF NORTH AMERICA**

Shipping times between Vancouver and China are one and a half days faster than from Los Angeles to China; from Prince Rupert it is two and a half days faster. The Chinese are already preparing for the day the Northwest Passage becomes navigable, saving valuable days on the shipment of goods to and from Europe. The contours of the Earth give Canada competitive advantage.

Canadian governments have invested in the Pacific Gateway and this is good, but our strategy should be more ambitious. The GPS Panel calls on the federal and B.C. governments to broaden the Pacific Gateway strategy to encourage Chinese and Indian companies to place their North American headquarters and distribution centres in British Columbia, and for European and Latin American companies new to the market to oversee their Asian operations at the

Western point closest to the Chinese market. The goal of the Gateway Economy Strategy would be no less than to turn Vancouver into the primary Asia-Pacific business hub and, effectively, North America's Asian capital.

Vancouver is already booming with professional service firms serving the Asian market. With 40 per cent of its population of ethnic Asian origin, Vancouver can stake a claim as the most Asian major city outside the continent. Building on a pilot project in Winnipeg, the government should create a foreign trade zone in B.C. so service providers and manufacturers can enjoy tariff and tax advantages on value-added exports to Asia. Regional North American head offices would also be given interim tax benefits. This would take advantage of the fatigue in many quarters with U.S. security measures. It would also turn Vancouver's airport into a terminus point for travel between Latin America and Asia.

We support a broadening strategy for Canada in Asia, but as a prudent panel we are not walking away from the U.S. If there is one thing economics teaches, it is to be skeptical of straight-line projections.

The rise of new powers is always uneven. China will be challenged by the demographic fallout from the one-child policy; too few workers support their aging population, and there is a serious imbalance between males and females. There are three immediate problems: too many detached young males is never good for a stable society; the lack of social security and public health sows anxiety among the aging; emerging middle classes will have high expectations in term of continued economic activity. Faltering in any of these could lead to a backlash.

India is better positioned demographically and democratically and is expected in the medium term to surpass China's growth. But it still suffers from debilitating social inequities, profound poverty and huge infrastructure challenges. And it lives in one of the world's roughest neighbourhoods, with an unstable Pakistan next door.

Risks notwithstanding, Asia has shown remarkable growth—and Canada, through its human connections, needs to get more actively in the game.

The Mexican economy will surpass Canada's within 20 years. Here is an emerging market, 111 million strong and in our neighbourhood. Mexico's per capita income is more than twice that of China and four times that of India.





## Chapter 5

# The Hemisphere: Our North America Includes Mexico

**M**exico is one of Canada's most important—and most underdeveloped—relationships. Few countries care as much about their relationship with Canada as Mexico, and there are few places where Canada's interests are so clear.

Getting along with Mexico contributes to both of our goals: deepening ties with the United States and broadening ties with others. Mexico gives Canada an opportunity to contribute to our prosperity, matter more in Washington, and do good at the same time.

Mexico respects Canada as the more established and stable bookend to the U.S. However, it has felt rejected in the trilateral NAFTA and blindsided by the imposition last year of stringent visa requirements for Mexicans seeking entry to Canada—requirements that are far tougher than the U.S. visa standards.

Sixteen years into the NAFTA era, Canada's two-way trade with Mexico is a modest \$24 billion a year, largely in Mexico's favour. Still, it is our fifth-largest export market and growing every year. It is also a major destination for investment, tourists and retirees, and our sixth-largest source of visitors to Canada, at least before the visa requirement. Our relations with Mexico—mostly good, some bad—should not be forgotten in the stampede to Asia.

As neighbours to the U.S., Canada and Mexico face opposite challenges: Canada can't attract enough attention, and Mexico attracts too much. Canada only went into NAFTA as a defensive measure against being left behind by a U.S.–Mexican bilateral agreement. Some Canadian policy thinkers, in hindsight, argue that Canada's post-1994 flirtation with a third amigo was a strategic mistake; that we need to distance ourselves from Mexico in order to ensure that the U.S. does not treat our respective borders and the countries beyond them in the same way. The GPS Panel dismisses such guilt-by-association fears as the product of faulty analysis. Canada has its own interests in a healthy Mexico.

Mexico is a nation in transition. At times it has been rough, no doubt about it. For Canadians who know Mexico only through the media, it is crime ridden and drug infested. But Mexico also is a more democratic and better-managed state than it was in the pre-NAFTA era. It has stabilized its economy, financial system and currency. Its infant mortality is down and its life expectancy is up. It is a democracy, although one with stark reminders of how tenuous young democracies can be.

**Mexico is a nation in transition.  
At times it has been rough, no  
doubt about it.**

Canada cannot be certain that Mexico will overcome all of its challenges to become a fully fledged democracy and market economy. But the balance is in its favour, and Canada can help itself by helping Mexico achieve that balance. Tested as it is by drug wars, judicial corruption, an inefficient economy, income inequality and global insularity, it can use whatever help we can muster. The last thing Canada needs is a failed experiment in liberal democratic capitalism on the doorstep of our most important strategic partner. If the U.S. is already distracted by Mexico to the detriment of Canada, a Mexico beset by political and economic disorder will only make matters worse. That would really give Homeland Security a license to tighten the screws.

## MEXICO MATTERS

Rather than living in fear of Mexico, Canadian policy-makers should agree that:

- The interests of Mexico, a partner in North America and the largest neighbour of our largest neighbour, are our interests, too.
- Mexico, and Latin America and the Caribbean, are under-served markets. While the world rushes to the Asian gold mine, there is silver in Mexico.
- Mexico's security challenges are a real issue. The drug trade out of northern Mexico touches lives in Canada, too, particularly in the Vancouver area.
- Mexico has millions of poor people in need of help and a burgeoning democracy we can help shore up.
- We often have to fight for standing in many parts of the world; Mexico, on the contrary, wants our help.
- The success of Mexican democracy is critical to the entire Latin American region, and beyond.



The U.S. is heavily invested in Mexican success, knowing this is the only hope of securing its southern flank. But it is also constrained by its history of violent intervention. Canadians need to appreciate that we have a stake in Mexico, too—for better or worse—and that our involvement will be welcomed by both Mexico City and Washington.

## ROOM TO GROW

Canadians might also reflect on projections by forecasters such as Goldman Sachs, creators of the BRIC designation, that say the size of the Mexican economy will surpass Canada's within 20 years. Here is an emerging market, 111 million strong, integrated into the North American supply chain (our China), already an OECD and G20 member-state and only four hours away by air and a day and a half by road. Mexico's per capita income is more than twice that of China and four times that of India. There is no other region in the world in which our political influence and economic interests have the same potential to expand.

The GPS Panel recommends making Mexico a major diplomatic priority to help secure its democracy, quell its violence, improve its public administration and become a more active player on the international stage. We see Mexico as a fertile market for more Canadian trade and investment and a partner in our relations with the U.S.

To a lesser extent, we would like to see the same strategy employed elsewhere in the hemisphere. Unlike the failed Free Trade of the Americas, we are not calling for a grand hemispheric strategy but rather a discriminating one. Not all countries in the Americas hold out the same promise for Canada, nor should we spread our resources too thinly. We see great potential in Colombia, a nation of 44 million emerging from decades of brutal violence, as well as in Chile (17 million), Peru (29 million) and much of the Caribbean (40 million). Brazil, the B in BRIC and brimming with confidence, may not have the same desire to engage Canada, but we must find ways to engage it and its 200 million people as the second most important player in the Americas.

## EASY FIRST STEPS

Still, a focused relationship with Latin America starts with Mexico, our Latin cousin in North America and potentially an economic and diplomatic bridge into Central America. Deepening the relationship begins with simple deliverables:

- Mexico wants RCMP and legal trainers to help professionalize its police forces and justice system.
- Mexico is not a poor country but it has extremely poor regions. It could use Canada's help in poverty alleviation and education, among other things.
- Mexico has one of the worst records of tax collection in the hemisphere. Just as Elections Canada helped develop a world-class electoral commission in Mexico, so the Canadian Revenue Agency can make similar efforts on the tax front.
- Mexico is the perfect place for a newly consolidated Canadian Centre for Democratic Development to make its mark.
- There is lots of room for cooperation—trilaterally or bilaterally—in energy production, environmental protection, forestry, oceanography, medicine and more.

We would like to see Mexico more engaged in global security but appreciate its historic aversion to intervention in the affairs of other nations. The Mexican Constitution grants its president exclusive control over foreign policy in accordance with six principles, including one of non-intervention. Mexico did send troops to New Orleans to help during the aftermath of Hurricane Katrina. Although unprecedented, this move did not stir controversy. As the lines between humanitarian assistance, development and security narrow, Mexico may be more willing to step out and experiment.

We would also like to see Mexico, a strong supporter of the United Nations, eventually join Canada in our failing states strategy. The goal, although difficult to picture today, would be for Mexico, already an

OECD member, to join NATO just as the emerging democracies of Eastern Europe have. But first things first. Some Mexico experts have said that joint naval exercises would be a good place to start. Building trust and capability with the Mexican navy would boost confidence on both sides and combine forces against the smuggling operations that bring drugs from Mexico to Canada.

The GPS Panel heard many calls to lift visa requirements imposed on Mexican visitors last year after a surge in refugee claimants. We reluctantly support retaining the visa, as part of a larger goal of long-term harmonization of our visa list with the U.S. But we would also harmonize the application, adopting the far simpler and less intrusive American visa form.

## As neighbours to the United States, Canada and Mexico face opposite challenges: Canada can't attract enough attention, and Mexico attracts too much.

With less competition and much need, this is a part of the world where Canada can make a difference. We can offer our services to countries looking for a better future and be useful to our allies, particularly, the U.S., in the process. Canada played an active part during the Peruvian democracy crisis in 2000. There is no reason why we could not have helped mediate the Honduran democracy crisis last year. Our connections with Cuba, although sometimes used to score cheap political points, should help smooth the way to the eventual normalization of relations with the U.S. We certainly have made a humanitarian difference in Haiti, the failed state of the Americas. Canada cannot save the world, but it can work toward social and economic progress and against democratic backsliding in our hemisphere.

## THINK IN DECADES

A strategy in Latin America requires staying power, however. To grasp the nuances of this region, like any region, Canada needs to think in decades, not to the next summit. The 1950s generation did not build close relations with Europe on a passing fancy or single agreement. Two of our founding peoples were European. We fought two wars in Europe. We sold Europeans our wheat, lumber and minerals and were open to their investment. We welcomed their immigrants. We posted the best and brightest of our diplomats there and developed deep partnerships within international institutions. Specialization, consistency, full engagement—that is how truly beneficial relationships are built.

Canada has a long and significant economic presence in the region. The forerunner of Brascan Ltd. (now Brookfield Asset Management) built the electricity systems in São Paulo and Rio de Janeiro at the turn of the 20th century, and The Bank of Nova Scotia opened a branch in Kingston, Jamaica, before it had one in Toronto. The modern-day Scotiabank invested heavily in Latin America and employs nearly as many Spanish speakers as English speakers through its banking system. Canadian mining operators and financiers cast a big shadow.

While Canada's population is becoming more Asian, much to our benefit, the U.S. is evolving into a Hispanic nation. Spanish-speaking Americans already outnumber African-Americans and have accounted for half of U.S. population growth in the last decade. At some point in this century, there will be a higher percentage of Americans with Spanish as their mother tongue than Canada has native French speakers. The number of Mexican-Americans alone is roughly equivalent to Canada's entire population. In the 2008 presidential election, Hispanic support for Barack Obama carried him over the top in key states such as Florida, Nevada and New Mexico. A larger Latin American population will help Canada relate to a U.S. in demographic transition, particularly as power

gravitates from a northeast familiar with Canada to a southwest far more detached.

Spanish is already the third-most-spoken language in Canada (if Cantonese and Mandarin are separated out) and the most-studied foreign language on Canadian university campuses. **The GPS Panel recommends that Canada put more resources into attracting immigration from Latin America, an underexploited source of educated migrants with a good chance of converting their Spanish into English or French.**

Mexico, Latin America and the Caribbean are all underserved by the developed world. British and Scandinavian development agencies have packed up and left the region to concentrate their efforts closer to home. Most aid agencies focus on Africa; with a few exceptions such as Spain and the U.S., very few look to the Americas, even though in Mexico alone some 40 million people live in poverty.

Both the Martin and Harper governments have proposed putting more development emphasis in Latin America. This has been a contentious point in the aid community, where the prevailing wisdom is that development should be concentrated on the least-developed countries, nearly all of them in Africa. The GPS Panel believes it is justifiable to direct aid dollars to poor regions of middle-income countries, where other nations are less active and corruption is less rampant. Poor people can be as worthy a target as poor countries with poor people. Our assistance can help lock in the gains of democracy after the economic regression and political repression of the 1970s and 1980s.

If Canada asks the simple question where can it make a meaningful contribution to prosperity, peace and cohesion, Mexico—and a select handful of other countries in the region—comes back as the obvious answer.

Canadians should think of the Arctic as a huge condominium on the top of the world with individual property holdings, common spaces and a joint management that serves all of its residents.





## Chapter 6

# The Arctic: A Diplomatic Motherlode

A former U.S. Secretary of State once described Canada as a regional power without a region. If that were ever true, the search should be called off. The Arctic, a place of enormous global interest and extreme complexity, is that region. As the permafrost melts, it is exposing a diplomatic motherlode.

The Arctic, of which Canada has the second largest slice, is one of this country's key emerging global assets. And it is a beauty. It covers one-sixth of the Earth's land mass. The rapidly melting ice cap is opening the region's vast storehouses of offshore energy—estimated to be one-quarter of the Earth's undiscovered gas and oil reserves—and providing access to mineral deposits and some of the world's best remaining fish stocks. Commercial shipping through the fabled Northwest Passage could be achievable within a decade. The contours of the Earth give Arctic routes enormous advantages, knocking 14 days off a Tokyo–London voyage at a savings of one-third in fuel, compared with the Panama or Suez Canals. Shipping companies from Europe to Asia are full-speed ahead planning for the Northwest Passage and the competing Northern Sea Route over Russia. Cruise lines are already testing summer excursions.

Canadians should think of the Arctic as a huge condominium on the top of the world with individual property holdings, common spaces and a joint management that serves all of its residents.

As the eyes of the world turn north, the Arctic gives Canada a seat in the middle of the table on a vital global issue. Canada should not be playing a 19th-century sovereignty game in the Arctic. Instead, it should be playing a 21st-century influence and networking game. The Arctic allows Canada to build strategic connections with interested countries, as well as make a common cause with the U.S. This is rare diplomatic treasure and a golden opportunity to better the lives of northern peoples. Use it intelligently, or lose it regretfully.

That means putting strategic thinking and smart policy ahead of feel-good nationalism. Arctic sovereignty should not be treated as a yes or no proposition. The question is not whether other nations recognize Canada's sovereignty over the islands sitting on top of our country: Nowhere is this in dispute, except for a minor spat with Denmark over tiny Hans Island. As for our 200-mile exclusive economic zone, there is a single disagreement over a wedge of water in the Beaufort Sea between Alaska and Yukon, one that is eminently resolvable. The Law of the Sea treaty sets out a process for dealing with competing claims to continental shelves.

Less easily resolved is the legal status of the sea routes that connect the Pacific and Atlantic oceans—the fabled Northwest Passage. Are these internal Canadian waters in the same way as Hudson's Bay or the St. Lawrence River? Or do they—as most maritime nations, including the U.S., argue—constitute an international strait because they connect international bodies of water on either end?

Canadian governments will have more influence and produce better outcomes if they can resist the temptation to turn up the emotional volume at the expense of strategic calculation.

The answer is that, in practical terms, it doesn't matter that much. Other nations accept Canada's right—even responsibility—to make these waters safe for marine navigation. The 1982 United Nations Convention on the Law of the Sea says that passage through straits used for international navigation shall not affect the sovereignty or jurisdiction of the bordering states over those waters. This still allows Canada to enforce fishing, safety and environmental regulations and police against smuggling. It simply does not allow us, as with the seas off British Columbia and the Atlantic provinces, to close shipping to particular parties.

## SOVEREIGNTY VERSUS STEWARDSHIP

Some Arctic authorities maintain the true question is not one of sovereignty but of stewardship or control. Control is what Canada primarily requires in the waters of this delicate ecosystem. This is a management issue and can be addressed through existing international agreements. "There are many international straits around the world subject to the rules of transit passage, but the adjacent coastal states do not consider that the existence of the strait has somehow impaired their sovereignty," writes Donald McRae, one of Canada's leading legal authorities on the issue.

Canadian governments will have more influence and produce better outcomes if they can resist the temptation to turn up the emotional volume at the expense of strategic calculation. This is a sensitive moment in Arctic development, and calm leadership is required. The gravest danger, as University of Calgary political scientist Rob Huebert noted in a recent paper on security in the North, is that the military build-ups underway trigger misunderstandings and take on a life of their own. Canada, with the second-largest Arctic coastline and the smallest military presence, has a role to play as the voice of reason and reconciliation if others overreact.

"If an arms' race is beginning to develop due to the NATO Arctic states' misinterpretation of Russian action and vice versa, then Canada should make every effort to break this cycle," Prof. Huebert comments.

The table is already set. The Arctic Council was initially conceived by the Inuit and promoted by Prime Minister Brian Mulroney in the dying days of the Cold War and came into being under Jean Chrétien following the Ottawa Declaration in 1996. It is composed of the five states bordering the Arctic Ocean (Russia, Canada, the U.S., Denmark and Norway) and three other circumpolar nations (Sweden, Finland and Iceland). It also innovates by including six northern indigenous peoples' organizations as permanent participants. The council's purpose is to address regional issues that cross national boundaries, particularly around sustainable development and environmental protection.

Canada's priority is good stewardship of the Arctic. We can lead by example and through the diplomatic devices of the council. Development is extremely sensitive, as we saw two decades ago with the Exxon Valdez oil spill in Alaska. A new oil spill in the north would be far more damaging and difficult to contain than in the Gulf of Mexico. Resources must be extracted and transported in a sustainable manner, with mutually acceptable rules and practices. Interests in sustainable economic development among Arctic nations are common and overlap.

Although Canada fumbled when it didn't send a minister to the council meeting in 2006 and again when it excluded the non-coastal and indigenous representatives from a meeting near Ottawa in March, we enjoy plenty of goodwill and should learn from these experiences. The Arctic Council is a 21st-century inclusive and cooperative multilateral organization with a focused mandate and a manageable number of members. Canada was instrumental in its creation; we should dedicate ourselves to making it work. The council is a visionary organization with a real-world purpose to deal with common issues in a cooperative manner, along the lines of the early European Community.

## RULES OF THE ROAD

In 2013 Canada will become the first member-state to chair the council for a second time. We recommend that Canada lead an effort to get the Arctic Council busy writing the rules of the road for a region that will increasingly attract non-Arctic traffic. This would include stronger shipping standards, pollution response and anti-smuggling measures, plus coordinated approaches to search and rescue.

To accomplish this institutional strengthening, the Council should:

- Remove its prohibition on discussing security issues. Members need a forum to frankly address their anxieties and ambitions and build confidence in each other.

- Hold ministerial meetings every year rather than biannually, and include defence, environment and economic development ministers where appropriate.

- Invite heads of governments to participate in Arctic Council proceedings once every three years, beginning when Canada reoccupies the chair in 2013.

In order to fulfill its promise, the council will have to be given a full-time secretariat and sufficient funds to produce strong results from its working group. It will also have to ensure reliable and stable funding to support the meaningful participation of indigenous peoples' organizations. Genuine cooperation in the region will cost money, but not nearly as much as a breakdown in cooperation.

We have heard arguments for and against granting permanent observer status to non-northern countries with strong Arctic interests, such as China, Korea, Japan, Britain and the European Union. A number of countries, international organizations and non-governmental organizations already attend sessions on a meeting-by-meeting basis. In 2009, Canada blocked the attendance of several countries and the EU because it was angry over European plans to ban the importation of seal products. Norway, while sharing Canada's view on sealing, felt that was reason to bring the EU into the tent. As a sign of the high interest level in the region, some of the non-Arctic states held their own summit (with an Arctic Council representative) in Warsaw in March.

**No credible Arctic strategy can fail to account for the residents of the region.**

The pressure is building to allow others in on the conversation. An orderly process is required. We feel that the Arctic Council should begin granting permanent observer status to interested parties in the cause of promoting common understanding, excepting, for now,

leaders' meetings. The participation of non-Arctic nations should in no way be construed as internationalizing Arctic jurisdiction along the lines of the Antarctic.

Canada likes to view itself as a northern nation, yet our Arctic is the least developed of any of the circumpolar countries. This is partly the product of harsher living conditions compared to the Scandinavian Arctic regions and partly because our military infrastructure is less developed than the American and Russian Arctic zones. But it is also the result of decades when Canada was long on rhetoric about the North and short on development.

No credible Arctic strategy can fail to account for the residents of the region. In 2001 the circumpolar countries launched the University of the Arctic, a consortium of 122 educational institutions and non-governmental organizations. Many countries have post-secondary institutions within their Arctic regions, but not Canada. **The GPS Panel calls on the Canadian government to create a northern-based teaching campus for the University of the Arctic that would also house a cluster of scientific, social and economic research projects on the region.** The true measure of sovereignty is the local population's access to full government services, including higher education.

## THE SECURITY QUESTION

Over the past several years, the Arctic rim countries have been busily arming themselves with sophisticated military equipment. Procurement was the largest spending item in Canada's 2008 Northern Strategy, although nowhere as ambitious as what the Danes and Norwegians are doing, let alone the Americans and Russians. Nonetheless, financing the means for greater control over Canadian territory is perfectly appropriate.

But we are wary of the sustainability of going it alone. The Canadian North is a huge and harsh region of 3.9 million square kilometres, the size of 11 Germanys, and a challenging and expensive theatre in which to operate. Our panel was told that running

military equipment and maintaining personnel in this inhospitable environment will make the costs in Afghanistan pale in comparison.

Canada has a responsibility to beef up its security capabilities in the Arctic, but it is not going to win an arms race, if it comes to that. For decades, Canadians have given short shrift to the expensive proposition of northern defence. In the post-war period, Canada chose a "peace dividend" of expanded social programs over expanded military capacity. After the voyages of the *Manhattan* and the *Polar Sea*, military-spending initiatives were announced along with legal measures to assert greater control over Arctic waters. The legal measures had greater staying power than proposed state-of-the-art icebreakers and nuclear-powered submarines.

It is premature to say history is repeating itself, but already we have fallen behind on some pronouncements and are scaling back others. And now the Department of Defence has to reckon with a record federal budget deficit.

There is a more economical way to achieve our security goals in the Arctic. In almost all instances, Canada and the U.S., the keepers of the North American Arctic, share interests ranging from environmental protection to economic development. Moreover, given the huge U.S. budgetary deficits, Canada might find them a willing partner in sharing the Arctic financial burden.

**Our first security priority in the Arctic is to know who is skulking around.**

The GPS Panel recommends that Canada share responsibility with the U.S. for control of North America's Arctic waters and skies through an expanded NORAD. This extends to search-and-rescue as well as joint monitoring, air patrols and icebreaker operations.

Our first security priority in the Arctic is to know who is skulking around. Canada is investing, as it should,



in advanced monitoring technologies. But it makes no sense for the two countries to duplicate their efforts. Moreover, should monitoring lead to enforcement, Canada lacks the capacity to go it alone.

Fortunately, in NORAD we have an established place to work together. And Canada has assets to bring to the table. Radarsat is now providing data for U.S. unmanned aerial vehicles (UAV). It makes no sense for the two countries to launch separate satellites for the huge job of monitoring the territory. Instead, we should invest together in new satellite capacities and joint UAV surveillance over this vast area.

Canadians who are suspicious of U.S. motivations in the Arctic are unsupported by any reasonable reading of the record. Even in world crises—the northern defence build-ups of the Second World War and the ensuing Cold War—the American government and military were respectful of Canadian control. At the end of each threat, the U.S. went home and left the Canadian part of the Arctic in our hands.

The 1969 voyage of the *Manhattan* and the 1985 *Polar Sea* voyage, despite the uproars at the times, were both taken with Canadian concurrence and participation. Although the political outcry pushed the Trudeau and Mulroney governments to deepen Canadian claims over Arctic waters, the U.S. has never demonstrated designs over Canadian territory. “To all but those who are pathologically suspicious of the United States, the American’s attitude to northern Canada can be seen not as ominous, but as a reason for cautious optimism,” wrote the authors of *Arctic Front*, a 2008 Donner Prize-winning history of Canadian defence policies in the Far North.

Certain matters would have to be cleared away first.

- President Obama and Secretary of State Clinton would have to press ahead with ratification of the Law of the Sea Treaty signed by President George W. Bush.

- The two countries would have to settle the outstanding Beaufort boundary claim under either Law of the Sea arbitration or through the International Joint Commission, the oldest Canada–U.S. binational body. Such a settlement could hedge the risk to either side by entering into a venue-sharing arrangement from resources within the disputed territory.

- The big one is the longstanding disagreement over the Northwest Passage. The two countries would have to agree to forego an all-or-nothing approach in favour of the de facto “agree-to-disagree” policy now in place. Canada understands the U.S. cannot accept the Canadian position because it could form a precedent in the Strait of Malacca off Southeast Asia or the Strait of Hormuz off the Persian Gulf, both critical global shipping routes. Freedom of the seas is critical to U.S. national interests and those of other major maritime nations. The U.S. understands that Canada cannot surrender its claim and has the legal responsibility to ensure the disputed waters are used safely. An agree-to-disagree policy serves the interests of both countries, especially given that neither can be certain how a dispute over the Northwest Passage would play out in an international court. Both risk losing, which is why neither has pressed the point.

Through NORAD, the two countries can finesse the main issue separating them in the Northwest Passage: notification of ships passing through. Charles Doran, a Canadian expert at Johns Hopkins University, has written: “If both countries were involved in monitoring and patrolling, would there be any need for formal announcements of movements between Canada and the U.S. as they would both know what was going on?” Canada would have to accept that other countries might withhold information on their shipping through the passage, but that’s where the international regulatory regimes come in.

The authors of *Arctic Front* describe tighter security links with the U.S. as the only sensible solution to northern management for Canada. “Failure to

negotiate and work with the Americans may lead other countries to use the route with impunity. The hasty rejection of this option is a classic example of rhetoric and symbolism overcoming good sense.”

We recognize that closer Canada–U.S. security cooperation in the Arctic could place strains on other members of the Arctic Council. But a bilateral security arrangement between well-established defence partners in their sector of the Arctic is justifiable. It

serves our national interest in the North and deepens our relationship with the U.S. and will ultimately be accepted by the others. It may even inspire other such arrangements, strengthening common cause.

The objective is a strengthened Arctic Council that, as with the European Community, builds trust and finds purpose among members to make the north prosperous, sustainable and peaceful.

Canada has three choices:  
to inadequately defend our  
7.1 million square kilometres  
of coastal waters; to allow  
the United States to do the  
job for us as *it* sees fit; or  
to manage threats to our  
continent together.





## Chapter 7

# Security and Defence: Canadians First

The Canadian military is in a renaissance. Afghanistan has re-instilled pride within the ranks. Our soldiers have gained valuable experience battling insurgencies and working hand-and-glove with other NATO militaries, particularly the United States. They have learned how to fit development work into a security mindset. After nearly two decades of under-funding, the services have profited from fresh investments in equipment and personnel.

Canadians rallied around their troops. They came to accept that when Canadian soldiers go overseas on a modern mission, some will not come home. While casualties pale in comparison with the world wars of the 20th century, public opinion demonstrated a greater resilience for loss than most observers imagined.

As the military prepares to withdraw from Afghanistan next summer, there are urgent questions. For starters, are we the country of Vimy Ridge or Suez, or are they inseparable in today's world? How does war-making balance with peacekeeping—both legitimate parts of our history? Will defence, with the largest departmental budget in the government, be subjected once again to cost pressures? Will this constrain its ability, post-Afghanistan, to contribute globally?

Canada's defence policy is unaltered since it was first articulated by National Defence minister Brooke Claxton in 1947: defend Canada; defend North America; and contribute to international stability in concert with our allies. This three-part mantra has withstood our entry into NATO and NORAD, the beginning and end of the Cold War and the terrorist attacks on civilians in Western countries.

It's time to reassess our priorities domestically, within North America and beyond our continent.

## DEFENDING CANADA

Canada lives in one of the safest neighbourhoods on the globe. East and west, the Atlantic and Pacific oceans provide major buffers. To the south, Canada has had no need to defend itself since at least the Fenian raids of the late 1860s, if not the War of 1812. And while there is a lot of talk of challenges to sovereignty and a greater military presence in the North, it is difficult to find analysts who imagine an armed threat to Canada in the Arctic.

So securing our borders produces uncomfortable contradictions: We have 243,792 kilometres of coastline, more than any other country in the world; our population-to-land-mass ratio is among the lowest in the world, with most of it concentrated along our southern flank; the threat of invasion is infinitesimal; our military is often called upon for duty overseas; our willingness to foot the bill is faint.

Canada's most direct threat comes not from encroachment on our territory but from terrorists and, to a lesser extent, internationalized criminal gangs. These could be physical attacks, such as the one planned by the amateurish but potentially deadly homegrown terrorist cell broken up in Toronto in 2006. Or they could be cyber attacks meant to cripple our infrastructure, cause chaos and result in hundreds or thousands of deaths.

Even threats from our skies are more likely to come from hijacked planes than fighter jets; the worst foreseeable threat on the ground today comes from weapons of mass destruction in the hands of terrorists. These are not the classic scenarios; in all cases, the first line of defence is good intelligence and policing. By the time the military gets involved, the damage will be done.

The GPS Panel concludes that the first of the three longstanding objectives of Canadian defence policy should undergo a slight but significant revision to read instead of "the defence of Canada," *the protection of Canadians*.

Up to 2.7 million citizens live outside our borders. In a globally connected society where we want Canadians to be engaged with the world, the majority of the panel felt they should expect their governments to try to help when they get in trouble abroad *if practical*. It may be individually or en masse, as with the nearly 50,000 Lebanese–Canadians caught in a war in the summer of 2006 or the thousands caught in Haiti at the time of the earthquake. Canadians also have legitimate expectations that their military will come to their assistance at home in the instance of a flood, ice storm or cataclysmic Hurricane Katrina type of event.

## Canada's most direct threat comes not from encroachment on our territory but from terrorists.

As for defending Canada's borders, protecting our land boundaries with the U.S. is a border management, not a military, issue, which leaves the skies and particularly the oceans, both of which are shared North American approaches. The difference is that one is coherent and the other is not.

Our air defence system under NORAD is rational and efficient; our maritime protection is spread over five Canadian government agencies and departments, including a Coast Guard that must patrol our massive coastal waters unarmed and without law-enforcement powers.

The Coast Guard's duties are restricted to navigation and safety, traffic management and pollution control. It must ferry RCMP officers to sea when an arrest is made. What would happen if it came up against a boatload of well-armed terrorists or drug importers? Or worse, a ship ferrying weapons of mass destruction into a Canadian port?

We recommend that the Canadian Coast Guard, currently an arm of the Department of Fisheries, be moved to Public Safety Canada, alongside the Canadian Border Services, and that it be appropriately armed.

The Canadian Coast Guard must be given the capability to literally guard our coasts; on this we agree with the Standing Senate Committee on National Security and Defence. This is especially true in the Arctic, where it has years of experience patrolling and operating icebreakers and where direct military threat remains remote. It can monitor and carry the flag more effectively and cheaply than the navy and has a role to play in everything from ice breaking to environmental and fisheries protection to marine safety. It has been suggested to us that the government might want to consider that some or all of the patrol boats slated for the navy might be a better fit for the Coast Guard.

Simply put, other than a threat from the U.S., there is no threat to Canada that is not also a threat to the U.S.

## DEFENDING NORTH AMERICA

The modern defence relationship between the U.S. and Canada began with a 1938 speech by President Franklin D. Roosevelt at Queen's University in Kingston, where he stated that “the people of the United States would not stand idly by if domination of Canadian soil is threatened by any other empire.” Mackenzie King pledged in return that as “a friendly neighbour,” Canada must ensure that “enemy forces should not be able to pursue their way either by land, sea, or air to the United States from Canadian territory.” In other words, Canada would not be a staging ground for an attack on our neighbour, a doctrine that still stands.

The two leaders ushered in an era of shared defence in the famous 1940 Ogdensburg declaration. Fears that the agreement would subjugate the Canadian

military to U.S. command never materialized. The U.S. respected Canadian sovereignty.

This remains the foundation of the relationship today: North America is a single military theatre, each country has a duty to the other to defend it, and they work closely with each other to that end.

Simply put, other than a threat from the U.S., there is no threat to Canada that is not also a threat to the U.S. For Canada, joint defence cuts cost and gains us a seat at senior U.S. military tables. The arrangement has left Canada unconstrained in exercising our sovereignty; we steered clear of American interventions in Vietnam and Iraq and refused nuclear warheads on our soil.

The NORAD is the main expression of our joint defence. It is not a traditional bilateral defence arrangement but rather a *binational* defence command. NORAD has forces assigned by both countries with a mandate to monitor and respond to any attack by air or space (missiles) on North America. It is a remarkably supple organization; it allows for a joint response or, through its twin-hatted command structure, solo U.S. action should Canada choose not to engage.

Since its creation in 1958, NORAD has been commanded by an American with a Canadian serving as deputy. On 9/11, control of the air space over the U.S. fell to the senior Canadian officer at NORAD. This is the only known security arrangement where Americans give over a critical part of their defence to military personnel from another country.

After 9/11, NORAD expanded its role from defending against outside airborne threats to defending against threats originating *within* North America. It was given the key job of protecting North American cities and critical infrastructure and was put in charge of the security of the skies at the Super Bowl and the Vancouver Olympics. Protecting the airspace above this month's G8 and G20 summits will also fall to NORAD.

For 52 years, this has been one of the most trusting defence arrangements in history. It has deepened our

relations with our most strategically important partner, provided us with unmatched access to intelligence and technology and saved us huge sums of money in exercising sovereignty over our territory. The creation of separate Canadian and U.S. domestic command structures in recent years, and Canadian opposition to ballistic missile defence, have threatened to hollow out NORAD. In the view of The GPS Panel, Canada should be applying itself to reinvigorating and expanding an institution that represents one of the most special parts of a special relationship.

## NORAD is a diplomatic triumph along the lines of the Auto Pact and free trade agreement.

There has never been a maritime equivalent of NORAD. In the 2006 NORAD renewal, instructions were to develop a maritime role but they produced little, and at the next review earlier this year no new ideas were put on the table by either side. This is regrettable. It is in Canada's interest that continental defence be a joint effort. The GPS Panel urges the Government of Canada to open negotiations with the United States for a NORAD expansion plan for implementation by the next review period in 2014. Particular attention should be paid to extending NORAD into the maritime realm, including the defence of Canada's coastal approaches.

Let's be clear. Canada has three choices: to inadequately defend our 7.1 million square kilometres of coastal waters (an area twice the size of India); to allow the U.S., with legitimate national security interests of its own, to do the job for us as *it* sees fit; or to manage threats to our continent together by pooling sovereignty as we have in matters of defence for decades.

In NORAD, we have a voice. Without NORAD, we don't; we're just a taker of policy like most other countries. NORAD is a diplomatic triumph along the lines of the Auto Pact and free trade agreement. The time is ripe to expand it and deepen our relationship.

## CONTRIBUTING TO INTERNATIONAL STABILITY

Canada, it is said, entered the First World War a colony and emerged a nation. In the Second World War, Canada shook off isolationist policies to show the world it could fight with the best and, in the aftermath, that we could build a lasting peace with the best through our disproportionate contributions to new multilateral institutions.

Soon, when Canada leaves Afghanistan, the debate will start. Will we go back to the days of the simple peacekeeping, positioning ourselves between fatigued combatants? Or will we keep our battle-hardened army sharp through dangerous interventions abroad?

The GPS Panel believes a global Canada allied with like-minded countries must be ready and willing to send its troops into harm's way. We have stated a preference for a failing states strategy, but all requests must be considered. Afghanistan has prepared us well. Our forces excel at all levels, from logistics to special ops. And our equipment is top notch: The new CC-177 Globemaster III transport planes have already been put to humanitarian use in Jamaica and Haiti and can carry troops and equipment into more hostile situations.

## Our future governments will be called on again to make the gravest decision—the sending of Canadian troops into harm's way.

Canada is a beneficiary of a liberal international order, as University of Calgary historian David Bercuson reminded our panel, and has an obligation to uphold that order. "We are not in a dangerous place in the world, but we must still pay our dues. We must be prepared to go offshore to contribute to international operations in order to maintain the international order."

Conflict is not about to disappear. Our future governments will be called on again to make the gravest decision—the sending of Canadian troops into harm’s way. They should continue, as has become practice, to engage the public and legitimize their decisions through a Parliamentary vote.

In the 1920s, Canadian Senator Raoul Dandurand famously referred to Canada at a League of Nations meeting as a fireproof house far from flammable materials. Blessed with distance from the most

contentious regions of the world, there was not much call on us to share the burden of international defence. In the narrow sense of direct threats to the continent, the much-maligned Senator may have been correct. But as it turned out, we were a little more than a decade away from being swept up in the Second World War.

Today Canada lives in an interdependent village. Flammable materials, as we have sadly seen, can ignite within our own communities or jump our firewalls. We must be prepared to douse them wherever they appear.

Dirty oil is dissonant with the Open Canada brand. It makes Canada appear a less attractive place, particularly to the young highly educated crowd we most want to attract.





## Chapter 8

# Energy and Environment: A Superpower in Need of Super Powers

In 1967 Alberta Premier Ernest Manning opened the Suncor plant, the first industrial attempt to extract oil from the tarry sands of northern Alberta, with these prophetic words: “No other event in Canada’s centennial year is more important.”

It must have sounded like an incredible assertion 43 years ago, but time has justified Mr. Manning’s confidence. As Canada approaches its 150th anniversary, the oil sands loom over the future prosperity of Albertans and all Canadians.

Today Canada’s energy resources earn enormous export revenues, fuel the broader Canadian economy and position this country beautifully in an age of intense global competition for resources.

Electricity generated in Quebec, Manitoba and British Columbia and oil, gas and uranium produced primarily in Saskatchewan and Alberta (and Newfoundland and Nova Scotia, to a lesser extent) constitute the key holdings in Canada’s energy portfolio. But it is the oil sands that stake our claim as an energy superpower. Alberta’s oil sands represent the second-largest proven reserves of oil on the planet, after Saudi Arabia. They are situated in one of the more politically and economically stable spots on Earth, which makes Canada one of the most dependable suppliers in the world. And they account for a staggering 97 per cent of Canada’s provable reserves of oil and already provide half of our own crude needs. Without them, Canada would be a net oil importer rather than the only net exporter in the G7.

Canada is already the largest foreign supplier of oil to the American market in what has become a symbiotic and mutually beneficial relationship. The oil sands produce \$30 billion to \$40 billion in annual revenues (depending on oil prices), about the same size as Ontario's automobile industry. The difference is that one is growing and the other is not.

## THE BÊTE NOIRE

Then there is the other side of the story. The oil sands stand in the middle of an international controversy, one that threatens to blacken Canada's reputation and even make this great resource vulnerable to politically driven disruptions in the marketplace.

Coupled with environmental concern around water and land use, northern Alberta's oil sands have become the *bête noir* of environmentalists globally. The situation is heightened by the fact that activists view Canada, with its free press, open travel and head start in unconventional energy production, as the perfect place to make a stand against new, more carbon-intensive forms of energy exploitation around the world.

Yet this is not a simple tale. The industry has worked hard at improving its efficiency. Technological advances and operational gains have translated into a 33 per cent reduction of emissions for each barrel produced since 1990, so-called intensity gains. But the pace of new production has outrun the gains from existing production. And so the oil sands attract growing fire from U.S. elected officials wanting to block access, British Parliamentarians wanting to block investment and consumer-friendly companies wanting to burnish their environmental credentials.

There's no mileage in telling critics they have it all wrong. It may feel satisfying, but it has a poor track record of success. Public opinion, especially internationally, is building against the oil sands, plain and simple. The consequences of it becoming "the next seal hunt" would be extremely grave.

Reputation matters, and the dirty oil moniker is dissonant with the Open Canada brand. It makes Canada appear a less attractive place, particularly to the young, highly mobile knowledge workers we most want to attract.

## A MESSAGE TO ALBERTA

Never mind Climategate; whatever your personal view, the push for a cleaner energy future is not going away. Which is why The GPS Panel has chosen to focus on the dilemma of the oil sands, with its high stakes and hard solutions. Our message to Alberta is simple: We want to save the oil sands—even from the worst instincts of their proponents—not shut them down. That can only be done by turning Canada into a clean energy power.

Alberta's oil sands are situated in one of the most politically and economically stable spots on Earth, which makes Canada one of the most dependable suppliers in the world.

The GPS Panel believes the oil sands are of enormous importance to the future prosperity of the country and by their sheer size the security of all Western countries. We need a plan to reduce their vulnerability without sacrificing their vitality.

First, The GPS Panel calls for pricing of carbon by the national government to create a critical path moving forward. We need to be careful not to get too far out of sync with the U.S., which requires both a modest start and probable adjustments down the road. But we have been going at this backward for years by setting targets for emissions (sometimes on the back of a napkin), then trying to figure out how to achieve them, or by simply ignoring the question altogether. In

the process, uncertainty, the avowed enemy of good public policy, has been sown.

The path to a clean energy future begins with a clear and transparent (and, for now, modest) pricing mechanism. Alberta has already priced carbon at \$15 a ton—not high enough, but a start. A pricing mechanism is what will spur the market-oriented industry into action and generate the revenues to finance R&D into new processes and technologies.

Flowing from this, The GPS Panel calls for a comprehensive National Clean Energy Strategy covering provincial and federal jurisdictions and including stakeholders as well as governments. Albertans have been allergic to a coordinated national approach to energy policy ever since the 1980 National Energy Program. Successive federal governments, fearing a backlash that would imperil national unity, have steered clear.

### TIME FOR A STRATEGY

But 30 years have passed and the country, Alberta particularly, is suffering from a disjointed, chaotic approach to energy development. It is time for leadership. The challenge now is to ensure that the NEP does not prove as damaging in its afterlife as it did during its short existence. Roger Gibbins, president of the Canada West Foundation, has argued the region is best served by holding the pen itself on a new national strategy. Senior industry figures such as Suncor president Rick George have also called for a more strategic multigovernment and stakeholder approach to a resource he believes will play a critical role for a century and beyond. “The Canadian energy sector is simply too important to manage passively or leave to chance,” he says.

The best defence against “dirty oil” charges is to make the oil—and the country from which it originates—demonstrably cleaner.

A National Clean Energy Strategy would include:

- the predictable regimen for pricing carbon mentioned above. A carbon tax is less intrusive, more transparent and puts producers and consumers on an equitable footing.
- attention to all energy forms, non-renewable and renewable, with the objective of shifting consumption to cleaner energies over time.
- a government role in ensuring that pipeline and transmission plans serve broader national interests and not just commercial ones. These are strategic assets and the public has a stake.
- a Clean Energy Fund to redirect carbon penalties to the financing of new recovery technologies, carbon storage and alternative energy forms. The fund cannot be directed for a single use.
- a rebalancing of tax incentives so as not to favour oil sands production over clean energy alternatives.
- long-term fuel efficiency standards as well as incentives to increase the use and availability of public transit.
- building codes and standards in keeping with emission reduction goals.

All of this will have serious regional repercussions. The GPS Panel recommends the appointment by first ministers of envoys, drawn from experienced figures in political and public policy issues, to gather consensus on the National Clean Energy Strategy. Particular emphasis should be on the sensitivity around national unity issues. The work would feed into a First Ministers Conference.

The main tenets of a plan are clear:

- A. The biggest carbon producers will bear the highest cost of carbon emission reductions.
- B. As the largest per capita emitter in the country and a longtime beneficiary of its hydrocarbon resources,

# Eight parts of a successful oil sands strategy for the 21st century:

1. Alberta and the rest of Canada have a huge economic interest in developing and selling the resource.
2. It is in Canada's interest to do so in a way that does not invite international opprobrium, damaging our standing in the world and possibly jeopardizing the free movement of the resource.
3. An aggressive program of innovation must reduce carbon emissions to acceptable levels and kill off the "dirty oil" moniker. Public relations campaigns alone will not do the trick.
4. A carbon-pricing system should create incentives and generate funds for more efficient production and innovation and meet the federal government's international commitment of a 17 per cent carbon-emission reduction by 2020.

Alberta, therefore, will shoulder the greatest burden in fighting climate change and financing a cleaner energy future.

C. *But* in keeping with the nature of the federation, the rest of Canada will bear a higher share of the costs than they would if all things were equal.

D. The circle will be squared by a disproportionate share of the Clean Energy Fund flowing back to Alberta.

It is our hope that this group of envoys, liberated from short-term political calculations, will be better able to conduct a frank dialogue with Canadians about the trade-offs of a clean energy strategy. Ultimately, no party is likely to be fully satisfied. The objective of public policy

must be that nobody is overly disadvantaged and that the country is prepared for the future. Therein lies the compromise and ambition at the heart of any national deal. But without an inter-regional consensus—one that reflects the power-sharing realities of the federation and its risk-sharing traditions—the country will remain stuck.

At the moment, provinces are adopting policies willy-nilly and campaigning against one another internationally. Canada is a single nation out in the world. We need to sweat the details to unite at home. Our panel heard from players on all sides of the issue that such a national consensus must be forged before, not after, negotiations with the U.S. on an energy and environment agreement.

5. Serious national unity issues demand complex and sensitive inter-regional trade-offs. The Obama administration is unlikely to rescue the Canadian government from having to manage the issue domestically.
6. In a world of unstable and uncertain oil supplies, the United States shares our interest in making the oil sands work, but Canada has the most at stake and cannot afford to be a policy taker.
7. Given that 99 per cent of Canada's oil and gas exports go to the U.S. and only 15 per cent of American imports come from Canada, we lack bargaining leverage in energy discussions with the U.S.
8. The oil sands constitute an enormous endowment and so should be expected to generate advantage beyond the generations in which they are exploited.

In the meantime, we are already falling behind the government's new emissions reductions targets. **The GPS Panel recommends that Alberta moderate the pace of development to keep it roughly in line with the pace of technological advances and emission reductions.** The only way to keep emissions growth in check—and still allow for continued production growth—is to tie permits for future plant expansion and development to progress in reducing emissions. Otherwise, Canada will end up back at Kyoto, promising reductions and delivering the opposite.

Moderating the pace of development has spinoff benefits: it will dampen cost pressures; smooth revenue streams into government coffers; provide more time to address issues around water and land

use; slow the pace of currency appreciation and allow other regions more time to adjust to regional wealth inequalities. Finally, it will extend the benefits of the resource beyond the current generation of Albertans. We are not recommending unilateral changes to existing arrangements that would negatively effect shareholder values.

The industry needn't worry about oil being stuck in the ground. The world is going to remain dependent on hydrocarbons, particularly in the transportation sector—the largest source of carbon emissions—for many years to come. Even with the greatest of energy innovations, such as steam power or electricity, economic adaptation is measured in decades, not years.

## EMISSIONS SINCE 1990

Canada's emissions have grown at about twice the rate of the developed country average since 1990 and about 50 per cent above the U.S. rate. Emissions from fossil fuels grew at about twice the Canadian average, pumped up by growing demand from the U.S. and the shift from conventional to unconventional production. The oil sands, while accounting for just 5 per cent of Canadian greenhouse gas emissions, have seen their slice grow about 10 times faster than the country as a whole as four new plants came onstream.

Canada's goal must be for the U.S. to see the clean development of the oil sands as much in its own interest as in Canada's, and to feel a stake in the process. That will be the best way to safeguard the resource from possible carbon-based border duties and legislative constraints.

The GPS Panel heard repeated arguments that Alberta's oil will flow freely because its proximity and reliability meet the security imperatives of the U.S. But recent American excitement over shale gas reminds us how suddenly the game can change. The U.S. also has international interests in retaining at least some energy ties with Middle Eastern and other producing countries. Moreover, these decisions can be influenced by oil companies and refiners with agendas of their own, not to mention a coal industry

intent on deflecting attention elsewhere or an extreme weather event that finds a convenient scapegoat in northern Alberta.

Canada should not be a policy taker on energy and environment, as we have said. Nor should we risk an over-reliance on the sense of fair play and strategic rationality of the American political system, or count on knock-on benefits from the Gulf of Mexico disaster. We prefer a formal deal with the U.S. that trades security of supply for security of access and joins forces on clean energy developments.

But Canada bargains from a weak position. Despite talk of our energy superpower status, we are short on superpowers. We are an abundant and reliable energy supplier, for sure, but 99 per cent of our exports go to the U.S. As long as we remain a captive supplier, we will lack the leverage of a superpower.

Canada needs to diversify its markets for hydrocarbon. The GPS Panel recommends that a pipeline be built to the West Coast to provide a second export outlet for our oil sands production. We also support government facilitation of Liquefied Natural Gas (LNG) projects.

The oil industry has been edging toward support of this project. But beyond commercial considerations, Canada has a strategic interest in ensuring this project succeeds; ditto LNG terminals. (Australia is doing huge LNG business with China.) The creation of alternative markets to the U.S. will send a signal that we are a true energy superpower with continental roots *and* global ambitions.

## OUR TRICKY HAND

Canada has been dealt a tricky hand. Its oil sands have come of age exactly when the accumulation of carbon in the atmosphere has brought calls for global action and raised the stakes of environmental stewardship.

Until now, public policy has touched lightly on oil and gas. Alberta leaders have not been sufficiently

attentive to ensuring future generations their fair share of hydrocarbon endowments. Instead, Alberta and Canada have opted for a low-tax, consume-as-you-go policy. It has hardly been a conservative approach.

The Alberta Heritage Fund, started in 1976, had assets in 2009 of \$14.4 billion. Although its statutory mandate is “to provide prudent stewardship of the savings from Alberta’s non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans,” since 1982 some \$30 billion has been transferred out of the fund for spending priorities. (The Canadian government, which also collects large revenues from oil sands producers, sets nothing aside.)

Now look at Norway, also a sparsely populated, cold-weather energy producer. Norway’s equivalent fund has assets of over \$430 billion (U.S.). As its North Sea oil runs down, Norway is one of the leading clean energy producers in the world and controls one of the largest sovereign state funds—a position of global strength financed by the careful stewardship of its North Sea endowment. If Norway punches over its weight in the world, here’s one reason why.

Fortunately for Alberta—and to a lesser extent, for Canada—the fantastic deposits of the oil sands provide a chance for redemption. If governments get public policy right this time, it can help build a renewable energy future and provide a financial legacy for future citizens.

The objective of Canada's assistance must be to produce economic independence—the missing link in the sovereignty equation for so many countries. The real measure of success is success.





## Chapter 9

# Development: In Aid of New Approaches

In 2008, OECD countries gave \$120 billion to poorer nations. That's in one year alone; money has been flowing for 60 years now. Canada accounted for \$4.7 billion of those funds. Over the past 10 years, Canadian governments have spent \$30 billion on official assistance.

What do recipient-nations have to show for it? That depends who you ask. The aid community points to micro successes such as the increasing numbers of children in developing countries being vaccinated and attending primary school. Critics of aid and others frustrated by the failure to move the needle despite huge amounts of spending point to the macro failures: deepening poverty; persistent hunger; the stagnation or regression of many recipient countries.

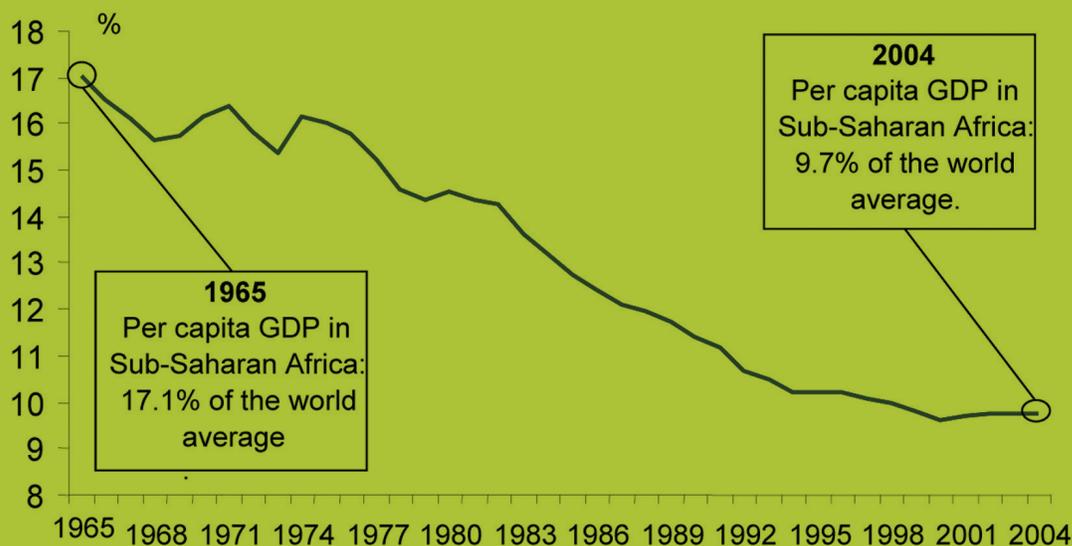
The chart of the following page, taken from a 2007 Canadian Senate report, is one among many grim indicators. Sub-Saharan Africa, a major target of aid, is moving backward in its per capita share of the world economy. Meanwhile, China has lifted an astonishing 300 million people out of poverty. India is following suit. As one of our presenters with a bird's-eye view of the donor system plainly put it: "We need a major rethink on the way we do development assistance. We have not had results commensurate with our investments."

Canadians should avoid the simple comfort of polarized debates just as they should resist the status quo. After six decades, taxpayers have the right to expect better results, but first two questions need to be asked and answered: What types of aid work and why? And what doesn't work and why? We need an adult conversation about how we can be more effective in solving this human tragedy, not moralizing or finger-wagging.

Aside from public outpourings of sympathy during crises such as the Haiti earthquake, the public discussion about aid in Canada is dominated by interested parties and often takes the curious form of “why so little” rather than “what has been achieved.” Some in the aid community have made a target of 0.7 per cent of GDP *the* measure of success. The problem is that 0.7 per cent is an input measure, and an arbitrary one at that. The objective of Canada’s assistance must be to produce economic independence—the missing link in the sovereignty equation for so many countries. The real measure of success is *success*.

The model of development agencies operating on a government-to-government basis was invented amid decolonization at the start of the 1950s. With few exceptions, it is ossified and outmoded. Other forms of financial flows to the developing world are playing a growing role. The World Bank says individual migrants transfer home almost three times as much money as all of the development agencies combined. In Canada, according to a 2006 paper by Danielle Goldfarb, remittances were three to five times official assistance.

## Africans fall behind The 2007 Senate report



Source: Sub-Saharan Africa's Share of Global Economic Activity per capita  
<http://www.parl.gc.ca/39/1/parbus/commbus/senate/com-e/fore-e/rep-e/repafriFeb07-e.pdf>

Of course, much of that money goes to middle-income countries or to middle-income earners in poorer countries. Still, it is money that gets pumped into those economies. Remittances add up to half of aid budgets even within less-developed countries. One can't help but wonder whether our best development program can be found in Open Canada's liberal immigration policies; not only do immigrants get better lives here, they also send home money—and ideas and values, too.

We are also seeing a remarkable rise of non-governmental organizations working directly in development. Canada may be a world leader in NGO start-ups. What this might cost in coordination, it more than makes up in passion and entrepreneurship.

On a grander scale, highly results-oriented, well-funded and nimble outfits such as the Gates Foundation and the Clinton Foundation are having a big impact on the ground. Gates spends about the same in a year as CIDA, concentrating in just four areas. In health, its budget nearly matches that of the UN's World Health Organization; it has used this to leverage partnerships in such areas as polio eradication and vaccination and immunizations programs.

The GPS Panel is interested in what Canada can learn from these focused entrepreneur-driven foundations. More than one interlocutor suggested that if Canada wants to increase its impact, it should follow Warren Buffet's example and entrust its funds to the Gates Foundation. We do not go that far, but old models need to be challenged and replaced.

## THE BUREAUCRATIZATION OF CIDA

Created in 1968, CIDA was never meant to be what it has become. It was established as an offshoot of the Department of External Affairs with a strong president to keep it on point. In 1979 it was assigned a minister for the first time as Joe Clark reached into the Senate for Quebec representation. Jean Chrétien re-introduced the concept in 1996 and CIDA has been overseen by a dedicated minister ever since, generally of junior rank.

There's no evidence ministerial oversight has done anything for efficiency. The auditor general has released a series of reports criticizing CIDA's management practices, and the Senate committee produced its scathing report two years ago.

In 2007 the agency revealed that it took 43 months for a proposal to navigate its approval process, about twice as long as the tenure of the average minister. And more than ministers change over 43 months; governments, senior management, strategies and priorities can all change too. An application that looked promising three and a half years earlier can easily fall out of favour in the wait.

Some, but not all, of CIDA's problems result from a poor fit between the requirements of the auditor general and the Treasury Board for rock-solid accountability of government expenditures and the inherently uncertain nature of development work. Development spending happens where accountants—and Western standards—tread exceedingly lightly. It's a long game; development work can't run on the same accounting rules as the Department of Veteran's Affairs.

**In 2007 the agency revealed that it took 43 months for a proposal to navigate its approval process.**

In trying to get out from under a succession of negative auditor general reports, CIDA has created a top-heavy, head-office-oriented culture. During its 43-month waiting period, which some NGOs say now runs to 48 months, proposals can go through 28 different approval processes. The organization is being strangled by red tape. Unsurprisingly, many of the best NGOs prefer to go around CIDA rather than partner with an organization driven, as an analysis by former foreign affairs deputy Gordon Smith and academic Barry Cairns recently stated, by "procedural rectitude" and the priority "to never make a mistake."

## Recipients of Canadian aid, 2008-2009 (in \$ millions)

1.	Afghanistan	\$296.82
2.	Haiti	\$197.78
3.	Iraq	\$186.83
4.	Ethiopia	\$176.47
5.	Tanzania	\$149.50
6.	Ghana	\$144.71
7.	Mali	\$131.06
8.	Sudan	\$123.08
9.	Bangladesh	\$119.81
10.	Senegal	\$116.85
11.	Mozambique	\$110.68
12.	Indonesia	\$101.70
13.	Russia	\$85.19
14.	China	\$77.47
15.	Vietnam	\$75.50
16.	Pakistan	\$74.73
17.	Congo, Democratic People's Republic	\$53.95
18.	West Bank and Gaza	\$71.71
19.	India	\$67.70
20.	Sri Lanka	\$60.44

Source: CIDA, "Statistical Report on International Assistance, Fiscal Year 2008-2009," 2010, [http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/stats/\\$file/STATISTICAL-REPORT-2008-2009\\_ENG.pdf](http://www.acdi-cida.gc.ca/INET/IMAGES.NSF/vLUIImages/stats/$file/STATISTICAL-REPORT-2008-2009_ENG.pdf)

So we are perplexed by those who rhyme off these well-known shortcomings of our current development machinery and conclude that the answer is to replace CIDA with a Super CIDA—one that would have a full minister, a powerful one at that, and the legislative trappings of a full department. This vision of CIDA is based on the model of DFID, Britain's Department for International Development, which has been all the rage in recent years.

DFID was born out of a tied-aid scandal near the end of the Thatcher era. It vaulted to the top of the class among donor agencies thanks to a highly engaged prime minister in Tony Blair and an unusually determined and competent minister in Clare Short. But is DFID really a model, or is it the product of the right set of circumstances at the right time? Can it be replicated, or even sustained, without the commitment of a Tony Blair and Clare Short?

We have our doubts that the DFID model addresses CIDA's most basic problems: rapidly changing agendas and the risk-averting demands of the auditor general. After long discussion, The GPS Panel has settled on a different model, one found closer to home.

CIDA speaks for about 80 per cent of available development funds. The Department of Finance and DFAIT account for most the rest. The smallest portion—about 1/20th CIDA's budget—goes to an agency called the International Development Research Centre.

Barely known in Canada, the IDRC, established two years after CIDA, is widely celebrated in the developing world for its support of local researchers and practical research into real-world problems. It sponsored Brazilian academic Fernando Henrique Cardoso, long before he became president and put his country's years of authoritarian rule and economic mismanagement behind it.

The IDRC is an arm's length Crown corporation overseen not by a government minister but by an independent, international board of directors. It levers

its \$170-million budget by an additional 50 per cent through partnerships and maintains a perspective that is consistent over the long term.

### AN ARM'S LENGTH APPROACH

Rather than a more powerful minister, The GPS Panel prefers to liberate Canada's development assistance from the day-to-day fiddling of any minister at all. We are attracted to the model of a Crown corporation or of the Canadian Foundation for Innovation, in which the government sets the mandate, provides multiyear funding and selects seven out of 15 directors, balancing efficiency, independence and public accountability.

The GPS Panel recommends the government replace CIDA with two arm's length operating units overseen by independent, international boards and reporting through the minister of foreign affairs. Operating on long-term mandates and working with NGOs and other development partners, these units will specialize in a) human development and b) economic development. A third agency specializing in humanitarian and stabilization assistance would be run out of DFAIT.

Government would commit to funding levels for five years. As with IDRC, the development agencies would be expected to augment their budgets through partnerships and even philanthropy. They would finance projects based on competitive bidding and work closely with those delivering aid to clear obstacles and ensure proper evaluation of results. Each of the agencies requires different skill sets. The Human Development Agency will work more closely with governments in the recipient countries on issues such as health, education and governance. Results should be more easily measurable. The Economic Development Agency requires a more experimental and entrepreneurial culture and a concentration on agricultural and small business development. Success will be more difficult to measure, and tolerance will be required for inevitable failures.

## CIDA's countries of focus

### AMERICAS

Bolivia  
Caribbean Regional Program  
Columbia  
Haiti  
Honduras  
Peru

### ASIA

Afghanistan  
Bangladesh  
Indonesia  
Pakistan  
Vietnam

### EASTERN EUROPE

Ukraine

### NORTH AFRICA AND MIDDLE EAST

West Bank and Gaza

### SUB-SAHARAN AFRICA

Ethiopia  
Ghana  
Mali  
Mozambique  
Senegal  
Sudan  
Tanzania

Source: DFAIT, "Countries of Focus," <http://www.acdi-cida.gc.ca/acdi-cida/ACDI-CIDA.nsf/eng/JUD-51895926-JEP>

The Humanitarian and Stabilization Agency, which could be overseen by START, must be oriented to quick, integrated, government responses to natural catastrophes and failing states situations. It would work in close cooperation with other government departments and agencies, particularly the Department of Defence and the post-CIDA agencies. The agencies would obviously cross paths in the field, as do foundations, NGOs and development agencies currently.

The transition to this new system should be assisted by a board of advisers drawn from the world's top development experts and executives, chosen for their expertise and credibility. In its fall 2009 report, the auditor general said: "By its nature, international development requires a long-term effort and stable, predictable programs." The model we are proposing suits those goals.

We are encouraged by the recent government initiative to give \$45 million a year to IDRC, the Canadian Institute for Health Research, The Gates Foundation and a newly created non-profit, Grand Challenges Canada. The money will support innovative science and technology solutions to developing country challenges such as vaccines that don't require refrigeration. This is in keeping with the spirit of the agencies we recommend.

**We need a major rethink on the way we do development assistance. We have not had results commensurate with our investments.**

Our panel wants the new development agencies to be unrelenting in their pursuit of success. It is time to concentrate on solutions and put an end to sterile debates over input targets. The GPS Panel recommends that the government of Canada actively discourage a specific aid target based on the size of the developed country rather than the needs of the developing ones.

Four decades have passed since the 0.7 per cent of GDP target was proposed, and Canada has yet to meet this goal—another example of the gap that too often exists between rhetoric and reality. The target has lost any utility as a lobbying tool through constant repetition. Worse, it distracts from the point of development: to produce change.

A 2005 paper by the Center for Global Development recounts how the 0.7 target, the product of a UN commission chaired by Lester Pearson after he stepped down as prime minister, was an artificial construct from the beginning. The initial target was actually 1 per cent of developed country GDP, but private investment was expected to deliver a third, leaving 0.7 for governments. The authors say "the eventual target was mostly arbitrary, based on a series of assumptions that no longer are true, and justified by a model that is no longer considered credible."

Even on its own terms, the 0.7 per cent would be much lower today because private capital to the poorest countries, while still inadequate, is much larger than 40 years ago. That's not to say that a great need for development doesn't continue to exist, particularly in the poorest of the poor countries in sub-Saharan Africa, or that Canada can't do more. But let's eliminate the noise and refocus the debate on what matters: *how we can help* the developing world rather than *how much we can spend* in the process. Once we get better at the first, then we can discuss the second.

# Four aid questions for Canada: Yes, yes, yes and yes.

1. Should the government direct development toward places where it has a political agenda, such as Afghanistan, currently Canada's largest aid recipient? Yes. The GPS Panel considers it completely appropriate for the government to identify needs that flow from broader foreign policy, as was the case in post-communist Eastern Europe and post-apartheid South Africa. Such initiatives should not be financed from the regular development budget. When the government wants the Export Development Corp. to support a non-commercial transaction it believes is in the national interest, it underwrites the risk itself. The same principle should apply.
2. Should Canada have distinct areas of specialization in development? Yes. Canada took a leadership position about ten years ago in bringing the Internet to underdeveloped parts of the world. We should continue to carve out that specialty by using our digitally savvy generation of young people to apply technological solutions to old problems. Education and agriculture are two other areas for us to focus. The key is to choose our priorities and stick with them.
3. Should the number of countries receiving aid be reduced? Yes again. Canada should reduce the number of "countries of focus," where 80 per cent of aid is meant to go, even further from the current 20. Success in difficult circumstances requires close relationships with our recipient partners and a deep understanding of their challenges. By that standard, even 20 countries is too many primary relationships.
4. Is it defensible to shift funds from Africa? The panel had more trouble with this one, but yes. A bigger focus on Latin America, with its hundreds of millions of poor people and nascent democracies, is justifiable. But as a G8 country, Canada has taken on a global role and therefore should maintain a global presence. Africa, home to most of the world's least-developed countries and some of its weakest states, continues to merit serious Canadian attention.

We need to be better friends with our best friend. And we need to make more friends in a world in which power, wealth and knowledge are accessible to all.





## Conclusion

# How to Move Forward

Any management consultant can tell you that 90 per cent of strategy is execution. Delivering smart public policy is always harder than it looks. Competing interests pound away inside and outside government; consensus is maddeningly elusive. Without a coherent approach embedded in our national interest, Canada will not navigate global changes to our advantage. How do we organize ourselves to reach our destination?

Let's start with the Department of Foreign Affairs and International Trade. International relations long ago outgrew the department created to manage them. Today 23 different federal departments and agencies post staff outside the country, provinces maintain personnel abroad, governors and premiers conduct their own summits and non-governmental organizations have gone global.

Canada needs a single clearinghouse, in some ways like the old days, to broker competing priorities and demands. Just as federal spending goes through Treasury Board and legal matters through Justice, things international need a central home.

The GPS Panel recommends that the Department of Foreign Affairs and International Trade be renamed the Department of International Affairs and be given this coordinating role. The name change reflects our view that in a country such as Canada, "foreign" is a pejorative term that distracts from the continuity between domestic and international policy. It also signals a new start for an embattled department and the reassertion of a single meeting place in government for all things international. We have also dispensed with the trailing words "and International Trade." It should go without saying that promoting the prosperity of Canadians is a core function of the department.

Moreover, the current structure of two ministers and two deputy ministers in the same department muddies clear lines of responsibility and accountability. **We recommend the department again be led by one minister and a single deputy, with junior ministers, as with the British model, assigned responsibilities for specific departmental functions.** We imagine a junior minister for trade and investment, one for Northern affairs, one for development, humanitarian affairs and failing states and perhaps one for Asia and one for Latin America. These should reflect prime ministerial priorities.

International Affairs would be a smaller department with the majority of its people in the field, unlike today. The modern diplomat must be a specialist, adept at accumulating knowledge and building networks. Headquarters would focus on strategy, coordination and integration.

Given the interests of so many arms of government in our international affairs, the Minister of International Affairs should chair a cabinet committee of ministers with major international components to their portfolios and liaise with other legitimate non-state actors and the provinces.

The national government must come to terms with the nature of the Canadian federation. Like it or not—and many in Ottawa seem to not like it at all—provinces have legitimate international interests. The federal government cannot wish this away; it needs to accommodate and manage it, as it did in the Buy America negotiations. We suggest the government create formal processes on international affairs between the Department of International Affairs and the Council of the Federation in an effort to speak with a single voice beyond our borders.

Some people might ask why give more authority to a department widely regarded to be in chronic decline. The answer is that the government must start by

getting its machinery right and then work on the culture of the department. A coherent department with a clear mandate is more likely to produce high-quality work. If it wants to attract and retain the best and brightest, the government will have to give its diplomats the license to express themselves. The big hitters of the past 65 years—Pearson, Robertson, Heeneey, Reid, Holmes, Cadieux, Gotlieb, Burney—managed to hold their own views of the world and serve the governments of the day. The national interest is not advanced by subservience.

We need reform at the political level, too. Too much partisanship coupled with narrow appeals to domestic constituencies undermine our national interests. Political parties must be free to air legitimate differences and new governments to alter policy, of course. But we want to create conditions for greater consistency in advancing the national interest. If the official Opposition had access to the advice available to government, differences would narrow and the government-in-waiting would be better prepared for office.

The GPS Panel recommends that the leader of the Opposition and three designates—the international affairs, defence and public safety critics—be sworn in as Privy Council members and be given regular briefings on international relations and national security. The swearing in of Opposition leaders currently occurs on an ad hoc basis for specific and limited matters. It should be automatic as in New Zealand, where the intelligence services are required to brief the Opposition leader along with the Prime Minister. If we ever elect independent committee chairs, we would like to see them extended the same privilege. We have been told that Opposition parties may not welcome this access because it could constrain their role as critics; we note that legislators in other countries seem able to walk the line between criticism and confidentiality.

## OUR RALLYING CRY

In this report, The GPS Panel has articulated a vision for an ambitious Canada, a global Canada, a Canada as open as any country in the world. We have described the game changers that are creating upheaval in the global order. For Canada, the most important of these concerns the United States. We hope it will renew itself, as it so often has in the past, but with so much of our prosperity dependent on that relationship, we can't afford to get it wrong.

If there is one message we hope readers take away from this report, it is this: Canada needs to stop crafting its international policies as a series of counterweights, in which we try to balance a policy favourable to the U.S. with one that is multilateral—or worse, one that directly confronts the Americans. We must get beyond this shallow, self-indulgent conception of policy that sets up a choice between the U.S. or the United Nations. We have spoken out against false dichotomies throughout this report: U.S. vs. multilateral; war-making vs. peacekeeping; interests vs. values; resources vs. innovation; energy vs. environment. We are convinced that in a digital age, these are not zero sum choices.

Canada can—indeed, must—walk and chew gum at the same time. Most particularly, we need to be better friends with our best friend. And we need to make more friends in a world in which power, wealth and knowledge are accessible to all. These are not mutually exclusive goals; they are strongly self-reinforcing ones.

Open Canada has tremendous assets to achieve a global repositioning that advances our interests. We are connected to the world through our diversity; we are rich in resources, including the second-largest provable oil reserves in the world; we reside next to what remains the largest consumer market and most innovative nation on earth; we are as militarily secure as any country anywhere; we enjoy access to the rising Pacific world as well as the established Atlantic one; the Arctic's time is arriving and we have the second-largest Arctic zone in the world.

What we lack are the strategies to leverage these assets to our best advantage. Globalization lays bare timidity and mediocrity in policy-making. We need to get our policies right if we are going to situate ourselves in the sweet spot at the centre of global networks.

# The GPS Project Biographies



**Edward Greenspon**  
Chair and project co-director, The GPS Project

Edward Greenspon was editor-in-chief of *The Globe and Mail* and globeandmail.com from 2002 to 2009, where he was responsible for content produced on all platforms and during which time he chaired the editorial board. During his tenure, the newspaper held its circulation amid historically challenging market conditions and grew its web traffic to 6.5 million unique visitors a month. He was the launch editor of globeandmail.com in June of 2000. He led *The Globe and Mail* to an unprecedented three Michener awards for public service journalism between 2004 and 2007.

Mr. Greenspon is well-known for his intimate knowledge of the Canadian political scene and his strong grasp of macro-economic and public policy issues. In 1995 he co-authored a book, *Double Vision: The Inside Story of the Liberals in Power*, for which he shared the 1996 Douglas Purvis Award for best public policy book. In the fall of 2001, he co-published *Searching for Certainty: Inside the New Canadian Mindset*. He also was co-host of CTV's Question Period and a regular panelist on political and media issues at conferences and on television, radio and the Internet.

Mr. Greenspon has a combined honours degree in journalism and political science from Carleton University and was a Commonwealth Scholar at the London School of Economics, earning a master's degree in politics and government. In 2002 Mr. Greenspon won the Hyman Soloman Award for Excellence in Public Policy Journalism. He is an executive fellow at the University of Calgary School of Public Policy.

## THE GPS PANEL



**André Beaulieu**  
Vice-president, Value Creation and Procurement, Bell Canada

André Beaulieu is responsible for one of the largest procurement portfolios in Canada, major productivity initiatives across the company and the relationship with Bell's Atlantic Canadian partner, Bell Aliant. Prior to his current appointment, he was vice-president of corporate strategy at Bell. Previously, he was with the Privy Council Office of the Government of Canada and with the United Nations Conference on Environment and Development. Born in Quebec City, Mr. Beaulieu received his BA (honours) and his B.C.L./LL.B from McGill University.



**Cathy Beehan**  
Founding CEO, Action Canada

Cathy Beehan is the CEO of Action Canada; in this capacity, she has played a key role in designing and implementing the Action Canada Fellowship program. Ms. Beehan was the first Canadian head of the NAFTA Secretariat and has expertise in NAFTA dispute settlements. A former senior public servant, Ms. Beehan received the Prime Minister's Outstanding Achievement Award for Public Service Excellence. Ms. Beehan holds degrees in law and the performing arts. She also plays violin in the Ottawa Symphony Orchestra, which she joined in 1976.



**Gerald Butts**  
President and CEO, World Wildlife Fund Canada

Gerald Butts is head of WWF Canada, the country's largest environmental organization and a national charitable organization. Prior to joining WWF, Mr. Butts was principal secretary to Ontario Premier Dalton McGuinty, where he worked directly with the premier, Cabinet and Public Service to develop, implement and communicate the government's agenda. Mr. Butts holds an honours BA and master's degree from McGill University, where he studied English Literature and Theology. An avid lover of the outdoors, he and his wife, Jodi, have toured many of North America's National Parks and protected areas.



**Mark Cameron**  
Director, Corporate Affairs, Ontario Power Generation

Before becoming Director of Corporate Affairs at Ontario Power Generation, Mark Cameron worked in the Office of the Prime Minister, where he served in a number of roles, including senior policy advisor and director of policy and research. Previously he worked as legislative assistant or policy advisor to several MPs and Cabinet ministers, in the Privy Council office and as a private consultant on public policy issues. Mr. Cameron holds a BA (honours) and a master's degree in political science from the University of British Columbia, where he was awarded a NATO Academic Fellowship.



**John Hancock**  
Counsellor, WTO

John Hancock works at the World Trade Organization in Geneva, Switzerland, where he has served as senior policy advisor to the director-general, representative to the IMF and World Bank and head of investment issues. He also coordinated the WTO's Aid-for-Trade initiative and was secretary of the 2006 task force on the subject. Prior to the WTO, Mr. Hancock was senior advisor to Canada's trade minister. He holds a PhD in economic history from Cambridge and has written and spoken frequently on international issues.



**Jonathan Hausman**  
Vice-president, Alternative Investments and Emerging Markets, Ontario Teachers' Pension Plan

In addition to his position with the Ontario Teachers' Pension Plan, Jonathan Hausman is vice-chairman of the Canadian Council for the Americas, the leading national forum on hemispheric issues. He also holds strategic and academic positions at the University of Toronto, as co-chair of the Strategic Advisory Committee for the Munk School of Global Affairs and as a lecturer on global capital markets and international political economy in the commerce program at the Rotman School of Management. Mr. Hausman was executive director at Goldman Sachs, where he held positions in its New York, London and Hong Kong offices. Before beginning his career in international finance, Mr. Hausman worked as special assistant to the Premier of the Province of Ontario. He holds a BA from McGill University, an MSc from the London School of Economics and a master's degree in public administration from the School of International and Public Affairs at Columbia University.



**Farah Mohamed**  
President, Belinda Stronach Foundation

Prior to her appointment as Foundation president of the Belinda Stronach Foundation, Farah Mohamed was the vice-president of public affairs and community engagement for VON Canada. For 10 years, she worked closely with some of Canada's most senior politicians. Ms. Mohamed serves on the boards of the Ontario Trillium Foundation, YouCanTrust and the Canadian Club of Canada and is a member of the executive committee for the Brazilian Ball 2010. In 2007 she took active participation to its extreme when she climbed 19,340 feet up Mount Kilimanjaro, raising \$21,000 for the Canadian Liver Foundation and the VON Canada Foundation. Ms. Mohamed has a BA from Queens University and an MA in political science from the University of Western Ontario.



**George Roter**  
Co-CEO and cofounder, Engineers Without Borders Canada

George Roter co-founded Engineers Without Borders (EWB) as a movement of engineers driven to create meaningful and lasting opportunities for Africans by tackling the root causes of why poverty persists. Mr. Roter serves as co-CEO along with co-CEO and co-founder Parker Mitchell. Among other awards, George has been awarded the Young Leaders Award from the Public Policy Forum (2007), an Action Canada Fellowship (2004) on public policy, in addition to being one of Canada's Top 40 Under 40 (2005). Mr. Roter holds a Bachelor of Applied Science from the University of Waterloo (1999) and a Bachelor of Applied Studies (Honourary) from Seneca College (2009).



**Stéphane Roussel**  
Professor, Université du Québec à Montréal

Stéphane Roussel is an associate professor in the Department of Political Science at the Université du Québec à Montréal (UQAM) and Canada Research Chair in Canadian Foreign and Defence Policy. Dr. Roussel is a member of the Centre d'études des politiques étrangères et de sécurité and a Fellow at the Canadian Defence and Foreign Affairs Institute in Calgary. He is an external associate of the Research Group in International Security, Université de Montréal/McGill University and the Réseau francophone de recherche sur les opérations de paix at Université de Montréal. He works regularly with the Queen's Centre for International Relations at Queen's University and the Canadian Forces College. Dr. Roussel currently directs three research programs: Competing Views of Emerging Threat in the Arctic; Studying Canadian Foreign Policy in French; and Quebec's Public Opinion Attitude Toward International Security.



**Mercedes Stephenson**  
Host and producer, Mercedes Stephenson Investigates, and vice-president,  
Breakout Educational Network

Mercedes Stephenson is the host and producer of several documentaries and two national television series, *Mercedes Stephenson Investigates* and *The Underground Royal Commission Investigates*; she has also cohosted *It's Your Government*. Ms. Stephenson is the vice-president of the Breakout Educational Network, a registered charitable foundation dedicated to providing research and educational content to connect and engage Canadians with the issues and public policies that touch their lives. Ms. Stephenson is a national media commentator on defence and security affairs and has worked extensively with national and international news outlets such as the CBC, CTV and Global Television.



**Kristina Tomaz-Young**  
Founder and producer, Venture Capital TV, and president and practice leader,  
Smart Initiatives, Inc.

Kristina Tomaz-Young is head of Venture Capital TV and Smart Initiatives, Inc. Venture Cap TV is a web-broadcasting initiative featuring start-ups and idea backers from around the world; it aims to build business partnerships, dialogues and an exchange of best practices locally and internationally. Ms. Tomaz-Young has an MBA in strategy and finance, a graduate-level certification in Asian studies and a BA in marketing and international business from McGill University.



**Yuen Pau Woo**  
President and CEO, Asia Pacific Foundation of Canada

In addition to his position at the Asia Pacific Foundation of Canada, Yuen Pau Woo sits on the management board of the National Centre of Excellence in Immigration Research at UBC and Simon Fraser University and is an advisor to the Shanghai WTO Affairs Consultation Centre and the Asian Development Bank. He is also on the International Advisory Council of the Asia Society in New York, a member of the Greater Vancouver Advisory Board for the Salvation Army and a board member of the Mosaic Institute. Born in Malaysia and raised in Singapore, Mr. Woo was educated at Lester B. Pearson College, Wheaton College, the University of Cambridge and the University of London. In December of 2008, Mr. Woo was appointed by the premier of British Columbia to the province's Economic Advisory Council.



## Acknowledgements

This report would not be possible without the participation of a brilliant group of Canadians who are passionate about this great country and its place in the world.

The GPS Panel travelled across Canada searching for answers. We were all enriched by the process. We communicated by phone and email and through a Google Group. Our panel is a young group by the measures of these kinds of exercises, but wise and capable beyond their years. They will be worth listening to in the years ahead. Their ideas, intelligence and passion are reflected on every page.

The staff of the Canadian International Council were dedicated and professional. They welcomed me with an infectious enthusiasm for the nine month journey ahead.

The report was commissioned by the directors of the CIC, who believed that we could and would help the country figure out our global role. I am grateful to them and especially to the board's chair, Jim Balsillie, a technology titan who has chosen Canada.

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**Edward Greenspon**  
Chair, The GPS Project

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